It is not enough that water will be a great investment in 2025

Christopher Gasson expects water to outperform the market this year, but delivering global water security in the face of climate change will need massive acceleration in the rate of investment. There are three conditions for this happening.

How much does it matter that the assets under management of water-themed investment funds fell from $39.7 billion at the end of 2023 to $38.0 billion at the end of 2024?
The figures can be seen as a rough proxy for overall investment flows into water. These need to grow faster than overall capital flows over the next decade if the planet is to adapt successfully to climate change. At the moment, around 2.7% of the world's capital is tied up in water-related investments. That figure probably needs to reach at least 6% if we are going to have the infrastructure, technologies and services we need to ensure global water security.
The problem is that you can't expect any asset class to outperform the rest of the market year-on-year for a decade. That is not how markets work. If a sector has a strong outlook for returns, it attracts capital until it becomes so over-valued that the only way is down. We have been watching this happen in the AI sector for most of the past year. The result has been that the Magnificent Seven tech stocks (Apple, Microsoft, Google parent Alphabet, Amazon.com, Nvidia, Meta Platforms, and Tesla) outperformed everything else in the market in 2024, sucking money out of every other investment theme, including water.
Overall, GWI's Global Water Index gained 14.3% in dollar terms last year. Even after accounting for currency differences, the largest specialist water funds, such as those managed by Pictet, Impax (on behalf of BNP Paribas) and KBI, all struggled to match that performance, largely because big funds have to invest in big stocks. Small stocks like Aris Water and Wabag outperformed spectacularly, but by and large, Big Water did badly in 2024. Xylem inched ahead by 1.45%. Veolia was down by 5.1%, and both US and UK investor-owned utilities lost ground.
The problem for investor-owned utilities was high interest rates. These are damaging in two different ways: they add to the cost of capital, and they mean that investors don't need to look to water to find low-risk, steady-yield investments. The problem for Veolia wasn't the performance of its water business, which seems to have done pretty well. It was the rest of the business, and the fact that the company is too closely associated with the French government.
Looking forward to 2025, one can expect water to outperform again. It seems unlikely that the Magnificent Seven will repeat the gains that they enjoyed in 2024, and it seems likely

Source: Water Intelligence Magazine (January 2025).

that investors will be more attracted to inflation-proof defensive stocks like investor-owned utilities in 2025. I hope that investors will also learn to appreciate Xylem and Veolia a bit more. Both of them have industrial water offerings which I think are significantly undervalued as more industrial companies embrace outsourcing.

I suspect, however, that none of this will get water up to the 6% of global capital employed that it needs to reach. For that to happen, we need to see the following:

1. *A stronger sense that water insecurity is a significant obstacle to economic growth. This might arise, for example, as a result of water availability holding back the AI revolution, or drought conditions in an economically productive region having a big impact on output.*
2. *A better connection between the insurance industry and the water infrastructure sector. The insurance industry has the most to lose from underinvestment in water resilience. It has yet to see the value of funding the kind of blue-green infrastructure projects that might reduce its payouts.*
3. *A more professional utility sector. The world's top performing utilities are now increasing their capital programmes in line with that 6% target. The problem lies with the other 300,000 utilities. Most of them fail to invest enough to keep pace with the depreciation of their existing assets.*

I think all three of these conditions can be met. They are all very much on the agenda at this year's Global Water Summit. The theme is Accelerating Investment. The deadline for the early-bird price is this Friday. There are 500 spaces left.

Visit ***www.watermeetsmoney.com****to sign up before they sell out.*

There could be an upside. The thought that one day foreigners might step in and pay for it is a big reason why many people in the global south don't have access to water. Extinguishing that hope could force politicians to think more realistically about full cost recovery tariffs. More urgently, I think it will be necessary to focus on ensuring that what money is still available is spent as well as possible. That may mean refocusing finance on performance improvement rather than service extension. High-performing utilities are able to fund themselves even in low-income countries, but poorly performing utilities can never make aid worthwhile.

Source: **Water Intelligence Magazine (January 2025).**