Equities

Water: Thirst for investments

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The world’s population exceeds 7 billion, and the UN estimates this number will rise to 9.3 billion by 2050. This growth will increase demand for food, energy, and consumer products, all of which require substantial amounts of water to produce.

Water is abundant on a global scale. Three-quarters of the Earth is covered by water; however, only 3% is freshwater, and of this, 69% is locked in glaciers or frozen ice caps. Thus, the amount of water suitable for human consumption is limited, and the resource is unevenly distributed.

Despite this inflexible supply, demand is constantly growing. Long-term developments such as rising living standards, industrialization in emerging markets, and a lack of infrastructure heavily affect the water supply-and-demand situation. Climate change is an additional vital factor, influencing the global water supply in terms of quality, quantity, and timing. Given that these trends should continue over the long term, we see tremendous revenue and profit growth potential for exposed companies.

While all these trends are long-term in nature – and we expect them to gradually and continuously affect exposed companies – we also see some short-term drivers. Especially in the current ramp-up phase, we expect them to add further support to the investment case. For example, ballast water treatment and shale gas fall into this category.

Recent developments and recommendation

After a mixed start to the year, the Water theme had a solid performance over the last few weeks, gaining back most of the underperformance of the first few months of 2015. Our investment case remains intact and we recommend investing in the entire water value chain. The recent announcement by California’s regulator to reduce water consumption as a consequence of the water crisis is another case in point.

At a glance

- The supply of clean water is constrained by insufficient infrastructure in emerging markets and aging infrastructure in developed markets. Climate change, urbanization, and the emerging markets’ stronger focus on the industrial sector are also having a negative impact on water supply.
- Companies exposed to these trends are an ideal way to benefit from this development, in our view.
- We advise investing in a well-diversified vehicle that gives global exposure to the entire value chain.

S&P Global Water vs. MSCI World

January 2003 – April 2015

For more information, see Water: Need for material investments, 29 September 2014.