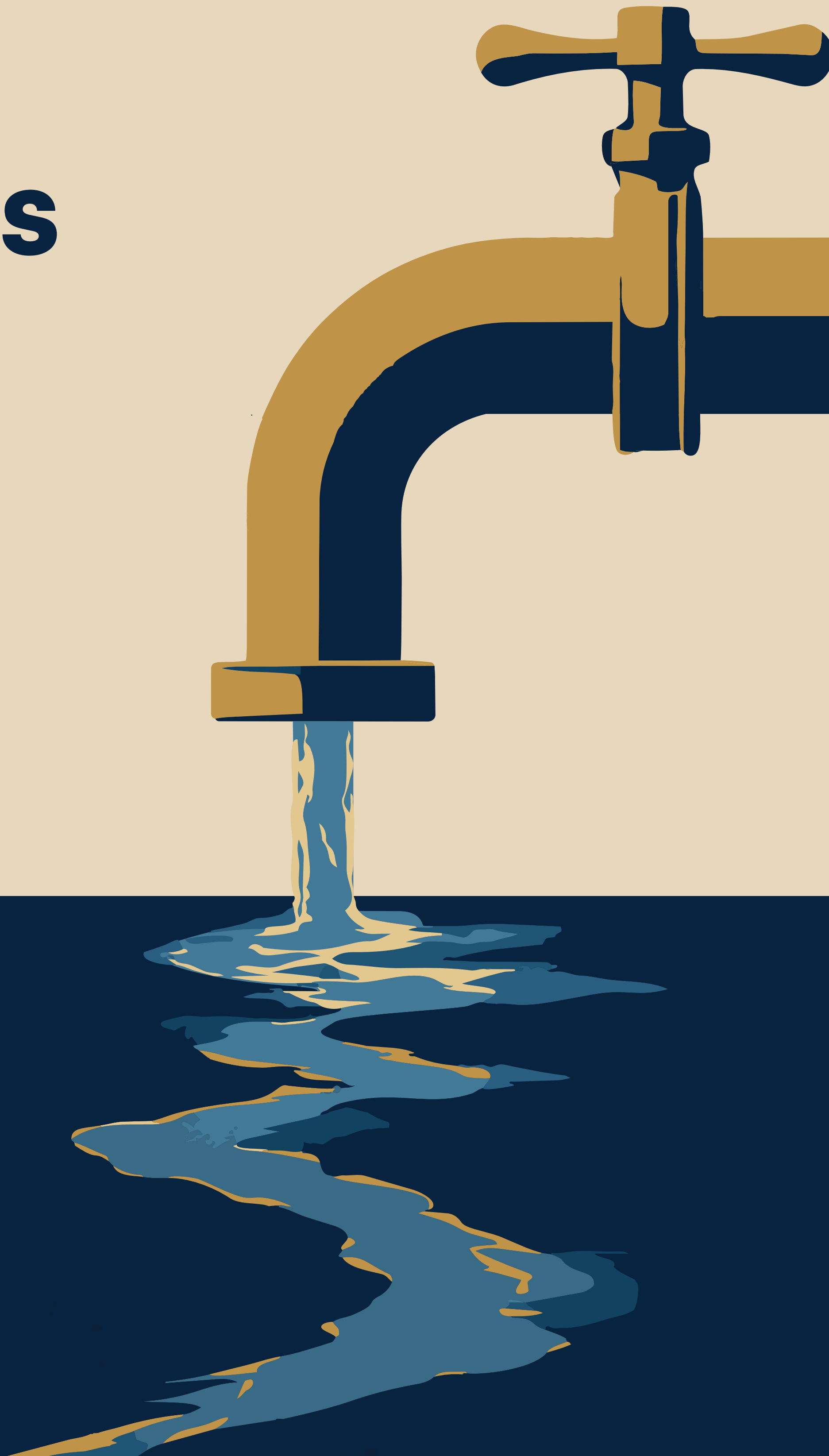
Environmental Services Policy 2026 Preview

The Environmental Services Industry's Moment

PFAS, Water Utilities, and
other coming developments



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Environmental Services Policy 2026 Preview:

THE BOTTOM LINE

Capstone believes that despite the Trump administration's deregulatory agenda, environmental policy development will intensify in 2026. The US Environmental Protection Agency (EPA) will continue to enact PFAS regulations, with new plans on wastewater discharges. In addition, amendments to Biden-era refrigerant regulations indicate temporary headwinds for companies such as Solstice Advanced Materials Inc. (SOLS).

Outlook at a Glance

- PFAS TREATMENT MARKET TO BEGIN FOCUSING MORE HEAVILY ON LANDFILL TREATMENT, DRINKING WATER SPENDING TO RISE
- WATER UTILITY CONSOLIDATION TO CONTINUE IN 2026 AS AGING INFRASTRUCTURE DEGRADES, FEDERAL GOVERNMENT UNLIKELY TO ADDRESS $625B IN 20-YEAR INFRASTRUCTURE NEEDS
- TRUMP POLICY ON REFRIGERANTS CREATES HEADWINDS FOR SOLSTICE AND CHEMOURS, BUT LEGISLATIVE BACKSTOP PROTECTS LONG-TERM DEMAND

PFAS Treatment Market to Begin Focusing More Heavily on Landfill Treatment, Drinking Water Spending to Rise

Winners	Clean Harbors Inc. (CLH), Veolia Environnement SA (VIE on the Paris Exchange), Xylem Inc. (XYL)
Losers	Republic Services Inc. (RSG), Casella Waste Systems Inc. (CWST), Waste Connections Inc. (WCN)

Capstone believes that the PFAS treatment market will continue to grow in 2026, buoyed by the Trump administration's decisions to maintain major sections of Biden-era PFAS rules, a positive for companies such as Clean Harbors. Additional focus on landfill leachate treatment will likely increase compliance costs for large waste firms such as Republic Services and Waste Connections, as new landfill leachate treatment regulations loom. As the Trump administration's focus on per- and polyfluoroalkyl substances (PFAS) has become clearer over the last year, many water systems will be required to begin installing systems to meet the EPA's updated PFAS drinking water standards. However, additional regulatory scrutiny from the federal government on landfills and PFAS in landfill leachate will become a larger component of future PFAS treatment.

The EPA's decision to retain two PFAS compounds (PFOA and PFOS) in its National Primary Drinking Water Regulation will still drive drinking water spending through the newly extended 2031 compliance deadline. Settlement proceeds from 3M and DuPont began flowing to utilities and water systems in summer 2025, enabling them to begin deploying capital toward treatment infrastructure more effectively in 2026.

The EPA is likely to release proposed updated effluent limitation guidelines (ELGs) targeting PFAS discharges from landfills in 2027 and finalize the rule afterward. However, states are already reviewing landfill leachate treatment options, and waste managers such as Waste Connections and Casella Waste Systems have begun implementing systems to remediate PFAS in landfill leachate before regulations take effect. Current landfill ELGs target only landfills that discharge directly into rivers and streams and do not cover the majority of landfills that transfer leachate to treatment facilities prior to discharge. The new EPA rules are likely to cover both direct and indirect dischargers, creating a large new category of regulated assets. The new requirements are likely to increase capital and operational expenditures for waste managers at all levels, including larger companies such as Republic Services. Winners from this are likely to be traditional treatment firms such as Clean Harbors or Veolia (following its acquisition of Enviri's Clean Earth arm), but smaller, leachate-focused treatment firms will also become more attractive investments.

Based on publicly announced installations of leachate treatment technologies at PFAS-impacted landfills by operators such as Waste Connections and Casella Waste Connections, we believe foam fractionation systems will likely emerge as the technology of choice for landfills.

Water Utility Consolidation to Continue in 2026 as Aging Infrastructure Degrades, Federal Government Unlikely to Address $625B in 20-Year Infrastructure Needs

Winners	American Water Works Co. Inc. (AWK), Essential Utilities Inc. (WTRG), California Water Services Group (CWT)
Losers	N/A

Capstone believes that water utility consolidation will expand in 2026, driven primarily by smaller, non-public firms buying up small water systems around the country. However, larger firms, such as American Water Works and California Water Services Group, are also likely to benefit from continuing consolidation. Despite investment from the Infrastructure Investment and Jobs Act (IIJA), water infrastructure will require significant additional investment, with the EPA estimating $625 billion in drinking water infrastructure needs over the next 20 years. However, the EPA's current funding allotments have not met that need. Smaller utilities often lack the capital necessary for upgrades to keep systems running, driving private investment into water utilities and wastewater systems. The October 2025 announcement of the American Water and Essential Utilities merger exemplifies this consolidation trend. The deal is expected to close by the end of Q1 2027, pending regulatory approvals from state public utility commissions.

Firms that focus on water system consolidation stand to gain the most from a set of policies pushing for additional private investment in water systems. The Water System Restructuring Assessment Rule, a Biden-era proposal that sought to sweeten deals for aging and noncompliant water systems, will still be released by the Trump administration, but the rule's specific impacts are less certain. Additionally, burgeoning fair market value (FMV) legislation has incentivized private investment in water systems; however, the majority of states lack FMV legislation.

Trump Policy on Refrigerants Creates Headwinds for Solstice and Chemours, but Legislative Backstop Protects Long-Term Demand

Winners	Food retail industry companies like Kroger Co. (KR) and Walmart Inc. (WMT)
Losers	Low-global warming potential refrigerant manufacturers like Solstice Advanced Materials Inc. (SOLS) and Chemours Co. (CC)

Capstone believes that low-global warming potential (low-GWP) refrigerant manufacturers, such as Solstice Advanced Materials and Chemours, face temporary headwinds from the Trump administration's plans to delay compliance deadlines for replacing traditional refrigerant systems with low-GWP alternatives. The temporary reprieve will provide minor benefits to large food industry conglomerates such as Kroger and Walmart. With the passage of the American Innovation and Manufacturing (AIM) Act in 2020, the US is required to gradually reduce the production and consumption of hydrofluorocarbons (HFCs) by 85% from historic baseline levels by 2036. To guide the phasedown of such high-global warming potential (high-GWP) refrigerants, the Biden administration enacted the Technology Transitions Rule (TTR) in 2023. The TTR set industry-specific GWP limits for newly manufactured and imported end products and newly installed systems, requiring regulated industries to transition to low-GWP refrigerants like hydrofluoroolefins (HFOs) in new installations by varying deadlines.

As part of the Trump administration's rollback of Biden-era environmental regulations, the EPA in October 2025 proposed to delay the TTR deadlines for certain sectors, granting the food retail industry's request to establish an interim mid-GWP deadline (GWP ≤ 1,400), while extending the final low-GWP (GWP ≤ 150 or 300) deadline from January 2027 to January 2032. The proposed rule will be finalized in 2026 and seeks to provide temporary relief for both independent grocers and supermarket giants such as Kroger (KR) and Walmart (WMT), giving them more time to continue installing and using lower-cost high-GWP supermarket systems.

On the flip side, refrigerant manufacturers such as Solstice Advanced Materials and Chemours, which have begun focusing on low-GWP refrigerants, may face temporary demand headwinds as food retail systems are enabled to continue installing higher-GWP systems. This is likely to be buffered, however, by the automotive air-conditioning sector, which faces no proposed compliance delays and is further along in its transition, maintaining a substantial market for low-GWP refrigerants. Despite the EPA proposing to delay the deadline for using low-GWP refrigerants in new system installations to 2032, the food retail industry would still need to begin using mid-GWP refrigerants in 2027 under the proposed rule. This intermediate transition to mid-GWP refrigerants, which both companies also produce, is likely to further mitigate the impact of delayed compliance.

Additionally, the AIM Act's mandate to reduce HFC use by 85% by 2036 serves as a legislative backstop, preserving long-term tailwinds for Solstice and Chemours that is further reinforced by the US' ratification of the Kigali Amendment, an international treaty enforcing the same mandate.