

Investing in Water: Water Brings the Heat in a Defensive Summer

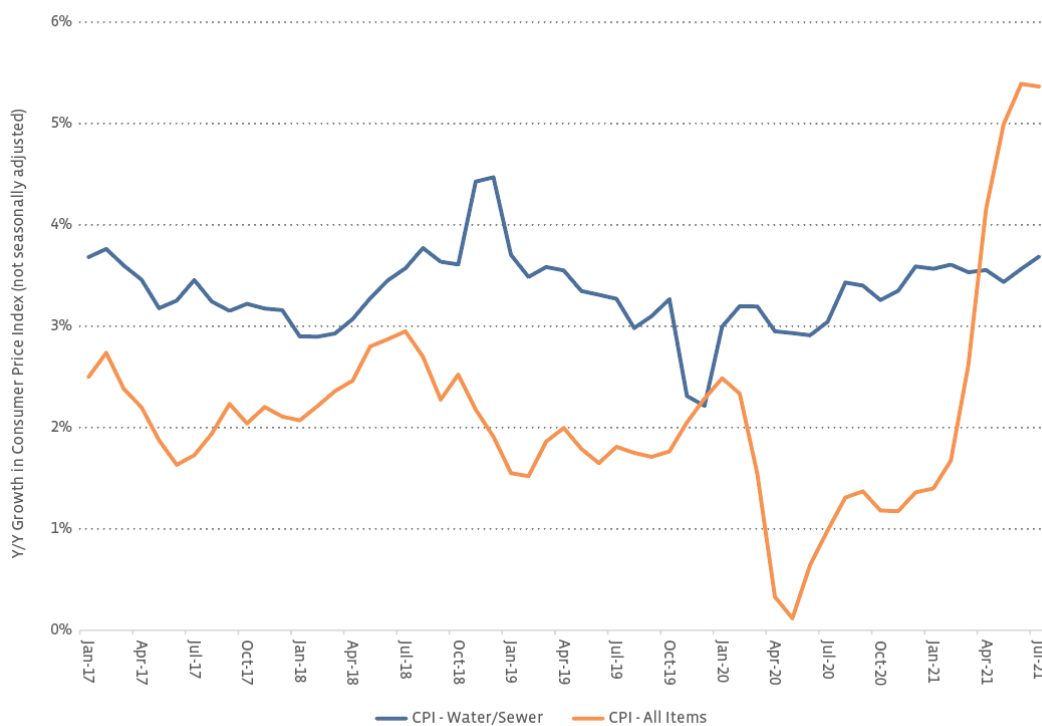
August 12, 2021

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Water has received attention as an ESG investment, but recent returns have demonstrated that the sector has benefited from renewed interest in defensive sector investing and infrastructure modernization.

As highlighted in a [previous note](#), defensive sectors like utilities and consumer staples are strengthening this summer as several economic indicators point to decelerating economic growth coupled with a level of economic uncertainty due to the Delta variant. A large portion of the companies in the water segment are water utility companies, which are highly regulated and receive a relatively stable revenue stream throughout the economic cycle—particularly in residential and municipal sectors. Many of these services are regulated by public utility commissions (PUCs). In most cases, PUCs set rates which allow utility companies to recover the cost of service plus a return on net investments. Additionally, some PUCs in states like California, Illinois, and New York have adopted revenue stability mechanisms which allow water utility companies to collect stable revenue regardless of demand/volume, which is especially important given ESG interest.¹ Revenue stability mechanisms help alleviate the conflict of interest between environmental water conservation and water company profits (i.e., encouraging reduced water consumption without hurting water utility sales). The chart below uses Consumer Price Index (CPI) data to illustrate how water/sewer rates have increased at a stable rate relative to other costs, even throughout the recent COVID-19 pandemic.²

CPI Y/Y Growth for Water/Sewer Has Averaged 3-4%



Source: Bureau of Labor Statistics, Alerian and S-Network Global Indexes as of August 11, 2021

1. [American Water Works Company, Inc. Form 10-K \(sec.gov\)](#)
 2. [CPI Home : U.S. Bureau of Labor Statistics \(bls.gov\)](#)

Other water businesses are classified as infrastructure companies, which may benefit from the U.S. infrastructure bill and the subsequent growth potential of the domestic water market. \$55 billion will be invested in providing clean drinking water including replacing lead pipes and service lines.³ This represents the largest federal investment in clean drinking water in the history of the U.S. From a global perspective, many countries—particularly in emerging markets—have also been modernizing their water infrastructure as population growth and urbanization trends accelerate. See [this note](#) for more details on global infrastructure.

Investors can track the performance of the water industry through the [S-Network Global Water Index \(JGI\)](#), which provides a global view of the sector with a 51% weighting toward domestic stocks. The index has a defensive tilt with 50% of its constituents in the utilities sector, followed by 35% in the industrials sector, and 9% in the materials sector.⁴ The index has been achieving a 30-day total return over 3% while many other sectors (i.e., high growth technology sectors) are feeling some of the effects from overall market weakness (see table below). While stable long-term returns are typically the biggest investment case for water, it is evident that short-term returns could make this sector more attractive to a wider investment audience.

Index	Ticker	Total-Return Performance				
		30 Days	YTD	1-Year	3-Year	5-Year
Healthcare						
S-Network Healthcare Technology Index	HLTHX	-2.29%	-1.98%	19.71%	117.06%	209.93%
S-Network Medical Breakthroughs Index	PMBI	-8.12%	-13.35%	8.21%	22.22%	83.50%
S-Network Healthcare Innovation Index	PHIX	-8.68%	-14.28%	4.55%	35.10%	111.39%
Technology						
O'Shares Global Internet Giants Index	OGIGX	-3.11%	1.07%	29.28%	130.91%	307.89%
S-Network North American Disruptor Index	SNNADX	1.51%	17.00%	45.87%	85.86%	NA
S-Network US Disruptor Index	SNUSDX	-0.30%	15.22%	51.80%	93.62%	210.28%
S-Network Tech Target Index	SNTECH	0.70%	13.21%	43.56%	57.84%	158.00%
Water						
S-Network Global Water Index	JGI	3.68%	16.64%	34.76%	54.10%	85.42%
S-Network Global Water Works Index	JWW	3.56%	11.05%	18.92%	50.41%	71.54%
S-Network Global Water Technology Index	JWT	3.75%	22.37%	51.57%	53.01%	93.52%
Smart Climate Risk						
S-Network Smart Climate Risk 50 Index	SNSC50	0.45%	13.62%	26.60%	52.10%	121.85%
S-Network Smart Climate 250 Index	SNSC250	0.40%	16.13%	30.40%	54.34%	122.77%
Other						
S-Network Streaming & Gaming Index	STREAM	-7.64%	2.27%	27.73%	91.98%	NA
S-Network Emerging Infrastructure Builders Index	EIBI	0.83%	11.45%	30.64%	29.50%	53.88%
S-Network Space Index	SPACE	-1.53%	19.73%	42.74%	13.35%	49.08%
S-Network MicroSectors Gold Miners Index	MINERS	-4.66%	-11.09%	-26.09%	56.04%	NA

Source: Alerian and S-Network Global Indexes. All performance data as of August 6, 2021.

3. [FACT SHEET: Historic Bipartisan Infrastructure Deal | The White House](#)

4. All index weightings are as of August 6, 2021

Related Research:

[Riding the ESG Wave by Investing in Water](#)
[Index Highlight: Diving Into the Global Water Industry](#)
[Investing in Global Infrastructure: Building the Future Economy](#)
[Investing in Biotechnology: Disrupting the Healthcare Space](#)
[Investing in Space: Growth Beyond this World](#)

Underlying Index | Associated Product/Direct-Indexing Platform Availability

Healthcare

[S-Network Medical Breakthroughs Index \(PMBI\)](#) | ALPS Medical Breakthroughs ETF (SBIO)
[S-Network Healthcare Innovation Index \(PHIX\)](#) | SmartTrust Healthcare Innovations Trust; Available on the C8 platform and the SMARtX platform

Technology

[O'Shares Global Internet Giants Index \(OGIGX\)](#) | O'Shares Global Internet Giants ETF (OGIG)
[S-Network North American Disruptor Index \(SNNADX\)](#) | SmartTrust Technology Revolution Trust – Includes 30 stocks from SNNADX
[S-Network US Disruptor Index \(SNUSDX\)](#) | Available on the SMARtX platform
 S-Network Tech Target Index (SNTECH) | Available on the SMARtX Platform

Water

[S-Network Global Water Index \(JGI\)](#) | Invesco Global Water Portfolio – Includes 25 stocks from JGI; Available on the C8 platform

Smart Climate Risk

S-Network Smart Climate Risk 50 Index (SNSC50) | Available on the C8 platform and the SMARtX platform
 S-Network Smart Climate Risk 250 Index (SNSC250) | Available on the C8 platform

Other

[S-Network Infrastructure Builders Index \(EIBI\)](#) | Available on the C8 platform
[S-Network Space Index \(SPACE\)](#) | Procure Space ETF (UFO)
[S-Network MicroSectors Gold Miners Index \(MINERS\)](#) | MicroSectors Gold Miners 3x Leveraged ETN (GD XU),
 MicroSectors Gold Miners -3x Inverse Leveraged ETN (GD XD)

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