

# **Bond Case Briefs**

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## **Quick Thoughts: Are You Pricing in Water Risk?**

*Our Chief Market Strategist, Stephen Dover, believes that water risk is global now—devastating floods, unseasonal hurricanes, droughts, megafires, and more demonstrate this. The economic implications of risks related to water are significant and should be considered when investing.*

Devastating floods, unseasonal hurricanes, excessive droughts, megafires, and more demonstrate how extreme water risk is global now. From an investor's perspective, the economic implications of risks related to water are significant and should be a consideration when investing.

- By 2030, the global population will likely exceed nine billion and the world will require 40% more fresh water than it does today.<sup>1</sup> The global supply of accessible freshwater accounts for less than 1% of water supplies.
- In my view, risks associated with water affect economic policies, constrain economic growth, and should be incorporated along with other climate-related market risks. Critical investments in water purification, reuse, efficiency, and delivery infrastructure are required on a global scale and could provide opportunity to investors.
- The projected declines in freshwater availability will likely affect gross-domestic-product (GDP) growth, present wide-ranging risks for investors across all asset classes, and encompass a broad range of sectors, from those with logical connections, like agriculture and utilities, to those that may not be so apparent, like packaging and semiconductors.
- Communities and companies must consider how to plan for and mitigate water risk. Companies that lack a full understanding of water risk, lag in disclosing water risk, or postpone adjustments to regulatory reforms, present long-term risks for both the communities and investors that invest in those companies.
- Infrastructure investment opportunities may be found globally as governments and municipalities prioritize managing water risk. China's Maritime Silk Road and Russia's Ice Silk Road expand their water infrastructure. The US bipartisan infrastructure proposals include investment in sewage systems, water supplies, and replacing lead pipes.

There are also opportunities in identifying companies that can provide solutions to deal with water scarcity, water sanitation, and water efficiency. Water impacts the day-to-day operations of companies and how they think through their business models. For details on water risk and investing, read "[Water Disruption: Investment Risk From Multiple Angles](#)," a 2020 research epitome from Franklin Templeton and K2 Advisors. In "[Muni Market View on the American Jobs Plan](#)," Jennifer Johnston, Director of Research, Franklin Templeton Municipal Bonds, discusses how infrastructure funding could filter through the US municipal bond market.

### **What Are the Risks?**

All investments involve risk, including possible loss of principal. The value of investments can go down as well as up, and investors may not get back the full amount invested. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments;

investments in emerging markets involve heightened risks related to the same factors. To the extent a strategy focuses on particular countries, regions, industries, sectors or types of investment from time to time, it may be subject to greater risks of adverse developments in such areas of focus than a strategy that invests in a wider variety of countries, regions, industries, sectors or investments.

China may be subject to considerable degrees of economic, political and social instability. Investments in securities of Chinese issuers involve risks that are specific to China, including certain legal, regulatory, political and economic risks.

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by Stephen Dover of Franklin Templeton, 8/5/21