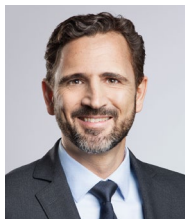




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# Six reasons why investors should dip their toes in **Water Infrastructure** in 2025

While water is an essential good, necessary for food production, industries and life in general, it often flies under the radar of investors due to its ubiquity. Yet water provision cannot be taken for granted, and continuous investments in water infrastructure, filtration and waste management are needed. For 2025, we expect a boost in these investments, for six distinct reasons.



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## 1. Public Infrastructure funding is being put to work



The US water infrastructure market remains the largest and most important one for most water companies that investors can participate in. This market is under strong pressure to grow its annual budget for water infrastructure over the coming years, for the following reasons:

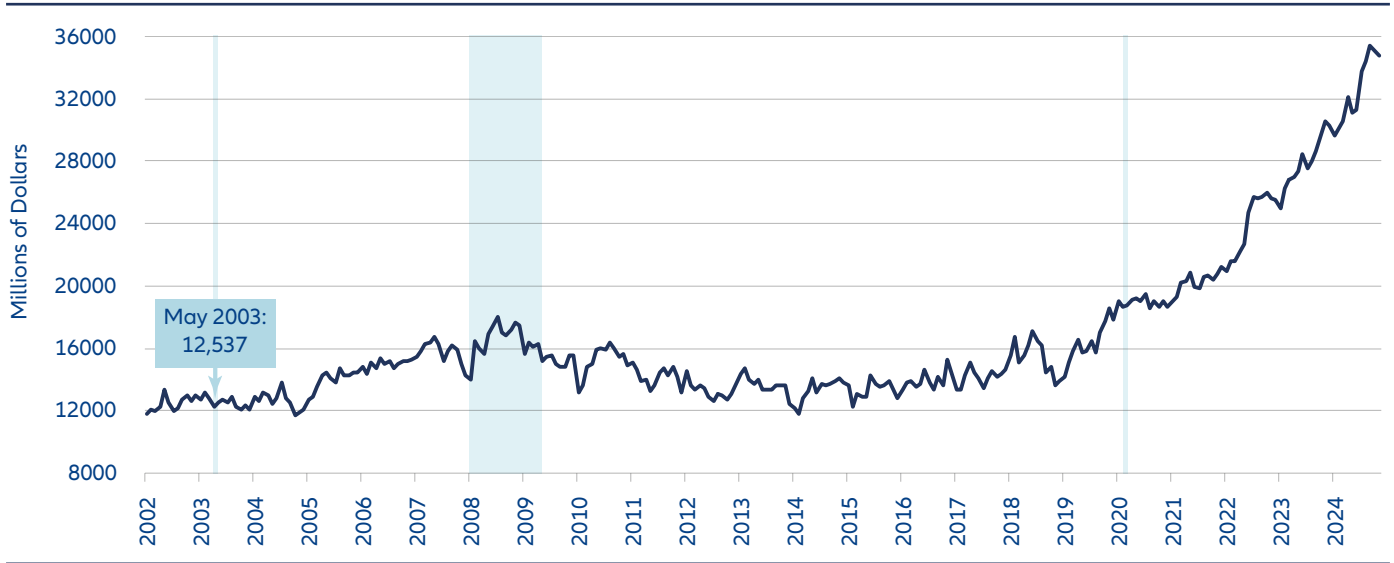
- a) **Migration:** More and more people are migrating into the warmer Southern states, which see less rainfall and typically have fewer local water resources left in order to keep up with the influx of residents and water-intensive businesses.
- b) **Ageing:** To make matters worse, most of the existing water networks the US enjoys today

have been built by previous generations in the 1950s and '70s, and are now approaching the end of their useful life. This problem is well researched but has been left unaddressed and underfunded for most of the past quarter century. But times are changing. Similarly to the large public funding initiatives in 1970s, Congress has made available several packages of financial support for infrastructure projects (Jobs Act, IRA, ChipsAct). This funding is not released immediately but only after handed-in projects have been approved, which typically takes a few years. This means that the full positive impact on water infrastructure from funds already approved will be felt over the course of 2025 and beyond.



**Embracing  
Disruption**

**Total expenditure on the construction of water supply systems in the USA**



Source: Total Construction Spending: Water Supply in the United States (TLWSCONS) | FRED 2024.

c) **Climate change:** Both droughts and unprecedented floods are occurring more frequently, making investments in new infrastructure for water management indispensable. The impact of climate change on water resources differs by area, requiring a local or regional response. The economic cost of leaving these problems unaddressed is growing so large that preemptive investments in tackling them remain the only reasonable way forward.

behind targets in their ambition to create more affordable housing. Europe, the US and China have all seen little industrial expansion, and high inflation and interest rates have kept new housing construction down.

But these headwinds are coming to an end: Interest rates have started to come down and so has inflation. Pent-up demand for new housing is high and we are seeing early signs that US construction could return to growth in 2025 of +15%, with Europe and China to follow. Furthermore, with Trump taking the White House and Congress, expectations that US local industrial production will get prioritized and return to growth are a very clear possibility. Given that industrial production is very water intensive, more investments in water supply, filtration and efficiency will be part of the equation.

must spend capex on non-productive administration. But regulation can also trigger accelerated investment into equipment that aims to improve product safety, or in the case of PFAS regulation, water quality. Per- and polyfluoroalkyl substances (PFAS) are chemicals strongly suspected to cause health damages but commonly found in drinking water unless filtered out – which rarely is the case. However, starting in 2025, drinking water regulation will require additional filtration investments to lower PFAS levels. These are pass-through costs for the water utilities, but will bring additional business to filtration and water quality monitoring companies.

**2. Residential & Commercial Construction activity is ready for a comeback**



Water equipment is not only bought by cities that need to maintain or upgrade aging pipes and valves. Construction companies, too, are important purchasers of equipment, both for the creation of new housing lots as well as to refurbish the plumbing and water pipes of existing housing stock. Also, each new home or new industrial park requires a water grid expansion and additional capacity for local wastewater treatment. However, for most of the last two years, both end markets have been subdued, leaving many countries

**3. Tightening Regulation will trigger additional investments**



PFAS: More regulation is typically not welcomed by investors as it is perceived to be associated with lower profits, as companies

**4. Industrial Production picking up again**



Water investments not only related to bringing on new fresh water supply to the system but also ensuring that existing freshwater resources are kept safe from contamination, including from wastewater. Wastewater, therefore, needs to be treated before discharging to prevent the blossoming of algae and bacteria or environmental contamination with pollutants from



industrial production. These days, most industrial parks are obliged to treat their waste and thus operate their own wastewater treatment plants. More industrial production will result in higher waste volumes and therefore higher demand for treatment plants and their maintenance – all of which translate into additional demand for waste collection services, treatment filters and other spare parts.

However, industrial activity has remained subdued in recent years and neither Europe nor the USA have exceeded pre-lockdown levels yet. High inflation and political uncertainty kept consumers and companies on the sidelines, so many investments were put on ice temporarily. Now that costs are coming down and the race for the White House and Congress has been decided, planning certainty and spending willingness are gradually returning – with Europe arguably less than 6 months behind.

The recent boom in AI has also led to a burgeoning development of data centers, semiconductor factories and similar industries. While it's well-known that these consume vast amounts of electricity, it is perhaps less understood that they also require large quantities of water for cooling or as part of their production processes. The new digital economy that is emerging is therefore also expected boost investments in water infrastructure.

### 5. Agriculture sector is investing again



70% of all fresh water is used for farming, but there is fewer available farmland and more competition for fresh water to meet a growing demand for additional, and increasingly more water-intensive crops. Water-efficient irrigation equipment makes sense in principle, but is costly, so farms can only afford to upgrade their operations during times of high crop prices. The last period where US farmers saw high farm income were 2013 and 2022. For the past two years, prices have been sharply down, leaving room for a positive surprise in 2025.

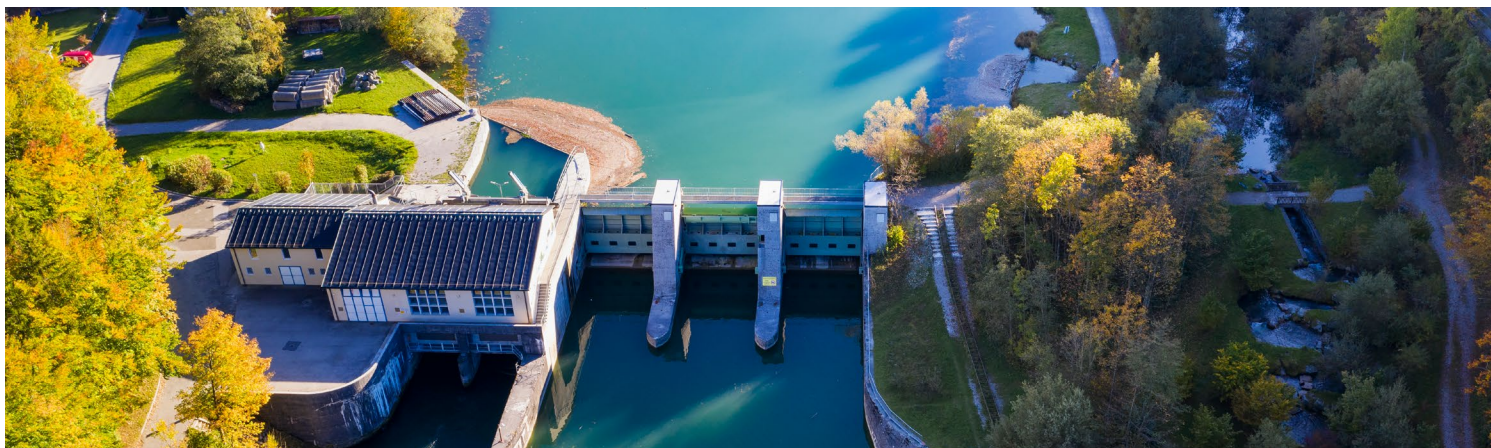
### 6. China, India and Latin America returning to pre-covid growth?



Finally, several large developing economies that are still in need to build-out their water infrastructure and upgrade their tap water filtration systems to reach broadly available drinking water quality, have struggled in previous years to generate the rates of economic growth that would support these investments. As we enter 2025, there are early positive signs that the economies of China, India and Latin America are returning to higher growth again, allowing them to address their local water infrastructure at a faster pace and with higher priority than in the previous decade.

## Attractive opportunity at interesting valuations

While the supply-and-demand gap for water is well understood, and water as a theme has evolved from a sustainability niche into a more widely adopted investment pillar, the market appears not yet to have priced in the upcoming tailwind potential. The median valuation multiples remain in line with historical averages and at around the usual premium to the broader market. On the other side, growth expectations are around 10% for 2025, which is in line with the growth achieved historically on average – even though we would argue that the next two to three years will see various sources of additional growth re-emerge. Putting this against the backdrop of an investable universe consisting of high-quality companies with strong long-term drivers, resilient business models, strong returns on capital, low indebtedness and a history of stable dividend payments, we see an incredibly attractive investment opportunity in the water theme going into 2025.



## The case for water – long-term drivers:

- Investing in companies that offer products that help ensure affordable water supply in face of growing demand and make water usage more efficient or protect existing water resources continues to make for a compelling long-term investment theme.
- Demand for water is highly predictable as it is driven by more intensive farming needs, industrial production, cities and everyday end users – all of which need more water to facility a more water-intensive lifestyle, higher industrial production or grow more water-intensive food.
- Clean water is essential for many industries (cooling for data centres, production of semiconductors, paper, food, pharma or electricity generation).
- Clean drinking water is essential for life, and it cannot be substituted or disrupted – ever. The WWF estimates that freshwater contributes 11 trillion euros in economic value, food security and sustainability in Europe, which the current water crisis puts at risk.
- Extreme weather events are becoming more frequent, which exacerbates the need for an adequate clean water infrastructure, while at the same time pose new challenges related to the management of storm and sewage water.
- Most water companies are characterized by well-established business models underpinned by solid cash flows.
- In the long term, water infrastructure will continue to grow along with population growth, industrialization and rising living standards. In the medium term, additional growth will come on top due to the need to upgrade the ageing water networks reaching their end of life and comply with stricter drinking water standards.
- In the shorter term, 2025 and 2026 could see additional growth drivers for water equipment also enter the picture as several adjacent end market might again provide tailwinds after years of decline. Agriculture, new housing construction, industrial production and infrastructure projects could all turn into additional sources of demand for water technology equipment.

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