

April 2020

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 an approximate 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 |

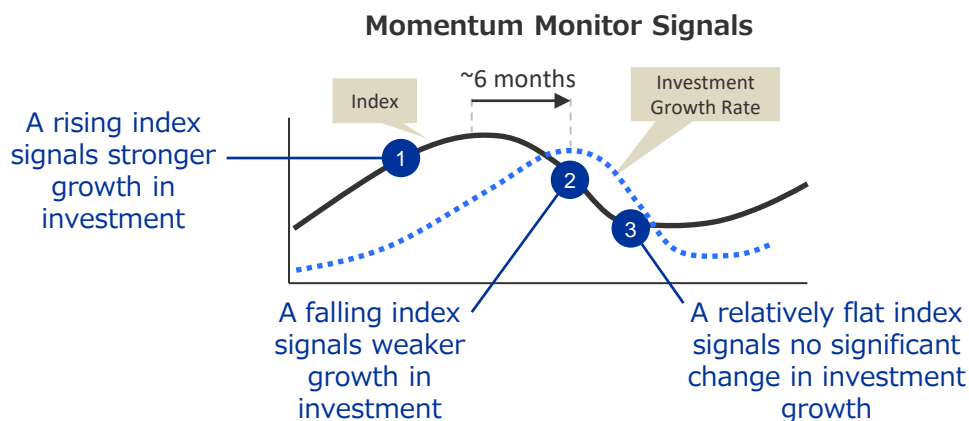
A Note Regarding Impact of COVID-19 on Momentum Monitors

The U.S. Equipment & Software Investment Momentum Monitors are comprised of a suite of industry-specific indicators that have a historical track record of successfully forecasting movement trends in investment levels. While each tool was constructed to identify turning points in the investment cycle with a 6-month lead, the suddenness and severity of the COVID-19 pandemic’s effect on U.S. economic activity has not yet been fully reflected in many of the underlying indicators. As a result, we expect that index readings will be substantially weaker as additional data become available in the coming weeks.

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 six 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:

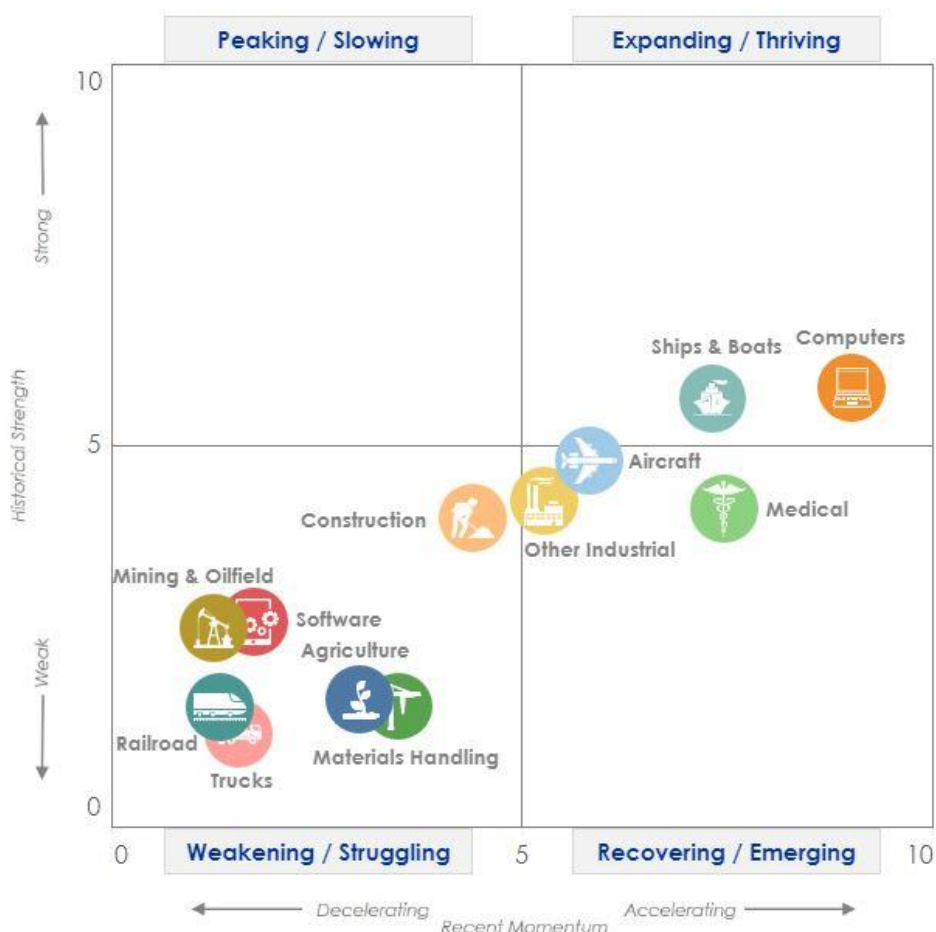
- 1 Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2 The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3 A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy 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 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 six 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 six months based on the index's recent movement and historical strength.

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Momentum Monitor Sector Matrix



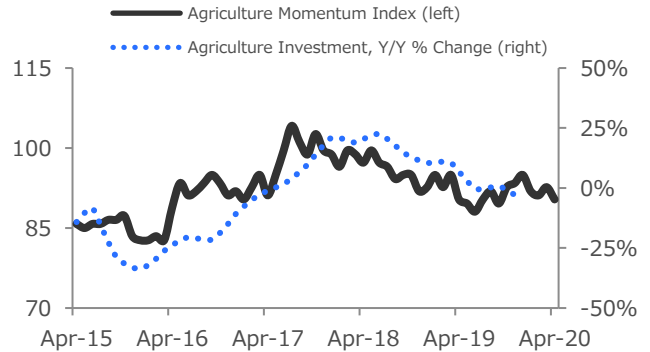
The matrix above summarizes the current values of each of the 12 Equipment & Software Investment Momentum Indices based on two factors: Recent Momentum (x-axis) and Historical Strength (y-axis):

- **"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.

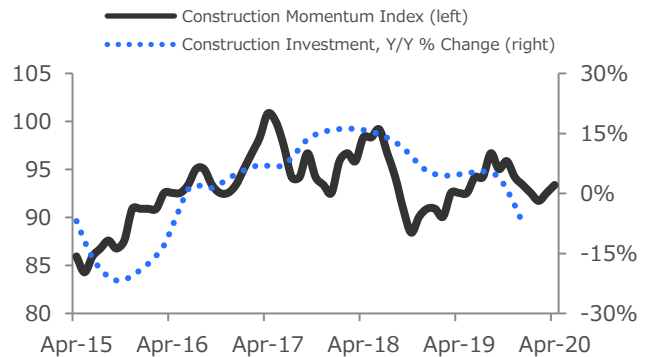
The matrix is comprised of four quadrants according to each vertical's recent momentum and historical strength readings. If a vertical is located in the top-left quadrant, its momentum reading is higher than average, but positive movement has slowed (and perhaps reversed) in recent months — suggesting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

Agriculture Machinery:

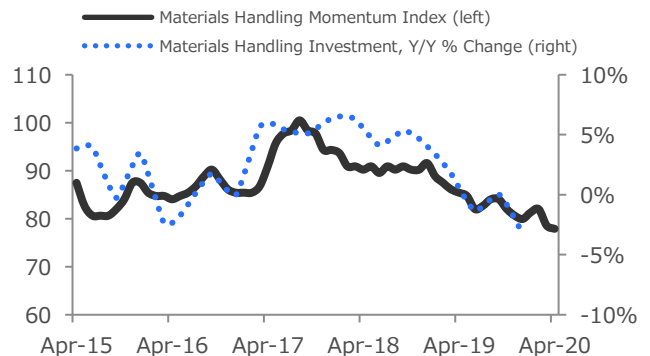
Investment in Agricultural Machinery decreased 6.8% (annualized) in Q4 2019 and is down 4.8% from one year ago. The Agriculture Momentum Index declined from 92.7 (revised) in March to 90.4 in April, the lowest level since September. Exports of Poultry Broilers declined 2.4% in February, and the MSCI Commodity Producers Sector Index pulled back 19% in March. Overall, the Index points to continued weakness in agricultural machinery investment growth over the next six months.

**Construction Machinery:**

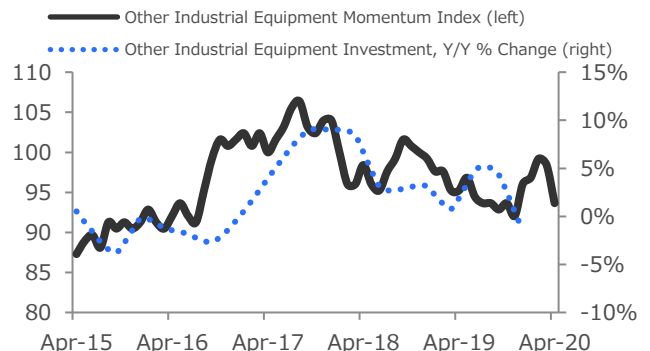
Investment in Construction Machinery dropped at a sharp 38% annualized rate in Q4 2019 and fell 7.6% year-over-year. The Construction Momentum Index edged up from 92.6 (revised) in March to 93.4 in April. New Privately-Owned Homes Under Construction increased 1.4% in February, and the Conference Board Plans to Buy a Home Within 6 Months Sub-Index dropped 20% in March. Overall, the Index suggests continued negative growth in construction machinery investment over the next two quarters, despite this month's improvement.

**Materials Handling Equipment:**

Investment in Materials Handling Equipment fell at an 11% annualized rate in Q4 2019 and dropped 3.3% year-over-year. The Materials Handling Momentum Index inched down from 78.6 (revised) in March to 77.9 in April, a multi-year low. Inventories of Materials Handling Equipment decreased 1.2% in February, while the S&P Composite 1500 Industrials Index pulled back 19% in March. Overall, the Index points to further negativity in materials handling equipment investment growth over the next six months.

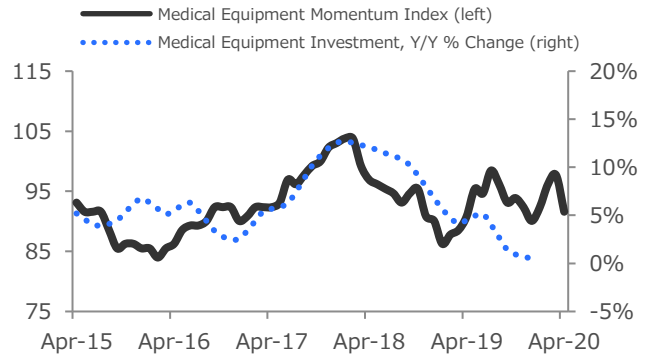
**Other Industrial Equipment:**

Investment in All Other Industrial Equipment fell at a 13% annualized rate in Q4 2019 and decreased 1.5% from a year ago. The Other Industrial Equipment Momentum Index dropped from 98.4 (revised) in March to 93.7 in April. Machinery Industrial Production decreased 1.0% in February, and Nonfarm Payrolls fell 0.5% in March, the first decline since July 2010. Overall, the Index points to weakness in other industrial equipment investment growth over the next two quarters.

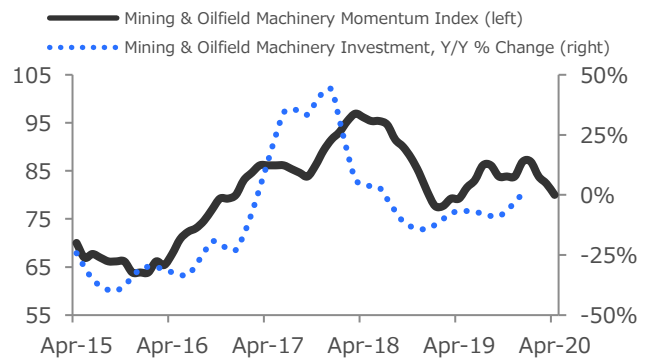


Medical Equipment:

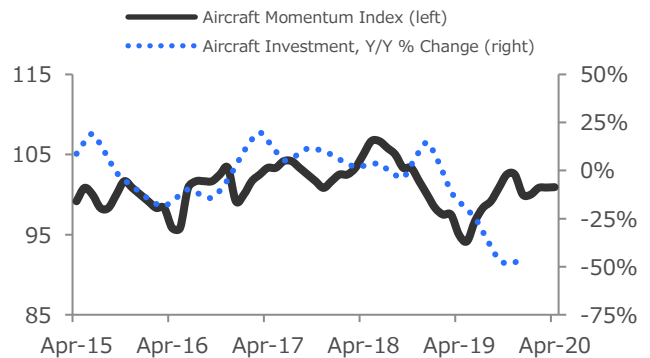
Investment in Medical Equipment fell at a 2.3% annualized rate in Q4 2019 and is essentially flat year-over-year. The Medical Equipment Momentum Index fell from 97.7 (revised) in March to 91.6 in April. In February, Private Hospital Construction Spending dropped 4.6%, but Capacity Utilization for Electrical Equipment Manufacturing improved 1.1 percentage point to 74.6%. Overall, the Index indicates potential improvement in medical equipment investment over the next six months due to increased production in response to COVID-19.

**Mining & Oilfield Machinery:**

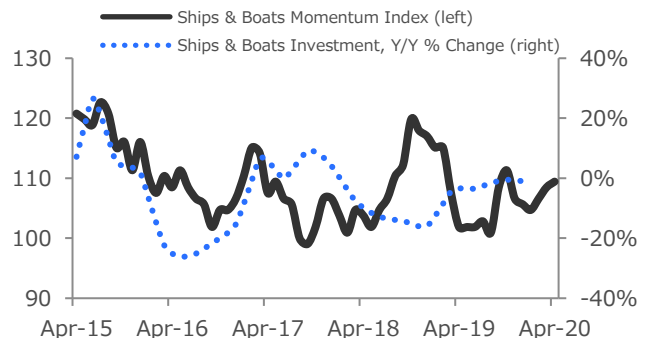
Investment in Mining & Oilfield Machinery improved at a 22% annualized rate in Q4 2019 and edged up 0.8% compared to a year ago. The Mining & Oilfield Machinery Momentum Index decreased from 82.3 (revised) in March to 80.0 in April, the lowest level in a year. In March, the Brent Crude Oil Spot Price plummeted 63%, the sharpest decline on record, and the S&P 500 Steel Index pulled back 19%. Overall, the Index and preponderance of economic data suggest severe contraction in mining & oilfield investment over the next six months.

**Aircraft:**

Investment in Aircraft surged 113% (annualized) in Q4 2019 but is 45% below year-ago levels. The Aircraft Momentum Index held steady at 100.9 from March (revised) to April. In March, Southwest Airlines Market Cap pulled back 23%, while the S&P 500 Airlines Index plummeted 36%. Overall, the Index suggests continued negative growth in aircraft investment over the next six months, particularly in light of reduced travel due to the new coronavirus.

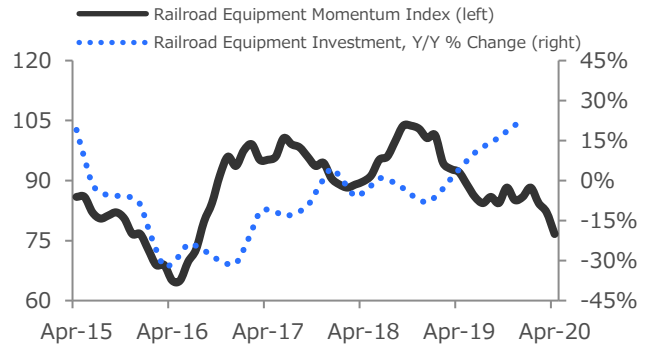
**Ships & Boats:**

Investment in Ships & Boats dropped at an annualized rate of 9.2% in Q4 2019 and eased 1.1% year-over-year. The Ships & Boats Momentum Index inched up from 108.5 (revised) in March to 109.4 in April. Exports of Ships, Boats, and Floating Structures to China eased 0.3% in January, while the University of Michigan Consumer Sentiment Index pulled back 12 points in March. Overall, investment growth in ships & boats is likely to remain weak and may decline as global trade is vastly reduced due to COVID-19.

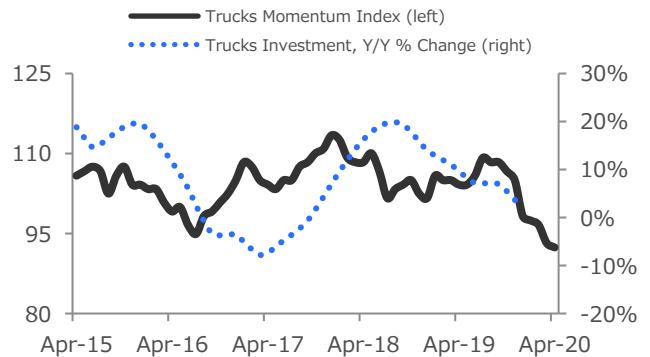


Railroad Equipment:

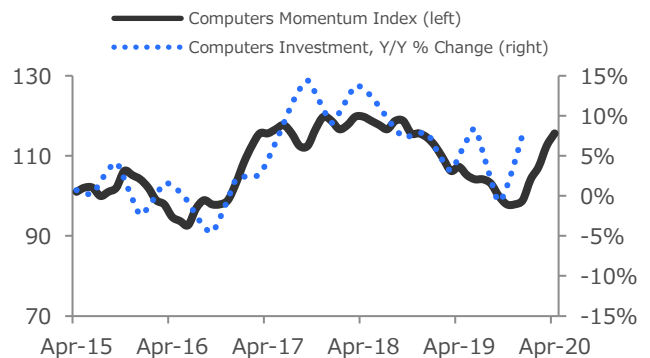
Investment in Railroad Equipment surged 21% (annualized) in Q4 2019 and is up 22% year-over-year. The Railroad Equipment Momentum Index declined from 82.0 (revised) in March to 76.6 in April, the lowest reading since mid-2017. In March, Rail Transportation Employment declined 1.3%, while Rail Carloads of Coal dropped 8.9%. Overall, the Index points to a substantial decline in railroad equipment investment growth over the next two quarters.

**Trucks:**

Investment in Trucks pulled back 8.2% annualized rate in Q4 2019 but is up 1.8% from year-ago levels. The Trucks Momentum Index fell from 93.3 (revised) in March to 92.4 in April. In March, Sales of Heavy-Duty Trucks pulled back 36%, while the ISM Manufacturing PMI decreased 1.0 point to 49.1. Overall, the Index points to further weakening in trucks investment growth over the next six months.

**Computers:**

Investment in Computers expanded at an annualized rate of 30% in Q4 2019 and grew 7.9% year-over-year. The Computers Momentum Index improved from 112.5 (revised) in March to 115.6 in April, matching the highest level since September 2018. Sales of Computers & Computer Peripheral Equipment & Software improved 4.3% in January, and Capacity Utilization for Computers & Electronic Products Manufacturing improved 0.5 point to 73.6% in February. Overall, the Index points to stronger growth in computers investment over the next six months.

**Software:**

Investment in Software improved at a 9.3% annualized rate in Q4 2019 and is up 9.9% year-over-year. The Software Momentum Index decreased from 94.7 (revised) in March to 91.3 in April. In March, the ISM Nonmanufacturing Business Activity Index fell 9.8 points to 48.0, and the S&P 500 Information Technology Index declined 8.6%. Overall, the Index points to weaker growth in software investment over the next six months, though a proliferation of remote working arrangements could unexpectedly boost investment despite the index's current reading.

