Q3 update — July

2016 Equipment Leasing & Finance U.S. Economic Outlook

EQUIPMENT LEASING & FINANCE
FOUNDATION
Your Eye on the Future

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SUMMARY

Equipment & Software Investment Outlook: Modest equipment and software investment growth is expected to continue this year, as persistent headwinds undermine business spending and confidence. Specifically, continued slow growth in the global economy, a contraction in trade, political uncertainty, and low commodity prices have curtailed business investment for the past year and are likely to remain obstacles in the months ahead. Given recent data and current momentum, we expect equipment and software investment to increase by just 0.9% this year, a significant slowdown from last year's 3.8% growth. Investment in most equipment and software verticals is likely to remain relatively weak through the end of the year.

- Agriculture Machinery investment growth should remain weak over the next three to six months.
- Construction Machinery investment growth will likely remain sluggish over the next three to six months.
- Materials Handling Equipment investment should grow slowly over the next three to six months.
- All Other Industrial Equipment investment growth is likely to weaken over the next three to six months.
- Medical Equipment investment should grow modestly over the next three to six months.
- Mining & Oilfield Machinery investment growth will likely remain negative over the next three to six months.
- Aircraft investment growth may remain weak in the next three to six months, although growth is historically volatile.
- Ships & Boats investment growth will likely slow in the next three to six months.
- Railroad Equipment investment growth is likely to remain negative over the next three to six months.
- Trucks investment growth should be subdued over the next three to six months, but a turnaround may be on the horizon.
- Computers investment growth is likely to grow modestly over next three to six months.
- Software investment growth is poised to remain solid over the next three to six months.

U.S. Capital Investment & Credit Markets: Global uncertainty is weighing on credit demand and supply, but U.S. credit conditions remain at generally healthy levels. While financial stress has fallen and consumer demand for credit has increased considerably, uncertainty in the world economy and financial markets is contributing to weak business confidence and sluggish business investment. The Fed has made several decisions to delay interest rate hikes, citing global headwinds. However, we still expect the Fed to raise interest rates later this year, which may pull forward some investment and slightly expand margins for equipment finance firms.

Overview of the U.S. Economy: Supported by mostly decent fundamentals, we expect the U.S. economy to expand 2.2% in 2016, slightly slower than the pace of growth over the past two years. Consumer spending, driven by increases in real disposable income, will be a significant driver of growth in 2016, and tighter labor markets and solid residential housing gains are primed to provide an extra boost. However, weaknesses in the manufacturing and energy sectors are ongoing impediments to growth and will likely persist for the rest of the year. Thus far in 2016, predictions of an economic "pivot" from 2015 have proven to be accurate: manufacturing and exports have transitioned from growth drivers to drags, while consumption and housing activity continue to strengthen.

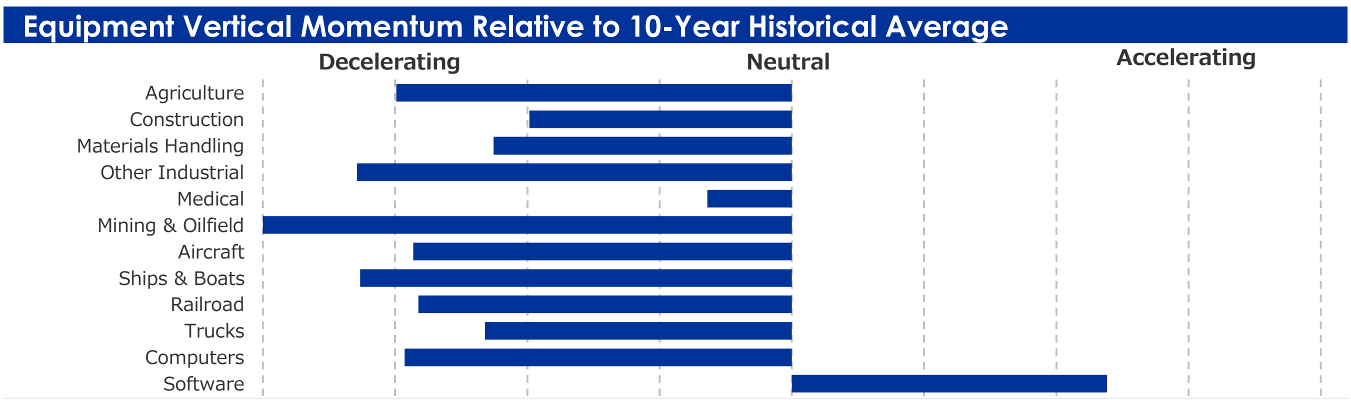
Bottom Line for the Equipment Finance Sector: Equipment and software investment is likely to experience slow growth in 2016, as continued global headwinds and political risk limit business confidence, particularly in the manufacturing, export, and energy sectors. Reflecting this weakness, activity in equipment leasing and finance should slow in the second half of 2016. However, consumer spending will provide a lift to the overall U.S. economy, which is poised to continue expanding — albeit at a slightly slower pace than the last two years. We do not expect a recession in 2016. Overall, we project 2.2% GDP growth for 2016, with equipment and software investment projected to post only 0.9% growth.

EQUIPMENT & SOFTWARE INVESTMENT OUTLOOK

We expect equipment and software investment to expand a sluggish 0.9% in 2016, slower than last year's 3.8% growth rate. A 4.6% contraction (annualized) in Q1 2016 makes for a very weak starting point for investment and limits the potential for decent annual growth. Additionally, ongoing struggles for traditional energy producers, heavy equipment manufacturers, and exporters will continue to dampen investment in those sectors, although small improvements may occur later this year.

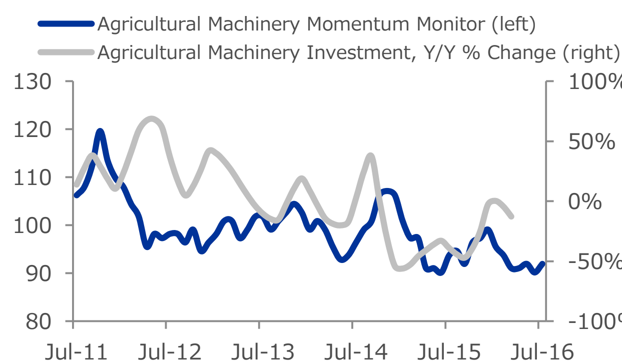
Foundation-Keybridge U.S. Equipment & Software Investment Momentum Monitor

*For more information on how to interpret the Momentum Monitor, please refer to the Appendices on pages 17-18.

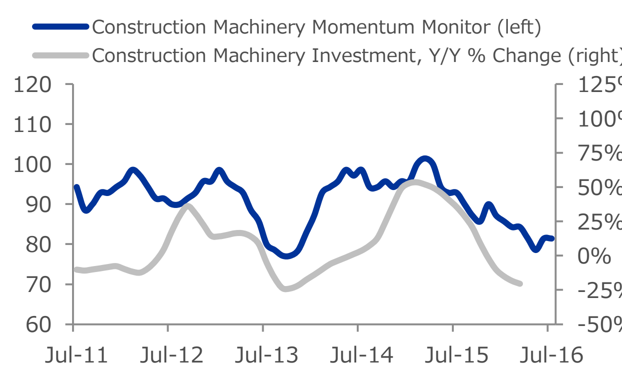


The chart above summarizes the current values of each of the 12 Equipment & Software Investment Momentum Indices relative to the index values for each quarter over the last 10 years. Verticals for which momentum is below the 10-year median are "decelerating," verticals for which momentum is near the 10-year median are "neutral," and verticals for which momentum is near the 10-year maximum are "accelerating." Note that the current momentum trend for each vertical may differ from the current investment volume. For example, a vertical for which the *level* of investment activity is low — but which is exhibiting signs of a comeback in the near future based on the *momentum* suggested by its leading indicators — will be labeled "accelerating" (and vice-versa).

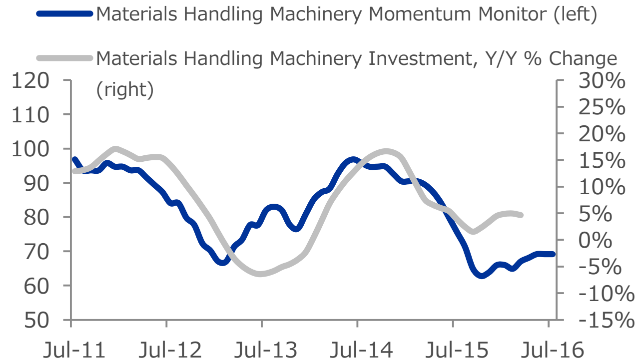
Agricultural Machinery: Investment in Agricultural Machinery contracted at an annual rate of 35.6% in Q1, and is down 12.7% from one year ago. The Agriculture Momentum Index increased from 90.2 (revised) in June to 92.0 in July, offsetting a general decline since December 2015. Meat, Poultry, & Seafood Inventories declined 0.2%, but Milk Production Per Cow rebounded from last month. Overall, the Index's recent movement points to continued weak investment growth in the next three to six months.



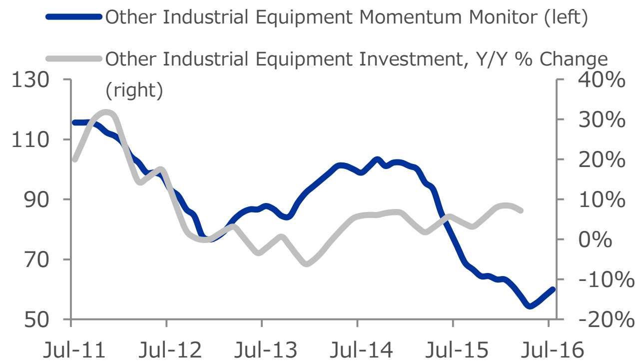
Construction Machinery: Investment in Construction Machinery declined at a 17.8% annual rate in Q1 2016, the fourth straight contraction, and is now down 20.5% year-over-year (a two-year low). The Construction Momentum Index was unchanged at 81.4 (revised) from June to July. Residential Construction Employment slipped after several months of increases, while Construction Machinery Shipments are down significantly from a year ago. Overall, the Index continues to indicate slow or negative investment growth over the next three to six months.



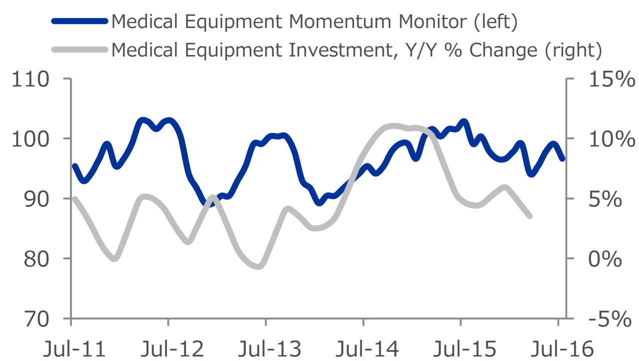
Materials Handling Equipment: Investment in Materials Handling Equipment fell at a 5.2% annualized rate in Q1, but is up 4.7% year-over-year. The Materials Handling Momentum Index held steady at 69.1 from June (revised) to July. While the S&P Industrials Index rose 0.3%, Manufacturing Employment fell to an 18-month low. Overall, the Index points to continued slow investment growth over the next three to six months.



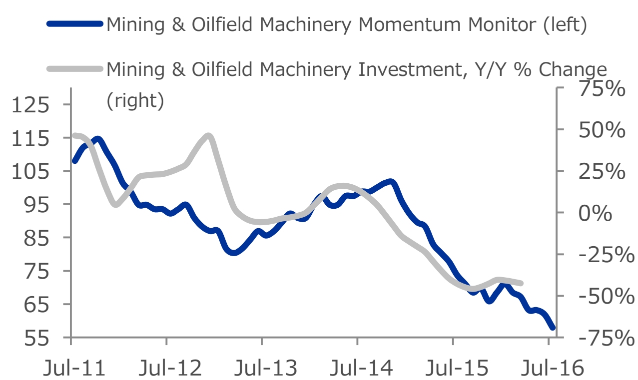
Other Industrial Equipment: Investment in All Other Industrial Equipment contracted at a 1.9% annual rate in Q1, but remains up 7.2% year-over-year. The Other Industrial Equipment Momentum Index increased from 57.8 in June (revised) to 60.0 in July. Copper Warehouse Stocks rose 22.5%, but Shipments of Industrial Machinery fell 8.7%. Overall, the Index's low position continue to suggest that investment growth may weaken over the next three to six months.



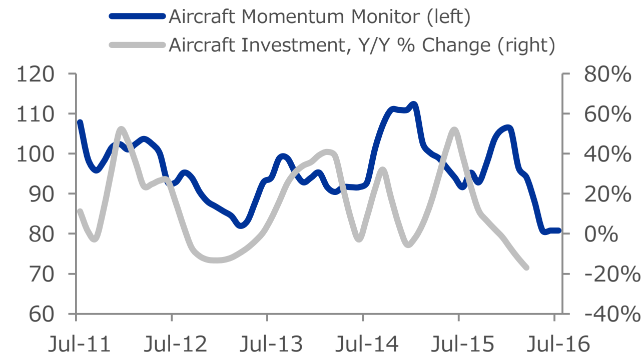
Medical Equipment: Investment in Medical Equipment declined at a 4.2% annual rate in Q1, but remains up 3.5% year-over-year. The Medical Equipment Momentum Index fell from 99.1 (revised) in June to 96.6 in July. Shipments of Electro-Medical Devices rose to a four-year high but were offset by a sharp 61.8% drop in Federal Medicare Outlays. Overall, the Index indicates modest growth in medical equipment investment over the next three to six months.



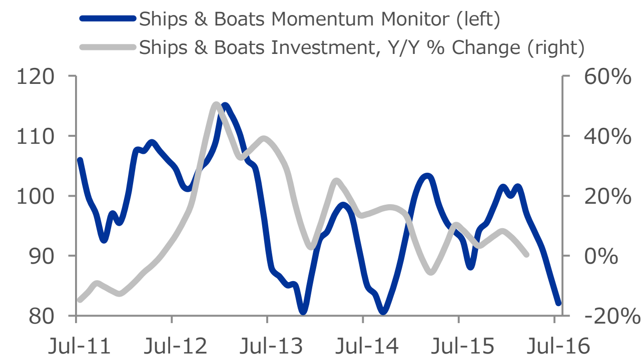
Mining & Oilfield Machinery: Investment in Mining & Oilfield Machinery fell sharply at a 42.4% annual rate in Q1 (the seventh consecutive quarterly decline), and is now down 42.6% year-over-year. The Mining & Oilfield Machinery Momentum Index declined from 61.9 (revised) to 58.0 in July, an all-time low. Mining Support Employment dropped to a six-year low, while Oil & Gas Field Machinery Shipments fell to a near-decade low. Overall, the Index points to continued negative growth in mining and oilfield machinery investment for the next three to six months.



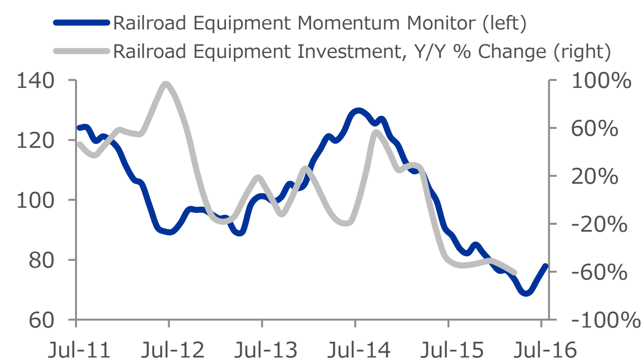
Aircraft: Investment in Aircraft contracted at a 31.2% annual rate in Q1, and is down 17.0% on a year-over-year basis (a seven-year low). The Aircraft Momentum Index held steady at 80.8 in June (revised) to July. Capacity Utilization remains low at 74.9%, but Air Transportation Employment increased for the sixth consecutive month. Overall, the Index continues to suggest weak growth in aircraft investment over the next three to six months.



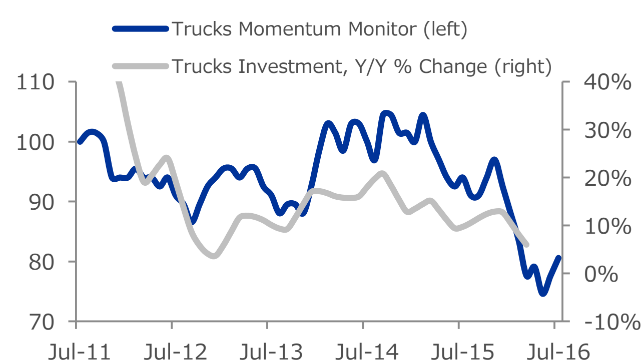
Ships & Boats: Investment in Ships & Boats dropped at an annual rate of 18.3% in Q1, yet remains up 0.4% year-over-year. The Ships & Boats Momentum Index fell from 86.6 (revised) in June to 82.1 in July. The Agricultural Product Trade Balance dropped sharply from -$179.8 million to -$604.0 million in May, while New Orders of Ships & Boats declined 20.6%. Overall, the Index continues to indicate a negative outlook for ships & boats investment over the next three to six months.



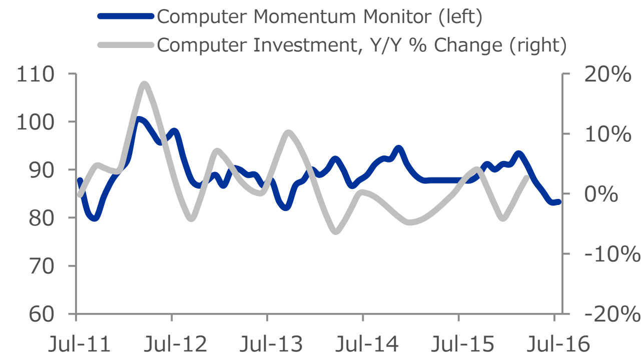
Railroad Equipment: Investment in Railroad Equipment plummeted at an 81.8% annual rate in Q1, and is down 60.7% year-over-year, the fourth straight decline. The Railroad Equipment Momentum Index increased from 73.6 (revised) in June to 77.9 in July. In May, Commodities Exports rose 18.3%, but Machine Tool Orders dropped 23.4% in April. Overall, the Index's low position continues to point to negative growth in railroad equipment investment over the next three to six months, though a recent uptick indicates potential for improvement.



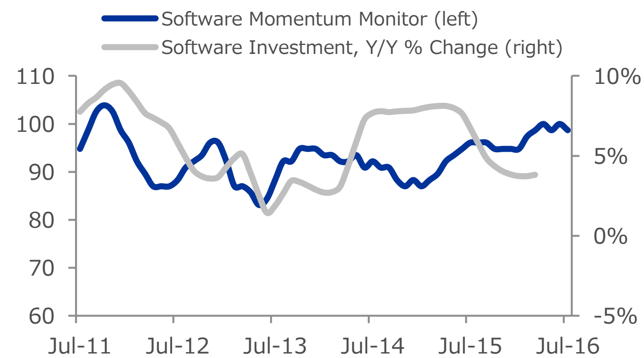
Trucks: Investment in Trucks rose at a 1.3% annual rate in Q1, and is up 6.0% year-over-year. The Trucks Momentum Index increased from 77.6 (revised) in June to 80.6 July. Coal Production rose 9.9% in May, while New Orders of Motor Vehicles increased 0.8%. Overall, the Index's low position suggests subdued investment growth in trucks over the next three to six months, but recent movement in the Index is encouraging.



Computers: Investment in Computers rose at an annual rate of 4.4% in Q1, and is up 2.6% on a year-over-year basis. The Computers Momentum Index held steady at 83.3 (revised) from June to July. In May, Computer & Electronic Shipments fell 4.5%, but Defense Communication Equipment Shipments rose 4.8%. Overall, the Index points to modest growth in computer investment over the next three to six months.



Software: Investment in Software expanded at a 9.1% annual rate in Q1, and is up 3.8% year-over-year. The Software Momentum Index slipped from 100.0 (revised) in June to 98.7 in July. The Survey on Equipment & Software Spending dropped by 7.1% in June, but Consumer Revolving Credit increased by 0.2%. Recent movement in the Index suggests solid growth in software investment over the next three to six months.



Equipment & Software Investment Annual Growth Forecast

Year-on-Year % Growth Rates

Sector	10-Year Average	Last 4 Quarters	Next 4 Quarters
Agricultural Machinery	1.4%	-12.7%	-10 to 0%
Construction Machinery	6.0%	-20.5%	0 to 8%
Materials Handling Equipment	2.3%	4.7%	0 to 6%
Other Industrial Equipment	2.6%	7.2%	-4 to 4%
Medical Equipment	4.0%	3.5%	3 to 8%
Mining & Oilfield Equipment	6.1%	-42.6%	-15 to -5%
Aircraft	8.9%	-17.0%	4 to 10%
Ships & Boats	7.3%	0.4%	-2 to 5%
Railroad Equipment	7.2%	-60.7%	-12 to -2%
Trucks	17.8%	6.0%	6 to 12%
Computers	5.5%	2.6%	3 to 8%
Software	4.2%	3.8%	5 to 10%

Source: Macrobond Financial, Keybridge (forecasts)

U.S. CAPITAL INVESTMENT AND CREDIT MARKETS

Persistent headwinds are likely to limit capital spending in 2016, as global economic uncertainty and a low oil price hangover discourage business investment. Equipment and software investment contracted significantly in the first quarter of 2016, and although investment should rebound in the months ahead, the poor first quarter performance will limit overall investment growth for the year.

Reflecting business caution, equipment leasing activity has moderated so far in 2016, and industry confidence remains low. However, credit market conditions have improved slightly, driven by increases in consumer demand and a reduction in financial stress. Overall, we expect 0.9% equipment and software investment growth in 2016, lower than 2015's 3.8% expansion.

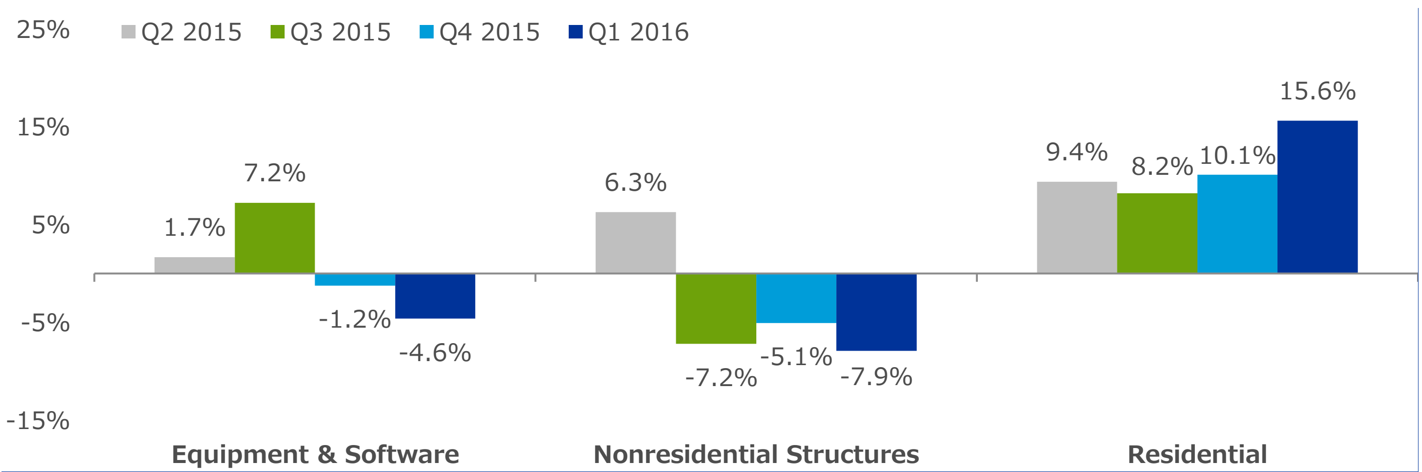
We anticipate that the Federal Reserve will raise interest rates once over the rest of 2016 — fewer increases than previously expected. After a December 2015 rate hike, the Fed has held off on raising rates thus far in 2016, citing a high degree of uncertainty in the global economy and financial markets.

Recent Trends in U.S. Capital Investment

Equipment and Software Investment declined at a 4.6% annualized rate in the first quarter of 2016, the second straight contraction and a significant reduction from the previous quarter's annualized decline of 1.2%. Nonresidential Structures Investment posted a similarly disappointing decline of 7.9% (annualized) in Q1. However, Residential Investment expanded at a strong 15.6% rate in Q1 2016, and the U.S. housing market appears primed to continue building momentum in 2016.

Investment Growth Rates

Quarter-on-Quarter, Seasonally Adjusted Annualized Growth Rate



Source: Macrobond Financial

- **Equipment Leasing and Financing:** Momentum in the equipment finance industry has been slow throughout 2016. The ELFA Monthly Leasing and Finance Index ("MLFI-25") for May showed that new business volume was $6.8 billion, down 6.8% from a year ago. Year-to-date, cumulative new business volume for 2016 is 9.0% lower than in 2015. Meanwhile, portfolio performance has worsened slightly. In May, 30-day delinquencies were at 1.3%, up from 1.2% in April. Charge-offs also increased slightly to 0.33%, while the credit approval rate fell from 78.2% in April to 76.5% in May.

Overall, the slowdown that began in late 2015 appears to have extended into 2016. Reflecting this trend, the Foundation's Monthly Confidence Index for the Equipment Finance Industry ("MCI-EFI") has continued to fall, with confidence in June at 52.3, down from 55.1 in May and 59.1 in April. Uncertainty about the November elections and their effect on the U.S. economy were cited as concerns among those surveyed.

Looking ahead, we expect that industry performance will be mixed over the remainder of 2016. While the U.S. economy has decent vitals (particularly consumer spending) increased political and economic uncertainty along with weak business confidence will continue to tamp down growth in the industry.

- **Equipment Verticals:** Most equipment verticals tracked by Keybridge posted negative investment growth in Q1, with the exception of Trucks, Computers, and Software. Investment in Software had the fastest growth, at a 9.1% annual rate in the first quarter, while Railroad Equipment's 81.8% drop in investment made it the worst-performing vertical. Several others also showed strongly negative growth. Agricultural Machinery investment fell by 35.6%, the biggest decline since the fourth quarter of 2014. Construction Machinery investment suffered a 17.8% drop, its fourth straight quarter of decline. Aircraft investment also experienced a 31.2% contraction, while Mining and Oilfield Machinery continued its sharp decline over the past seven quarters, falling 42.4% in Q1.

- **Other Factors:** The industrial sector remains weak, despite early signals of a potential revival in April. Industrial production decreased 0.4% in May, mostly offsetting a 0.6% increase in April. Likewise, capacity utilization fell to 74.9% in May after rising to 75.3% in April. Recent manufacturing data has been mixed and is suggestive of a positive but potentially weak growth outlook for Q2 and Q3. In May, shipments of manufactured durable goods (a proxy for Q2 manufacturing growth) decreased 0.2% to $231.7 billion, following a 0.4% April increase. Meanwhile, new orders of durable goods (a proxy for Q3 growth) decreased 2.2%, although they are up 1.7% year-over-year. Looking ahead, the outlook for manufacturing activity and investment remains relatively weak.

Recent Trends in Credit Markets

The credit markets show some noticeable signs of improvement over the last quarter, with a marked increase in credit demand (especially from consumers) and an overall decrease in financial stress. While banks continue to exercise caution in lending to the energy sector, credit supply has otherwise remained as generous as in the previous quarter. An increase in consumer credit demand reflects improvements in consumption spending as shown by other indicators, while a more modest increase in business demand for credit may indicate a small revival in business investment later in the year. Overall, credit markets are healthy and do not currently exhibit any major red flags that would hurt consumers or businesses this year.

- **Credit Supply & Pricing:** While the supply of commercial credit has contracted slightly, loan standards for consumers have eased. In the April Fed Loan Officer Survey, U.S. banks reported a net tightening of standards for both commercial and industrial ("C&I") and commercial real estate loans. On balance, standards were tightened more on loans to medium and large firms than to small firms. Banks continue to report uncertainty about lending to businesses in the oil and natural gas drilling and extraction

Summary of Credit Conditions

Factor	Conditions Compared With Last Quarter
Supply	Little Change
Demand	Slight Increase
Financial Stress	Slight Decrease

sectors, as well as to other businesses in regions that are dependent on those sectors. However, banks have eased standards on household lending, especially for mortgages, credit cards, and other consumer loans.

- **Credit Demand:** While businesses and consumers continue to exercise caution in borrowing, there are signs of a revival in demand for credit, particularly consumer credit. In March, consumer credit saw a strong 9.6% increase, followed by a solid 4.5% rise in April. The Conference Board's Consumer Confidence Index jumped 6.1% in June, while banks also reported a noticeable increase in consumer demand for credit over the last quarter.

  Meanwhile, business demand for credit has increased slightly but remains subdued. Growth in C&I loans has steadied at around 10% year-on-year, and U.S. banks reported weakened demand for C&I loans in the April Fed Loan Officer Survey. Conversely, the same survey notes a marked increase in demand for commercial real estate loans. Measures of business confidence together show a slight upturn from last quarter, although economic and political uncertainty continue to undermine optimism. The Thomson Reuters/PayNet Small Business Lending Index ("SBLI") remains low by historical standards but has risen significantly since the beginning of 2016. Likewise, the National Federation of Independent Business ("NFIB") Small Business Optimism Index increased by 0.2% in May, but remains down from one year ago. The Business Roundtable's CEO Economic Outlook Index stood at 73.5 in Q2 2016, below its historical average of 79.8 but above Q1 levels (69.4), while expectations of capital expenditures increased substantially. Overall, these indicators point to modest growth in both business confidence and investment spending in the months ahead.

- **Financial Stress:** Financial stress has decreased slightly over the last quarter and remains low by historical standards. The St. Louis Fed Financial Stress Index is below average and has decreased notably since the beginning of 2016, while the Kansas City Fed Financial Stress Index has also declined. However, loan and lease delinquencies have ticked up in recent months, a trend that appears set to continue in the near term. Overall, a relatively low rate of delinquencies appears likely in the short term. However, the political and economic fallout stemming from the U.K.'s recent vote to leave the European Union ("Brexit") pose a significant risk of increased financial stress in the coming months.

- **Other Factors:** After holding steady around 1.8% for several months, 10-year Treasury yields fell 40 basis points following the Brexit vote to a record-low of 1.37%. Throughout the year, global economic weakness and uncertainty (particularly in China and emerging markets) have made U.S. government bonds an attractive investment compared to European and Japanese bonds — and the Brexit decision has put foreign investors even more "on edge" than they were earlier in the year. The Fed's reluctance to raise the Federal Funds Rate (see next paragraph) is also contributing to low Treasury yields. While we still expect the Fed to raise short-term interest rates in 2016, the increase is likely to be modest. The net effect of these factors is that 10-year Treasury yields will remain low throughout the rest of 2016.

Update on Fed Policy

The Federal Reserve's decision to raise interest rates in December 2015 prompted speculation that U.S. monetary policy was finally normalizing and interest rates would rise gradually in 2016. Those expectations shifted after the Fed, citing global headwinds, delayed rate hikes in January and March. In June the Fed again opted not to raise rates, citing a poor May jobs report, weak business investment, fears of a British exit from the European Union (which turned out to be well-founded), and an ongoing slowdown in emerging markets. Federal Reserve Chair Janet Yellen testified before the U.S. Congress in June and conveyed optimism about the U.S. economy's growth trajectory and pessimism about long-term U.S. productivity growth, hiring, corporate profits, and output growth. However, the Federal Reserve believes the odds of a recession in 2016 are low.

In light of recent events (particularly the Brexit vote), a rate increase in July is unlikely. However, we continue to believe that the Fed will raise rates at least once in the second half of 2016 given the U.S. economy's generally solid fundamentals. Given ongoing uncertainty about the global economy and the country's long-term growth outlook, any rate hikes that occur are likely to be modest, and rates will remain low for the foreseeable future.

OVERVIEW OF THE U.S. ECONOMY

For the balance of 2016, the U.S. economy is likely to grow at a moderate pace, as generally healthy domestic vitals are matched by a host of global headwinds and uncertainties. Continuing an economic pivot that began in 2015, the U.S. economy faces ongoing weakness in the industrial and energy sectors, which has weighed down business investment in 2016. In contrast, consumer spending has shown decent growth in the first half of the year, driven by low unemployment and steady increases in real disposable income. Moreover, residential investment is growing at a rapid pace, and government spending is likely to provide an added boost to GDP. These bright spots should be enough to produce moderate growth in 2016, and we continue to see little danger of a recession occurring in the second half of the year.

Economic growth came in at a sluggish 1.1% in Q1 2016, following another subpar quarter in Q4 2015 during which the economy expanded by just 1.4%. Business investment and inventories have been significant drags on growth for the last two quarters, while consumer spending and housing investment have been solid. The labor market also appears healthy. Despite a disappointing May employment report, job growth has averaged a respectable 150,000 per month in 2016, and with the unemployment rate falling to 4.7%, the economy is edging ever closer to full employment. Meanwhile, several signs point to rising inflationary pressures, including accelerating wage growth and recovering oil prices.

We project the U.S. economy to grow 2.2% in 2016 — slightly below 2014 and 2015 growth.

Recent Trends in the U.S. Economy

Strong consumer spending and residential housing investment will drive economic expansion this year, while weak business investment and export growth are likely to be limited factors. While we expect some improvement in business investment growth later this year, investment has already dragged down overall GDP growth by nearly six-tenths of a point in the first quarter and another three-tenths of a point in Q4 2015. Government spending has been relatively soft in recent months, but should contribute more to growth during the remainder of 2016 as defense spending rebounds. Meanwhile, inflation poses an increased risk, as rising wages and recovering oil prices are likely to nudge consumer prices higher.

Indicator	Recent Activity
Consumption	Consumer spending growth remained positive at 1.5% (annualized), but eased from 2.4% growth (annualized) in the previous quarter.
Equipment & Software Investment	Equipment & software investment dropped 4.6% (annualized), continuing a decline from the previous quarter.
Residential Investment	Residential investment growth accelerated at a strong 15.6% (annualized) rate.
Government Expenditures	Government expenditures grew at a moderate 1.3% (annualized) rate. State and local spending more than offset an unexpected decline in federal defense spending.
Net Exports	Net exports had a muted positive effect on GDP, as exports rose 0.3% (annualized) in Q1 while imports fell 0.5% (annualized).

- **Q1 GDP:** The U.S. economy expanded at a disappointing annual rate of 1.1% in Q1 2016, following 1.4% growth in Q4 2015. Consumer spending was relatively strong and helped buoy

GDP growth, while residential investment jumped at an annualized rate of 15.6% — a marked improvement over an already healthy 10% average growth over the previous five quarters. However, nonresidential investment experienced a significant drop to -4.5% annualized growth, driven by downturns in both structures and equipment investment. Government spending growth came in at an underwhelming 1.3%, held back by a surprising -3.7% annual decline in federal defense spending. Finally, net exports made a mild positive contribution to GDP growth after curbing growth in the previous quarter, as exports saw 0.3% annual growth while imports declined by 0.5%.

- **Inflation:** Although inflation remains well below the Fed's 2% target rate, inflationary pressures are set to firm over the remainder of 2016. While low oil prices continue to dampen inflation, a steady rise from sub-$30/barrel prices last winter to $45-55 today will begin to put upward pressure on consumer prices during the latter half of the year. In addition, recent employment data have pointed to clear signs of tightening in the labor market that have begun to boost wages and should lead to price increases. With 4.7% unemployment in May, average hourly wage growth increased to 2.5% year-on-year and seems poised to accelerate to around 3.0% by early 2017.

  Current Consumer Price Index ("CPI") measures fall in line with these predictions. Headline inflation now stands at 1.0% year-on-year — up from 0.5% year-on-year just six months ago — while core inflation (which excludes volatile food and energy prices) is now at 2.2%.

- **Growth Forecasts:** The *Economist* Poll of Forecasters for June predicted 1.8% GDP growth in 2016, unchanged since the previous month's forecast but down from April's 2.0% projection and February's 2.3% estimate. Likewise, the Federal Reserve's June forecast for 2016 growth stood at 2.0%, below its previous projection of 2.2% in March.

Economic Tailwinds

Continual improvement in labor markets is likely to fuel consumer spending and residential housing growth for the rest of 2016.

- **Strong Consumer Spending:** After posting moderate gains in Q1 2016, several indicators point to stronger consumer spending in Q2 and good prospects for the rest of 2016. Retail sales rose 0.5% in May after jumping 1.3% in April, and are currently up 2.5% from year-ago levels. Similarly, real personal consumption expenditures increased 0.3% in May after a strong 0.8% increase in April. For the rest of 2016, consumption should benefit from higher levels of real disposable income, which have grown steadily for several months and are primed to accelerate with rising wages.

- **Sustained Labor Market Growth**: Although the May jobs report was disappointing, other indicators suggest that labor markets remain on solid footing. The economy has added a respectable 150,000 jobs per month in 2016, while unemployment has fallen to 4.7% — a new post-recession low. Further, new jobless claims remain quite low; the four-week moving average now stands at 267,000, among the lowest level since the recession. Although some employment data are weaker (e.g., the labor force participation rate for "prime" workers aged 25-54 remains near post-recession lows), overall the outlook for job growth remains solid, and labor markets should provide an additional boost to personal income and consumer spending.

- **Residential Housing Expansion:** Most signs point to a reviving housing market, and residential investment is likely to remain a persistent bright spot for 2016. Residential housing investment expanded 15.6% (annualized) in Q1 2016 and appears poised to repeat strong growth in Q2 and beyond. Existing home sales grew 1.8% in May — their highest pace in almost a decade — while builder confidence in the market for new single-family homes rose to a six-month high. Home prices increased 0.2% in April, a positive sign given that housing prices are a leading indicator of new home construction. Overall, we expect housing industry growth to continue for the rest of the year, particularly in light of expectations of sustained low interest rates on mortgages.

Economic Headwinds

Uncertainties posed by the results of the Brexit referendum, a trend of declining global trade, and a persistently strong dollar will continue to hurt market confidence and slow economic growth — especially export activity.

- **Brexit Uncertainty:** The result of the United Kingdom's referendum on European Union membership on June 23 has sent shockwaves through the global marketplace, as a high level of uncertainty permeates the fallout of this unprecedented event. Financial and currency market volatility has surged: in the days following the vote, U.S. and European stock markets tumbled (although some have since recovered), gold reached new heights, and the British pound fell to 30-year lows. This volatility is likely to subside in the days and weeks ahead, as the initial shock of the referendum fades away. However, political turmoil is all but certain to continue, as British and European leaders struggle to chart a new path for Britain and define a new future for the European Union.

  In the short to medium term, Brexit is likely to strengthen the U.S. dollar as investors flock to safer currencies, and will weigh on business confidence and tighten financial conditions. These effects will likely act as a significant headwind for the U.S. economy, and uncertainty about the U.K. and other European economies will likely prevail for the foreseeable future. U.S. exporters and globally-oriented manufacturing firms will be most affected by this fallout.

- **Restricted Trade:** A June report by the World Trade Organization (WTO) states that between mid-October of last year and mid-May of 2016, G20 economies introduced new protectionist trade measures at the fastest pace seen since the 2008 financial crisis. Nearly 1,600 new trade restrictions have been introduced in G20 economies, while less than 400 have been removed. These additional impediments to global trade are a key factor in the WTO's observation that the global economy is facing its fifth consecutive year of historically weak trade growth — a slowdown not seen since the 1980s. This downturn is likely a major contributor to the persistent low growth in the world economy since the last recession.

  In addition, in many advanced economies around the world (including the United States) there has been a popular backlash against globalization and free trade, fueled in part by anti-trade political rhetoric. These developments decrease the likelihood that major trade deals like the Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP) will be completed. Overall, a decline in trade will decrease business investment (particularly for export-oriented firms) and inhibit U.S. economic growth.

- **Continued Dollar Strength:** Throughout 2015, a strong dollar weighed heavily on U.S. exporters, who struggle to sell when their goods are more expensive than those of foreign competitors. During the first half of 2016, the U.S. dollar weakened somewhat: the Federal Reserve's major currencies index fell from a high of 95.8 in mid-January to around 90 today. However, it still has a long way to go to reach its mid-70s average range of the past three years — and the recent weakening trend may be reversed in the months ahead. The Brexit fallout, coupled with persistent headwinds from emerging markets, could portend a "flight to safety" as investors seek out low-risk assets like the U.S. dollar and U.S. bonds. Absent other factors, these effects will put additional pressure on the dollar to appreciate further.

Additional Factors to Watch

Several other economic and political developments are also likely to influence U.S. economic growth this year:

- **Recovering Oil Prices:** The freefall of oil prices that occurred between June 2014 (when oil traded above $100/barrel) and February 2016 (when oil prices fell below $30/barrel) severely inhibited business investment in the traditional energy industry and related sectors. Since early 2015, investment in mining and oilfield equipment has fallen 42.6%, and thus far in 2016 the decline shows few signs of abating. U.S. energy firms cut their capex spending by about 40% in 2015, and are on track for an additional 50% reduction this year.

  However, over the past 4-6 months, oil prices have climbed steadily to around $50/barrel. A major factor to watch will be the extent to which energy investment responds to this price recovery. So far, investment has remained sluggish: the 4.6% annualized drop in business investment in Q1 was mostly driven by energy sector struggles. However, if the oil price rebound solidifies over the remainder of the year, the steep decline in energy investment may begin to subside, which could reduce a major impediment to GDP growth.

- **Political Uncertainty:** Brexit underscores a host of other political unknowns that are emerging across the developed world. The Brexit vote puts not only the United Kingdom but the entire European Union at risk of weakening or disintegration. Therefore, in Britain and other European economies, we expect to see at least some reduced investment, declining consumer confidence, and potentially slower economic growth in the months ahead. Longer term, Brexit could have wide-ranging negative implications for global trade, finance, investment, and labor migration.

  The Brexit referendum also highlights the growth of anti-globalist and anti-immigrant sentiment, a backlash against accelerating globalization and cross-border migration. This political uncertainty extends to the United States, where the 2016 campaign season has seen sharp rhetoric against free trade and immigration. Adding to this uncertainty are unknowns about the exact policy positions of the presidential candidates. For example, Hillary Clinton's position on free trade agreements appears to have changed relative to when she served as Secretary of State, while Donald Trump's lack of experience holding public office means that less is known about his positions on some policy issues. During the primaries, both parties experienced a surge in populist attitudes, which may influence each party's platform as well as the candidates' choices of running mates. In response, businesses could be more hesitant than usual to undertake new projects or increase investment spending until the future direction of U.S. domestic and foreign policy becomes clearer.

- **Security Concerns:** Terrorist attacks in Paris, San Bernardino, Orlando, and Istanbul add to a growing list of terrorist incidents around the world over the last 12 months. While most analyses have concluded that these attacks are unlikely to pose major or long-lasting economic consequences, they could have negative repercussions on consumer confidence and business investment in the short term.

Projections for Key Economic Indicators

Indicator	2014	2015	2016 Quarterly Estimates				2016e
			Q1	Q2e	Q3e	Q4e	
Real GDP (SAAR %)	2.4%	2.4%	1.1%	3.6%	2.5%	2.9%	2.2%
Real Investment in Equipment & Software (SAAR %)	6.0%	3.8%	-4.6%	3.5%	3.8%	4.0%	0.9%
Inflation (year-on-year %)	1.6%	0.1%	1.1%	1.2%	1.9%	2.1%	1.6%
Federal Funds Target Rate (lower bound, end of period)	0.00%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%
10-year Treasury Rate (end of period)	2.2%	2.3%	1.8%	1.5%	2.3%	2.7%	2.7%
Total Payroll Growth (in thousands)	+3,015	+2,744	+587	+311	+510	+500	+1,908

Note: SAAR% refers to the annualized rate of change in seasonally adjusted data from one quarter to the next, which is the Bureau of Economic Analysis' standard method for reporting growth in the national accounts data.

QUARTERLY DATA

Indicator	2014				2015				2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Real Gross Domestic Product (SAAR %)									
GDP	-0.9%	4.6%	4.3%	2.1%	0.6%	3.9%	2.0%	1.4%	1.1%
Consumer Spending	1.3%	3.8%	3.5%	4.3%	1.7%	3.6%	3.0%	2.4%	1.5%
Gross Private Fixed Investment	-2.5%	12.6%	7.4%	2.1%	8.6%	5.0%	-0.7%	-1.0%	-1.7%
Inv: Equipment & Software	4.6%	6.8%	14.9%	-2.5%	3.9%	1.7%	7.2%	-1.2%	-4.6%
Inv: Agricultural Machinery	-48.5%	-53.9%	185.6%	-93.5%	-0.4%	8.6%	11.7%	-25.8%	-35.6%
Inv: Construction Machinery	22.7%	16.1%	41.2%	143.2%	33.2%	-14.2%	-24.2%	-25.3%	-17.8%
Inv: Materials Handling Equipment	25.1%	16.4%	16.3%	4.7%	-5.8%	7.6%	0.1%	17.5%	-5.2%
Inv: All Other Industrial Equipment	21.8%	13.5%	4.2%	-10.4%	1.2%	32.1%	-5.4%	7.7%	-1.9%
Inv: Medical Equipment	7.5%	15.7%	16.8%	3.9%	5.0%	-3.5%	13.2%	9.7%	-4.2%
Inv: Mining & Oilfield Machinery	7.4%	22.6%	-9.9%	-53.8%	-33.8%	-51.9%	-42.1%	-32.4%	-42.4%
Inv: Aircraft	-39.2%	-64.9%	332.6%	-13.5%	34.8%	5.8%	25.9%	-48.2%	-31.2%
Inv: Ships & Boats	126.8%	-35.5%	31.8%	-15.5%	10.4%	19.6%	2.1%	1.8%	-18.3%
Inv: Railroad Equipment	-55.5%	191.4%	190.7%	-34.9%	-55.7%	-90.1%	49.3%	-11.5%	-81.8%
Inv: Trucks	19.6%	27.2%	12.6%	-5.2%	29.5%	3.8%	21.5%	-1.0%	1.3%
Inv: Computers	-25.0%	10.1%	3.6%	-3.7%	-20.6%	27.6%	19.6%	-30.4%	4.4%
Inv: Software	8.1%	7.8%	10.0%	5.5%	9.2%	5.9%	-1.0%	1.4%	9.1%
Credit Conditions									
Nonfinancial Sector Debt (% of SAAR GDP)	67.5%	67.2%	67.3%	67.9%	69.1%	69.5%	69.8%	70.3%	71.5%
Loan Delinquency Rate	0.9%	0.8%	0.8%	0.7%	0.8%	0.8%	0.9%	1.0%	1.5%
Lease Delinquency Rate	0.8%	0.7%	0.8%	0.7%	0.7%	0.8%	0.8%	0.8%	0.9%
Net Tightening of C&I Loan Standards	-13.7%	-11.1%	-10.7%	-10.5%	-5.5%	-5.3%	-7.0%	7.4%	8.2%

Note: SAAR% refers to the annualized rate of change in seasonally adjusted data from one quarter to the next, which is the Bureau of Economic Analysis' standard method for reporting growth in the national accounts data.

MONTHLY DATA

Indicator	2015							2016					
	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Employment													
Change in Total Payrolls (thousands)	228	277	150	149	295	280	271	168	233	186	123	38	-
Change in Private Payrolls (thousands)	226	245	123	162	304	279	259	155	222	167	130	25	-
Unemployment Rate	5.3%	5.3%	5.1%	5.1%	5.0%	5.0%	5.0%	4.9%	4.9%	5.0%	5.0%	4.7%	-
Business Activity													
Industrial Production	104.9	105.5	105.6	105.3	105.2	104.5	104.0	104.6	104.4	103.4	104.0	103.6	-
Capacity Utilization	76.4%	76.7%	76.7%	76.4%	76.3%	75.7%	75.4%	75.8%	75.6%	74.8%	75.3%	74.9%	-
PMI Composite Index	53.1	51.9	51.0	50.0	49.4	48.4	48.0	48.2	49.5	51.8	50.8	51.3	53.2
NFIB Small Business Optimism Index	94.6	95.7	95.7	96.0	96.0	94.5	95.2	93.9	92.9	92.6	93.6	93.8	-
Consumer Activity													
Consumer Confidence	99.8	91.0	101.3	102.6	99.1	92.6	96.3	97.8	94.0	96.1	94.7	92.4	98.0
Personal Consumption (M/M % Chg)	0.1%	0.2%	0.3%	0.2%	0.1%	0.3%	0.2%	0.0%	0.3%	-0.1%	0.8%	0.3%	-
Retail Sales (M/M % Chg)	0.1%	0.6%	-0.1%	0.1%	0.0%	0.3%	0.4%	-0.5%	0.3%	-0.3%	1.3%	0.5%	-
Lending Activity													
C&I Loans (M/M % Chg)	1.0%	0.5%	0.6%	0.3%	1.0%	1.0%	0.4%	0.6%	1.2%	1.7%	0.9%	0.7%	-
MLFI-25 New Business Volume (Bil.$)	9.7	8.4	6.9	8.4	7.7	6.1	12.5	6.0	6.1	8.1	7.3	6.8	-
MLFI-25 Avg Losses as a % of Net Rec.	0.22%	0.19%	0.22%	0.27%	0.27%	0.30%	0.41%	0.26%	0.37%	0.51%	0.31%	0.33%	-
MLFI-25 Credit Approval Ratio	79.0%	78.6%	79.3%	80.5%	80.1%	79.0%	80.2%	78.0%	79.2%	77.7%	78.2%	76.5%	-
Interest Rates (% avg of period)													
Fed Funds Target Rate (Lower Bound)	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25
1-Year Treasury Rate	0.28	0.30	0.38	0.37	0.26	0.48	0.65	0.54	0.53	0.66	0.56	0.59	0.55
3-Year Treasury Rate	1.07	1.03	1.03	1.01	0.93	1.20	1.28	1.14	0.90	1.04	0.92	0.97	0.86
10-Year Treasury Rate	2.36	2.32	2.17	2.17	2.07	2.26	2.24	2.09	1.78	1.89	1.81	1.81	1.64
30-Year Treasury Rate	3.11	3.07	2.86	2.95	2.89	3.03	2.97	2.86	2.62	2.68	2.62	2.63	2.45
AAA Corporate Bond Yield	4.19	4.15	4.04	4.07	3.95	4.06	3.97	4.00	3.96	3.82	3.62	3.65	3.50
BAA Corporate Bond Yield	5.13	5.20	5.19	5.34	5.34	5.46	5.46	5.45	5.34	5.13	4.79	4.68	4.53
Prices													
Headline Inflation (Y/Y % Chg)	0.1%	0.2%	0.2%	0.0%	0.2%	0.5%	0.7%	1.4%	1.0%	0.9%	1.1%	1.0%	-
Core Inflation (Y/Y % Chg)	1.8%	1.8%	1.8%	1.9%	1.9%	2.0%	2.1%	2.2%	2.3%	2.2%	2.1%	2.2%	-
Oil Price (West Texas Int., $/barrel)	59.48	47.11	49.20	45.06	46.60	40.43	37.13	33.66	32.74	36.94	45.98	49.10	48.27

ABOUT THE OUTLOOK

The Equipment Leasing & Finance Foundation (the Foundation) recognizes that with the wide variety and increasing complexity of economic data available to the public, the best way to utilize key equipment investment data is to have it all in one place, where business leaders can access it easily and quickly, thus assisting them in making the best business decisions.

The Foundation partnered with Keybridge LLC to produce this economic outlook, highlighting key trends in equipment investment and placing them in the context of the broader U.S. economic climate. The outlook report also includes an analysis of domestic capital spending as well as an evaluation of how capital spending is affected by various related and exogenous factors, both currently and in the foreseeable future. Additionally, the outlook includes custom leading indicators for 12 equipment and software verticals. The Foundation-Keybridge U.S. Equipment & Software Investment Momentum Monitor ("Momentum Monitor"), described below, is published on a monthly basis.

This Q2 report is the first update to the 2016 Annual Outlook, and two more quarterly updates will follow in July and October. This research was guided by a steering committee of dedicated industry volunteers who gave their time and expertise by providing comments and suggestions throughout the development of the report.

ABOUT THE MOMENTUM MONITOR

Business leaders require actionable forward-looking intelligence to make strategic decisions. Accordingly, the Foundation commissioned Keybridge LLC to develop a series of custom leading indicators for the equipment sector. The Foundation-Keybridge Equipment & Software Investment Momentum Monitor consists of indices for 12 equipment and software investment verticals. These indices are designed to identify turning points in their respective investment cycles with a three-to-six month lead time.

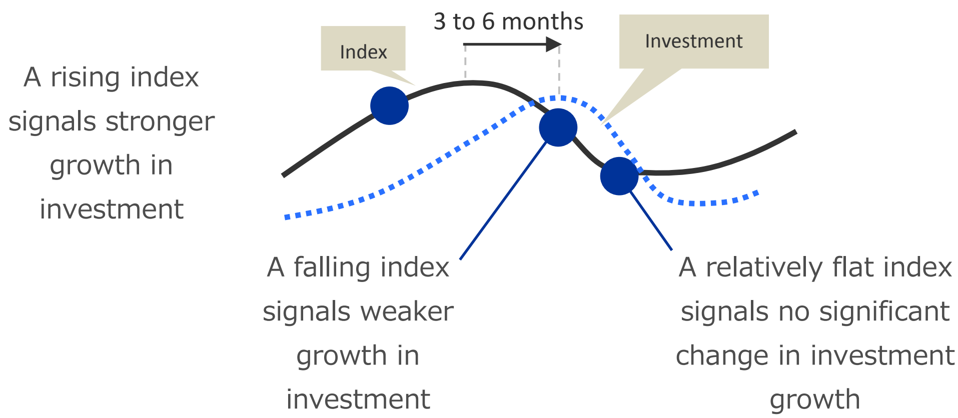
The Momentum Monitor is based on Keybridge's extensive research which shows that not all movements in economic data are reliable signals of future economic trends. Keybridge has operationalized its research by constructing indices, each comprised of between 10 to 20 high-frequency indicators. These indicators 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.

HOW TO READ THE MOMENTUM 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.

Momentum Monitor Signals



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 specific indicators driving the latest index value. This allows readers to understand the key drivers of the outlook.

4 Finally, the report ends with an interpretation of where investment growth is heading over the next 3 to 6 months.

About Keybridge

Keybridge is a public policy economics consulting firm. Keybridge provides analytical support and strategic advice to a select clientele that includes Fortune 500 companies, global financial firms, G-7 governments, premier industry associations, and non-profit organizations. Keybridge's experience and expertise make it uniquely suited to assist organizations that frequently operate at the interface of business, economics, and public policy.

Founded in 2001, Keybridge's mission is to provide balanced, credible, and timely technical analysis and strategic insights that inform business decisions and drive public policy debates. Our dedication to the principles of sound analysis, clear communication, and unmatched client service guide our work and serve as the foundation of our success.

Keybridge's senior staff is comprised of experts with distinguished academic credentials and extensive experience in the areas of economics and public policy. On a day-to-day basis, Keybridge principals work closely with clients to develop strategy and conduct timely analysis. For longer-term projects and highly specialized topics, the firm leverages its network of advisers — including world-class experts in the fields of econometrics, energy, and finance — to build project teams tailored to clients' unique needs.

Keybridge provides clients with access to a full suite of analytical services, including macroeconomic risk assessments, econometric modeling studies, policy impact studies, qualitative policy evaluations, and survey design and analysis. For clients requiring regular consultations, Keybridge offers on-going strategic advisory services in the areas of macroeconomic trends and risks, international trade and finance, and energy and environmental economics. Keybridge also assembles and manages inter-disciplinary teams of experts to conduct thought leadership projects to assist clients with building competitive advantages or reforming policy debates through the development, sharing, and application of innovative ideas. Keybridge's principals are regularly asked to present research and share insights with economic, financial, and policy audiences around the world, including corporate strategic planning committees, congressional committees, and international conferences.

KEYBRIDGE
Public Policy Economics

EQUIPMENT LEASING & FINANCE
FOUNDATION
Your Eye on the Future

Insightful, In-Depth Industry Resources

Founded in 1989, the Equipment Leasing & Finance Foundation is a 501c3 non-profit organization dedicated to inspiring thoughtful innovation and contributing to the betterment of the $1 trillion equipment leasing and finance industry.

Future-Focused Research and Analyses

The Foundation is the premier source for the most comprehensive, future-focused research and analyses available on issues of interest to business leaders, academics and other participants in the equipment finance sector. All research releases, studies and articles* are available at the Foundation's online library *www.store.leasefoundation.org/,* including the following:

Equipment Leasing and Finance U.S. Economic Outlook – This report highlights key trends in equipment investment and places them in the context of the broader U.S. economic climate. The report is updated quarterly throughout the year.

Foundation-Keybridge Equipment & Software Investment Momentum Monitor – A monthly report of indices for 12 equipment and software verticals designed to identify turning points in their respective investment cycles with a 3 to 6-month lead time.

Industry Future Council Report – Based on the deliberations of the Foundation's Industry Future Council of leading industry lessors, analysts, and service providers on current issues, trends and future industry outlook, the IFC Report is a guidebook for providers and arrangers of equipment finance as they undertake their own strategic planning efforts.

State of the Equipment Finance Industry Report – The SEFI provides a unique look at trends in the equipment finance industry over the past year, identifies key drivers for future growth, and explores emerging opportunities and risks that could shape the industry over the next 3-5 years.

Monthly Confidence Index for the Equipment Finance Industry – Designed to collect leadership data, the MCI reports a qualitative assessment of both the prevailing business conditions and expectations for the future as reported by key executives from the $1 trillion equipment finance sector.

Journal of Equipment Lease Financing – The only scholarly periodical dedicated to equipment leasing and finance, the Journal is published quarterly and spotlights research, case studies, trends and practical information through in-depth articles. Author guidelines are available online at *www.leasefoundation.org/research/jelf/*

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University and Academic Relations – Working closely with the academic community is an important part of the Foundation's mission to foster initiatives that drive innovation in the equipment finance industry. For information including research grants, access to statistical databases and other Foundation resources, visit *www.leasefoundation.org/academics/*

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