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Investing in water technology and infrastructure: why now?

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The investment case for water is not new. However, it currently looks particularly compelling as the theme combines a defensive demand profile, physical infrastructure with minimal disruption risk, regulatory visibility, relatively stable returns, and business models that can often pass through inflation. In addition, a major wave of infrastructure replacement and adaptation still lies ahead and is likely to continue for decades.

Unlike many fashionable investment themes, water does not depend on consumer adoption, a particular technology platform or uncertain future monetisation. It is an essential economic input whose infrastructure has been underfunded for decades,[1] while demand is growing and natural water availability and quality are coming under increasing pressure.[2] At the same time, the valuation premium associated with the earlier ESG boom has largely unwound,[3] creating a more attractive starting point for long-term investors.

A physical-asset theme with minimal disruption risk

Water is fundamentally a hard-asset theme. Its value chain consists of treatment plants, distribution networks, pumps, valves, pipes, meters, filtration systems, testing equipment and wastewater facilities. These assets cannot be digitised away, and most have useful lives measured in decades[4]. Technological change can improve how water is transported, monitored, purified or reused, but it cannot eliminate the underlying requirement for physical infrastructure.

This distinguishes water from the AI theme. A municipality cannot postpone the provision of safe drinking water indefinitely because a new technology may emerge, nor can a semiconductor plant operate without ultrapure process water.[5] Water also has no economic substitute.

Water scarcity is frequently local as transporting water over long distances is expensive,[6] and this reinforces the importance of local treatment, storage, distribution and reuse systems.

Inflation-resilient business models

Much of the water infrastructure system is essential and regulated. Water utilities frequently operate as natural monopolies under multi-year tariff or rate-setting frameworks.[7] Subject to regulatory approval, necessary operating costs and capital investment can be recovered through customer tariffs, while approved investment becomes part of the regulated asset or rate base on which the utility is permitted to earn a return.[8] These mechanisms are not a perfect inflation hedge – equipment and technology suppliers are not themselves regulated – however, they benefit from mandatory customer expenditure, large installed bases, recurring replacement demand and aftermarket service revenues.

A replacement cycle supported by rising infrastructure budgets

Water infrastructure is approaching or has already exceeded its intended lifetime in many developed economies.[9] Ageing pipes, treatment facilities, pumping systems and storage assets increasingly need to be repaired or replaced.

The United States has increased federal support for drinking-water, wastewater, stormwater, lead-pipe replacement and emerging-contaminant projects.[10] Germany's new Infrastructure and Climate Neutrality Fund gives federal, state and municipal authorities greater capacity to modernise essential infrastructure.[11] And, across Europe, national infrastructure plans, EU programmes and regulatory requirements are also pushing water investment higher.[12]

Increasing urgency: new demand, regulation and climate change

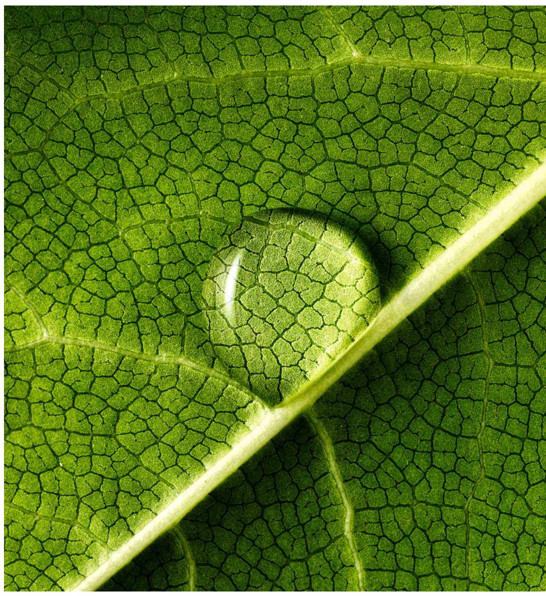
Data centres require water directly for cooling and indirectly through the electricity needed to operate them.[13] Electricity generation itself is frequently water-intensive, particularly where thermal power plants require cooling.[14]

Semiconductor fabrication, pharmaceuticals, food production and other manufacturing processes also depend on reliable supplier of high-quality process water.[15] Climate change adds further urgency. More frequent and prolonged heatwaves increase water consumption while simultaneously raising evaporation, intensifying drought conditions and reducing the reliability of existing water sources.[16]

Revised European wastewater rules extend treatment requirements, tighten nutrient-removal standards and introduce advanced treatment and monitoring for micropollutants, microplastics and PFAS.[17] In the United States, PFAS drinking-water standards require investment in testing, activated carbon, ion exchange, membranes and the handling of contaminated residuals.[18]

Valuations have reset

During the ESG boom, water-related equities often traded at substantial thematic premiums, which now has largely swung back.[19] Following significant relative underperformance in 2024, 2025 and most of 2026, the entry point is now materially more attractive than during most of its history.[20]



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