

June 2018

U.S. Equipment & Software Investment Momentum Monitor



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About the U.S. Equipment & Software Investment Momentum Monitor

Business leaders require actionable forward-looking intelligence to make strategic decisions. Accordingly, the Equipment Leasing & Finance Foundation commissioned Keybridge LLC to develop a series of custom leading indicators for the equipment sector. Published monthly, the “U.S. Equipment & Software Investment Momentum Monitor” consists of indices for the 12 equipment and software investment verticals listed below. These indices are designed to identify turning points in their respective investment cycles with a 3 to 6 month lead time.

The Momentum Monitor is based on Keybridge’s extensive research which shows that not all movements in economic data are reliable signals of future economic trends. Keybridge has operationalized its research by constructing indices, each comprised of between 10 to 20 high-frequency indicators. These indicators undergo rigorous testing to determine the optimal thresholds at which their short-term fluctuations are economically meaningful. In simpler terms, the Momentum Monitor sifts out the “noise” in the data and identifies the dominant trends. As a result, each Momentum Monitor index is statistically optimized to signal turning points in the investment cycle without giving false readings of shifts in momentum.

The Momentum Monitor covers 12 equipment and software verticals as defined by the U.S. Department of Commerce Bureau of Economic Analysis.

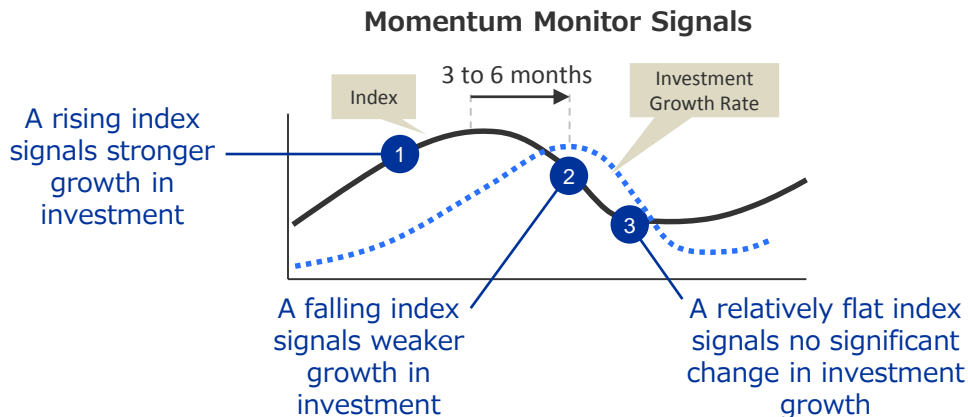
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

- | | |
|-----------------------------------|-----------------------|
| 1) Agriculture Machinery | 7) Aircraft |
| 2) Construction Machinery | 8) Ships and Boats |
| 3) Materials Handling Equipment | 9) Railroad Equipment |
| 4) All Other industrial Equipment | 10) Trucks |
| 5) Medical Equipment | 11) Computers |
| 6) Mining & Oilfield Machinery | 12) Software |

How to Read the Monitor

Each Momentum Monitor index provides a signal of the direction and magnitude of growth in equipment investment over the next 3 to 6 months. It is important to note that index values do not correspond to particular growth rates. Instead, the Momentum Monitor indices should be interpreted within the context of prior index readings and investment growth rates. For example, there are several simple rules to follow when examining the latest index values:

- 1) A rising index signals that growth in investment will accelerate from the current rate;
- 2) A falling index signals that growth in investment will decelerate from the current rate; and
- 3) No change in the index signals no meaningful change from the current growth rate.



To help the reader interpret the latest Momentum Monitor signals, a summary report for each equipment vertical follows a specific outline:

Materials Handling Equipment:

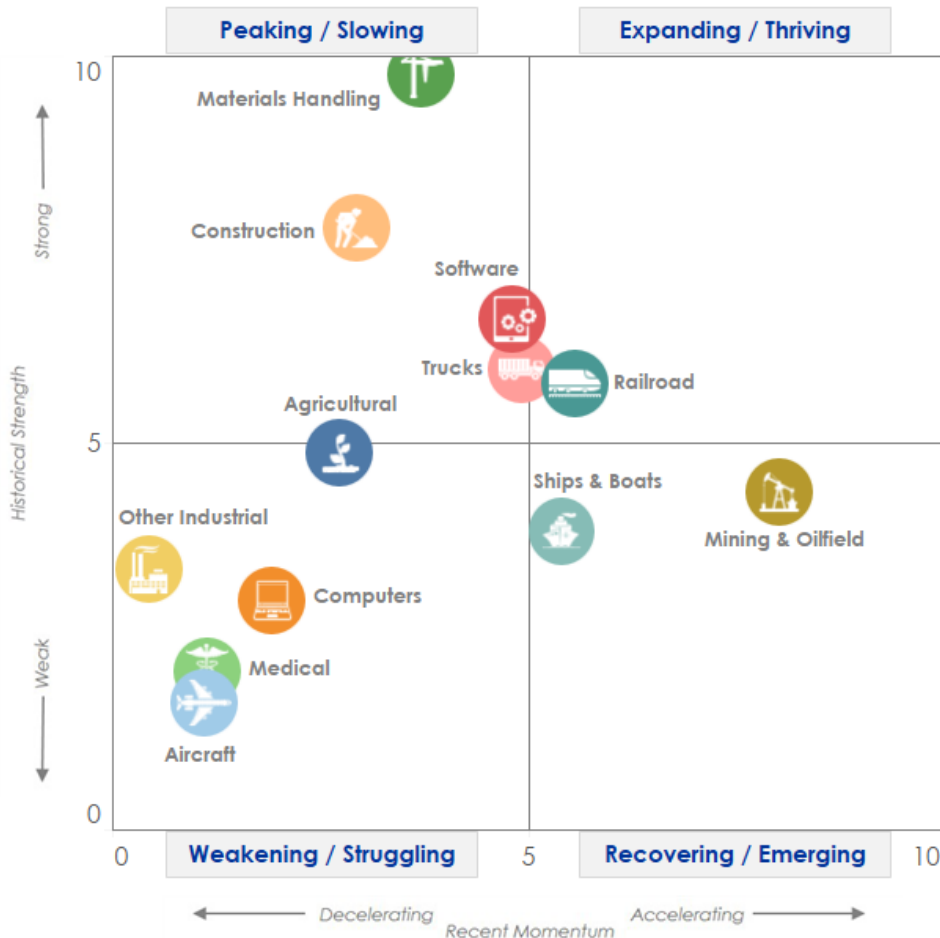
- 1 Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2 The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3 A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy Uncertainty offset gains in Machinery Sales, Manufacturing Sales, and the ISM Manufacturing Suppliers Deliveries Index.
- 4 The Index's recent trend continues to indicate that growth may moderate over the next three to six months.

- 1) The first sentence reports the latest growth rate for investment in a given vertical. This provides a context for interpreting the order of magnitude of growth over the next 3 to 6 months.
- 2) The second sentence explains the latest movement in the index, indicating whether momentum is accelerating or decelerating.
- 3) The report then describes the recent movements of one or more indicators to help to explain the index's latest reading.
- 4) Finally, the report ends with an interpretation of where investment growth is heading over the next 3 to 6 months based the index's recent movement and historical strength.

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Momentum Monitor Sector Matrix



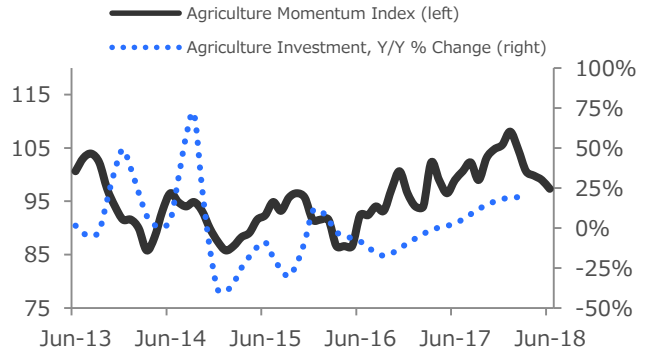
The matrix above summarizes the current values of each of the 12 Equipment & Software Investment Momentum Indices based on two factors: Recent Momentum (x-axis) and Historical Strength (y-axis):

- **"Recent Momentum"** represents the degree of an indicator's recent acceleration or deceleration in the past month relative to its average movement during the previous 3 months. Ratings closer to "0" represent an indicator that is rapidly decelerating, while ratings closer to "10" represent an indicator that is rapidly accelerating.
- **"Historical Strength"** represents the strength or weakness of an indicator in the past month relative to its typical level since 1999. Ratings closer to "0" represent an indicator that is weaker than average, while ratings closer to "10" represent an indicator that is stronger than average.

The matrix is comprised of four quadrants according to each vertical's recent momentum and historical strength readings. If a vertical is located in the top-left quadrant, its momentum reading is higher than average, but positive movement has slowed (and perhaps reversed) in recent months — suggesting that investment levels may fall over the next 1-2 quarters. Verticals located in the bottom-right quadrant, however, have momentum readings that are below average, but recent movement shows promise — suggesting that investment levels may rise over the next 1-2 quarters. This makes them potentially attractive targets for new short-term leasing and finance opportunities.

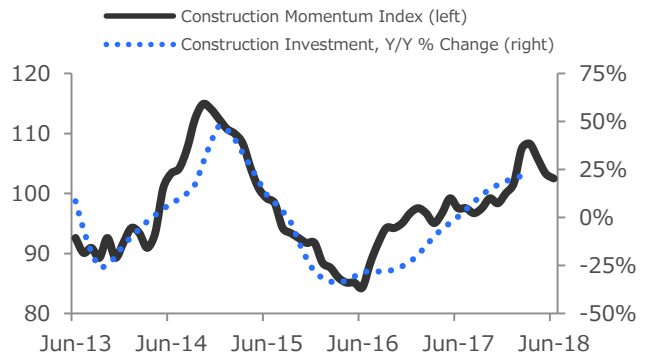
Agriculture Machinery:

Investment in Agricultural Machinery edged down 1.5% (annualized) in Q1 2018 but is up 19% from one year ago. The Agriculture Momentum Index fell from 99.0 (revised) in May to 97.3 in June. Lamb & Mutton Production declined 13% in April, but the Creighton Farm Equipment Sales Index jumped 16% in May, climbing to its highest level since December 2013. Overall, the Index suggests that agricultural machinery investment growth is unlikely to strengthen and may soften over the next three to six months.



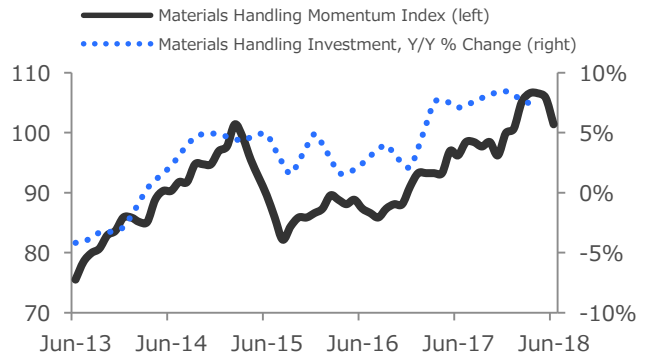
Construction Machinery:

Investment in Construction Machinery expanded at a 30% annual rate in Q1 2018 and is up 22% year-over-year. The Construction Momentum Index fell from 103.3 (revised) in May to 102.5 in June. In April, For-Sale Housing Stock edged up 0.7%, but National Unemployment Claims dropped 13%, the sharpest decline since September 2017. Overall, the Index suggests that construction machinery investment growth may have peaked, but should remain solidly positive over the next two quarters.



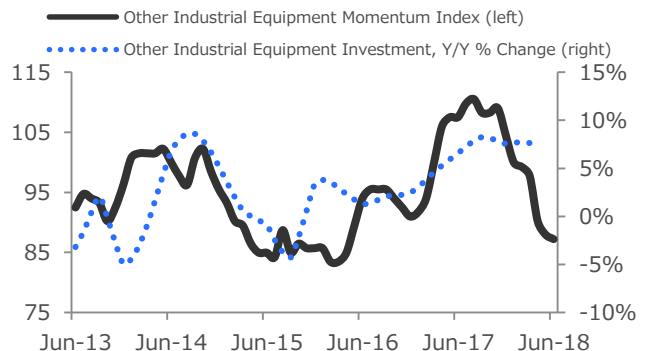
Materials Handling Equipment:

Investment in Materials Handling Equipment increased at a 9.7% annual rate in Q1 2018 and is up 7.4% year-over-year. The Materials Handling Momentum Index declined from 105.8 (revised) in May to 101.4 in June. Inventories of Material Handling Equipment fell 0.3% in March, but Manufacturing Employment edged up 0.1% in May. Overall, the Index movement in recent months suggests that growth in materials handling equipment investment may have peaked, but should remain positive over the next three to six months.



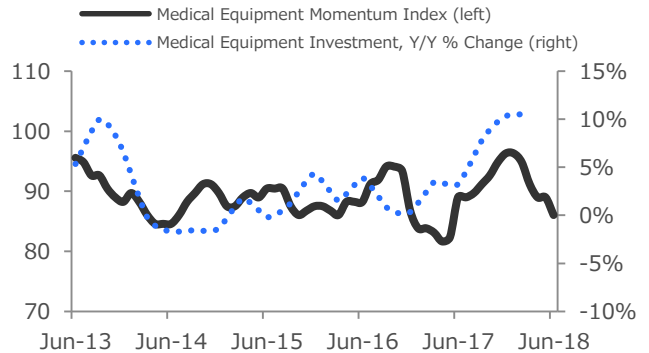
Other Industrial Equipment:

Investment in All Other Industrial Equipment rose at a 4.7% annual rate in Q1 2018 and is up 7.6% from a year ago. The Other Industrial Equipment Momentum Index ticked down from 88.0 (revised) in May to 87.2 in June, its seventh consecutive monthly decline. Exports of Other Industrial Supplies fell 0.8% in March, while M1 edged down 0.1% in April. Overall, the Index continues to point to a slowdown in other industrial equipment investment growth over the next three to six months.



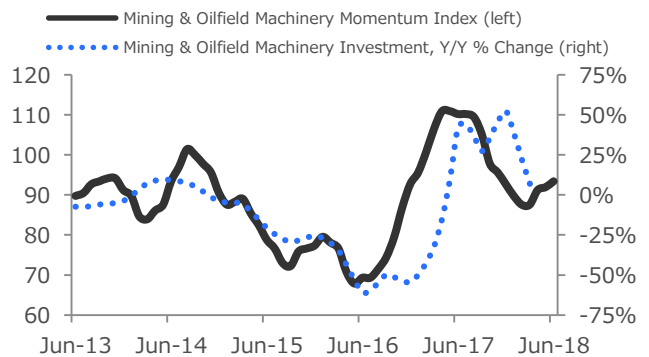
Medical Equipment:

Investment in Medical Equipment expanded at a 3.9% annual rate in Q1 2018 and is up 10% year-over-year. The Medical Equipment Momentum Index fell from 89.0 (revised) in May to 86.0 in June. The Consumer Price Index for Medical Care Services rose 0.2% in April, but Johnson & Johnson's Market Cap fell 5.4% in May, its fifth consecutive decline. Overall, the Index suggests that medical equipment investment growth has peaked and will likely weaken over the next two quarters.



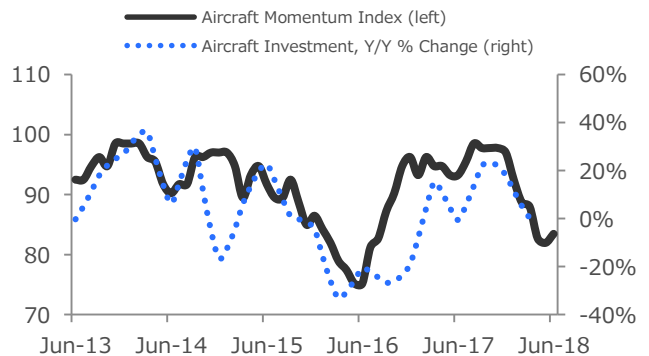
Mining & Oilfield Machinery:

Investment in Mining & Oilfield Machinery decreased at a 36% annual rate in Q1 2018, but is up 6.9% year-over-year. The Mining & Oilfield Machinery Momentum Index increased from 92.0 in May to 93.4 in June. Industrial Production for Mining & Oilfield Machinery expanded 2.9% in April, and Mining & Logging Employment increased 0.9% in May. Overall, the Index continues to suggest that growth in mining & oilfield machinery investment may rebound over the next three to six months.



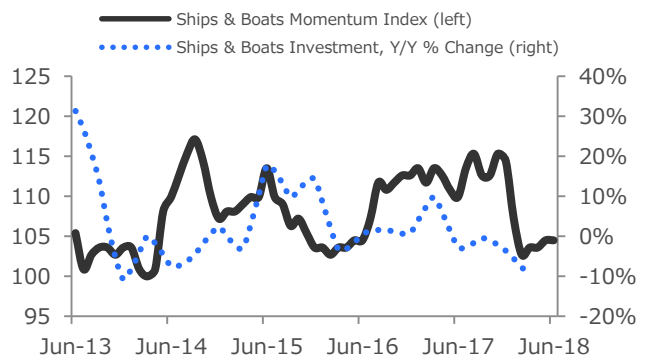
Aircraft:

Investment in Aircraft fell 7.0% (annualized) in Q1 2018, and is down 0.1% on a year-over-year basis. The Aircraft Momentum Index rose from 82.0 (revised) in May to 83.5 in June. Energy Consumption in the Transportation Sector fell 9.0% in February, but Industrial Production for Aircraft & Parts rose 1.6% in April, its first increase in 10 months. Notwithstanding this month's improvement, consistent declines in the index over the past 10 months point to a continued slowdown in aircraft investment growth over the next two quarters.



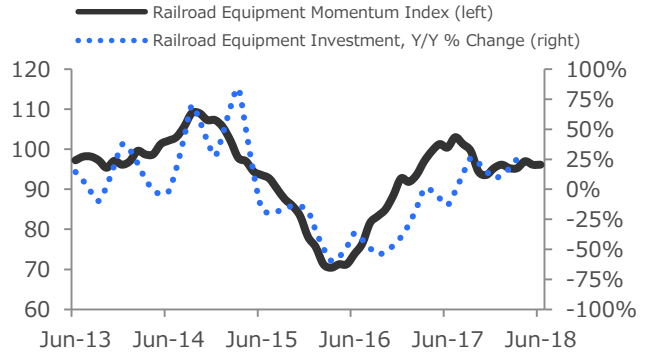
Ships & Boats:

Investment in Ships & Boats declined at an annual rate of 27% in Q1 2018, and is down nearly 10% year-over-year. The Ships & Boats Momentum Index held steady at 104.5 from May (revised) to June. Employment in Boat Building rose 1.1% in April, while the ISM Employment Index rose to 56.3 in May and remains well above the expansionary threshold. Overall, the Index points to continued weakness in ships and boats investment growth over the next three to six months.



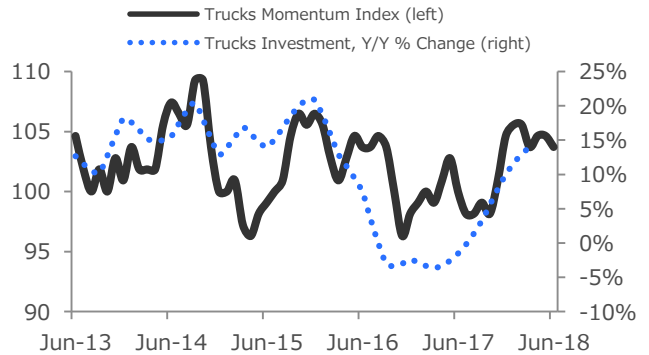
Railroad Equipment:

Investment in Railroad Equipment surged at a 58% annual rate in Q1 2018 and is up 26% year-over-year. The Railroad Equipment Momentum Index was unchanged at 96.2 from May (revised) to June. Industrial Production for Mining rose 1.1% in April and has increased in seven of the last eight months, while Metallic Ores & Metals Carloads jumped 34%. Overall, the Index signals continued strength in railroad equipment investment growth over the next two quarters.



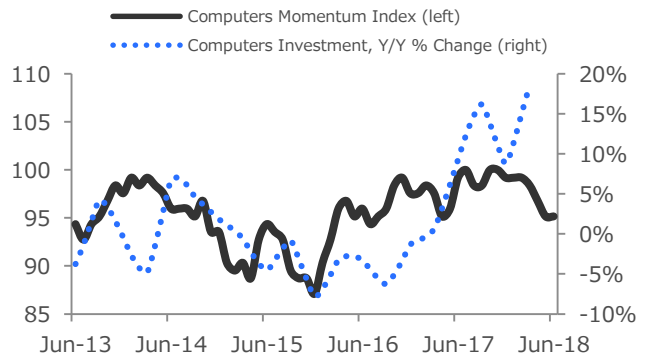
Trucks:

Investment in Trucks rose at a 10% annual rate in Q1 2018 and is up 14% from year-ago levels. The Trucks Momentum Index slipped from 104.6 (revised) in May to 103.7 in June. Industrial Production for Truck Assemblies fell 2.7% in April, but Shipments of Primary Metals rose 2.1%. Overall, the Index points to steady growth in trucks investment over the next three to six months.



Computers:

Investment in Computers increased at an annual rate of 46% in Q1 2018 and is up 19% year-over-year. The Computers Momentum Index held steady at 95.2 from May (revised) to June. Defense Communication Equipment Shipments rose 1.6% in March, but IBM's Market Cap fell 2.5% in May. Overall, the Index points to a moderation in computers investment growth over the next two quarters.



Software:

Investment in Software rose at a 13% annual rate in Q1 2018 and is up 6.4% year-over-year. The Software Momentum Index fell from 99.2 (revised) in May to 98.3 in June. In April, Business Construction Spending increased 1.8%, while Shipments of Computers and Related Products jumped 11%, the strongest growth in over three years. Overall, the Index points to stable growth in software investment over the next three to six months.

