

August 2021

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 10–20 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.

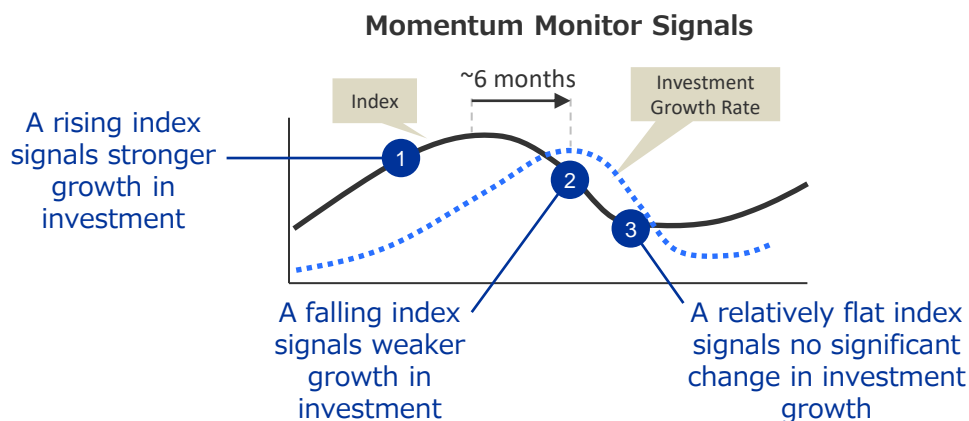
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

- | | |
|-----------------------------------|-----------------------|
| 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 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 the index's recent movement and historical strength.

U.S. Equipment & Software Investment Momentum Monitor

August 2021

Momentum Monitor Sector Matrix



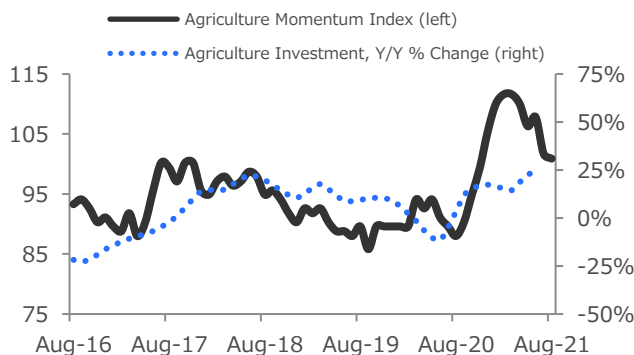
The matrix above summarizes the current values of each of the 12 Equipment & Software Investment Momentum Indices based on two factors: Recent Momentum (x-axis) and Historical Strength (y-axis):

- **"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.

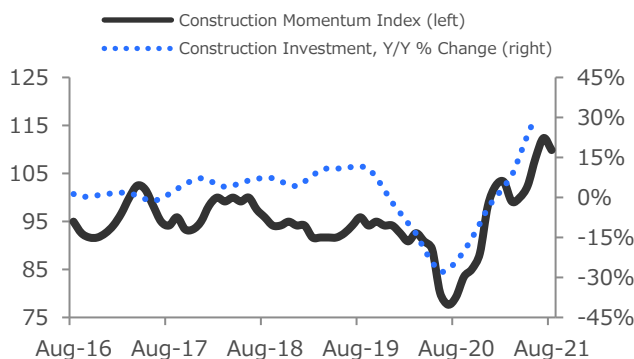
The matrix is comprised of four quadrants according to each vertical's recent momentum and historical strength readings. If a vertical is located in the top-left quadrant, its momentum reading is higher than average, but positive movement has slowed (and perhaps reversed) in recent months — suggesting 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:

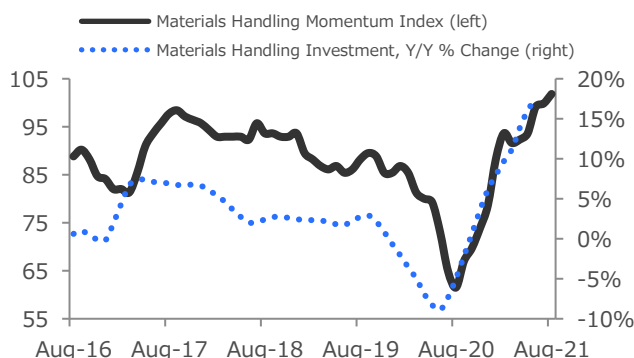
Investment in Agricultural Machinery fell 7.1% (annualized) in Q2 2021 but is up 24% from one year ago. The Agriculture Momentum Index edged down from 101.7 (revised) in July to 100.9 in August. Exports of Poultry Broilers increased by 11% in May, but Soybeans and Other Oil Seeds Exports fell 22%. Overall, recent movement of the Index suggests that agriculture machinery investment growth may have peaked, though Y/Y growth will likely remain positive.

**Construction Machinery:**

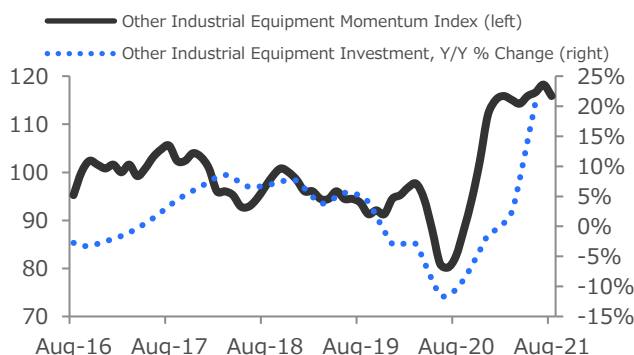
Investment in Construction Machinery grew 15% (annualized) in Q2 2021 and is 30% above its year-ago level. The Construction Momentum Index decreased from 112.4 (revised) in July to 109.9 in August. Housing Starts in the Western U.S. rose by 12.6% in June and Commercial Property Price Index increased by 2.4% in July. Overall, the elevated position of the Index suggests construction machinery investment growth will remain robust over the next two quarters.

**Materials Handling Equipment:**

Investment in Materials Handling Equipment expanded 8.2% (annualized) in Q2 2021 and is up 17% year-above year-ago levels. The Materials Handling Momentum Index edged up from 99.8 (revised) in July to 101.8 in August, the highest level in nine years. Sales of Industrial Machinery rose by 1.2% in May and Inventories of Materials Handling Equipment grew by 2.7% in June. Overall, the current position of the Index indicates that materials handling equipment investment growth should remain elevated over the coming six months.

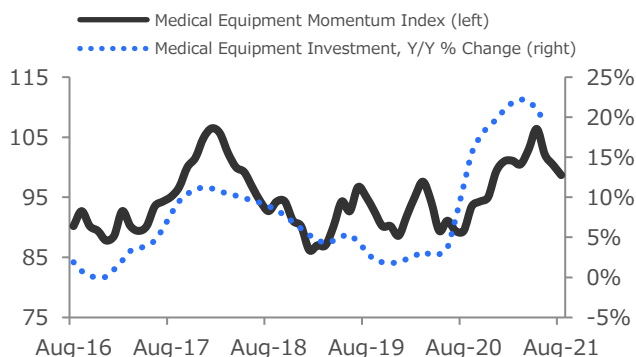
**Other Industrial Equipment:**

Investment in All Other Industrial Equipment expanded 47% (annualized) in Q2 2021 and rose by 21% Y/Y. The Other Industrial Equipment Momentum Index fell from 118.3 in July (revised) to 115.9 in August. In July, Manufacturing Employment ticked up by 0.2% and Average Weekly Earnings for Production & Non-Supervisory Employees edged up by 0.4%. Overall, the Index's position suggests that other industrial equipment investment growth should remain healthy over the coming two quarters.

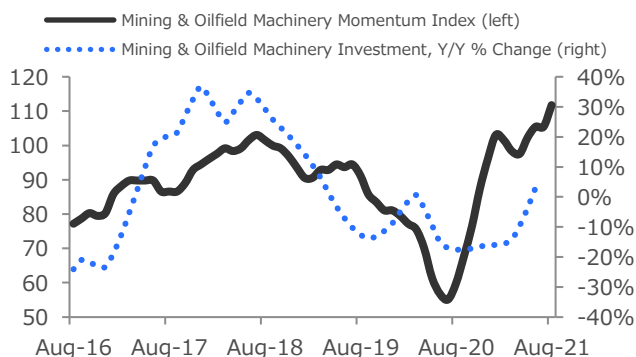


Medical Equipment:

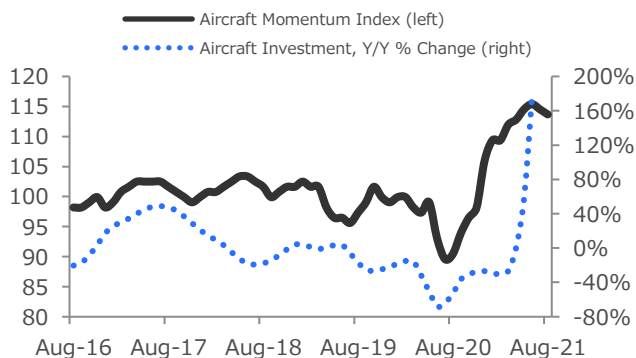
Investment in Medical Equipment ticked up 0.7% (annualized) in Q2 2021 and is up 19% over-year. The Medical Equipment Momentum Index decreased from 100.4 (revised) in July to 98.7 in August. While Medical Equipment and Supplies Industrial Production rose by 1.0% in June, Appliances & Components Industrial Production fell by 2.2%. Overall, the position and recent movement of the Index suggests that medical equipment investment growth should stay in positive territory over the next two quarters, though it may continue to decelerate.

**Mining & Oilfield Machinery:**

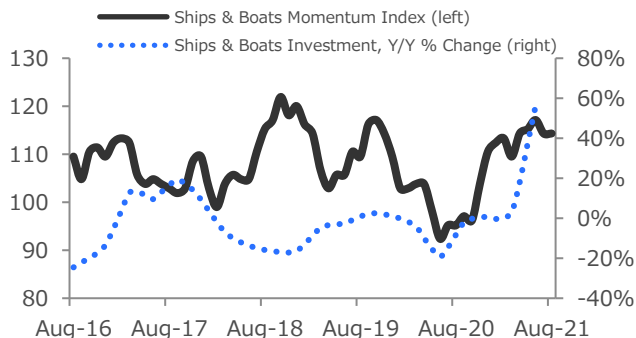
Investment in Mining & Oilfield Machinery rose 13% (annualized) in Q2 2021 and is 3.4% above year-ago levels. The Mining & Oilfield Machinery Momentum Index increased from 105.5 (revised) in July to 111.8 in August, the highest level in nine years. In July, Mining & Logging Employment ticked up by 0.5% and the S&P 500 Steel Index grew by 8.0%. The Index's position suggests that mining & oilfield equipment investment growth should continue to accelerate over the next six months.

**Aircraft:**

Investment in Aircraft surged 152% (annualized) in Q2 2021 and is 178% above year-ago levels. The Aircraft Momentum Index eased from 114.5 in July to 113.7 in August. In June, Shipments of Non-Defense Aircraft & Parts jumped 15% and Civilian Aircraft Exports rose 87%. Overall, The Index suggests that aircraft investment growth will remain healthy over the next two quarters.

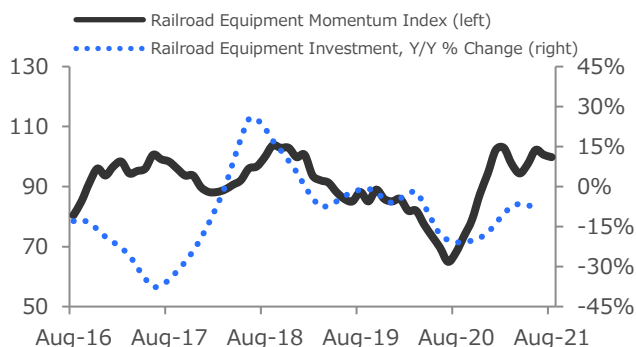
**Ships & Boats:**

Investment in Ships & Boats climbed at an annualized rate of 103% in Q2 2021 and is 57% above its year-ago level. The Ships & Boats Momentum Index remained unchanged at 114.3 in July (revised) and August. Exports of Ships, Boats, and Floating Structures to China surged 118.7% in June, while the Emerging Market Economies Currency Index ticked up 0.4% in July. Overall, the current position of the Index suggests that ships & boats investment growth should remain elevated over the next six months.



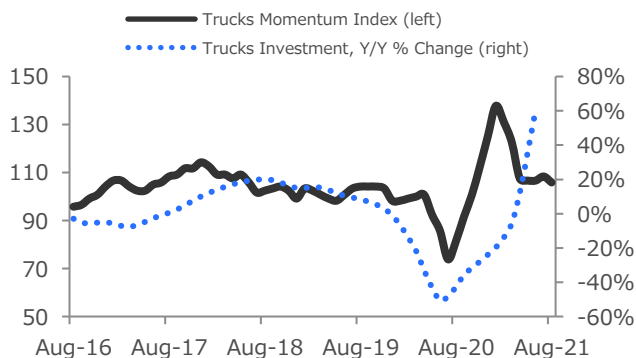
Railroad Equipment:

Investment in Railroad Equipment fell 34% (annualized) in Q2 2021 and is down 8.3% year-over-year. The Railroad Equipment Momentum Index edged down from 100.6 (revised) in July to 99.8 in August. Industrial Production of Energy rose 2.5% in June and Oil and Gas Rig Counts grew 2.4% in July. Overall, the current position of the Index suggests that investment growth should improve over the next six months, though Y/Y growth may remain in negative territory.



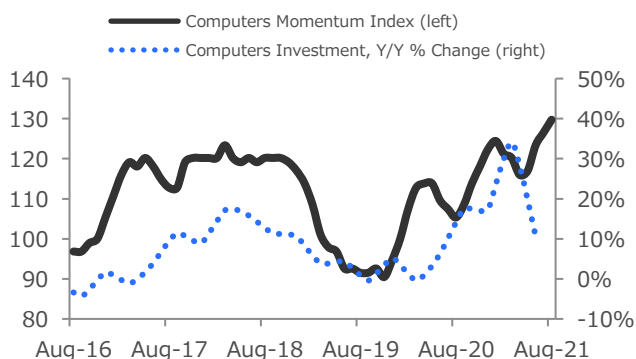
Trucks:

Investment in Trucks grew 36% (annualized) in Q2 2021 and is up 62% from year-ago levels. The Trucks Momentum Index fell from 108.4 (revised) in July to 105.9 in August. While Earnings for Truck Transportation Employees rose 1.1% in June, Motor Vehicles and Parts Industrial Production fell 6.6%. Overall, the Index's recent movement indicates that investment growth should remain healthy over the coming six months, though growth may be peaking.



Computers:

Investment in Computers fell 32% (annualized) in Q2 2021 but is up 10% year-over-year. The Computers Momentum grew from 126.6 in July to 129.8 in August, the highest level in over a decade. In June, Computers & Electronic Products Exports rose 2.9% and Computer Export Prices grew 1.8%. Overall, the Index suggests that computers investment growth should remain in positive territory and could even accelerate in the next six months.



Software:

Investment in Software increased 11% (annualized) in Q2 2021 and is up 14% from a year prior. The Software Momentum Index rose from 109.9 (revised) in July to 112.0 in August, the highest level on record. Total Consumer Nonrevolving Debt ticked up by 0.8% in May and Produce Price Index for Software Publishers grew 2.5% in June. Overall, the Index suggests that software investment growth should remain robust over the next two quarters.

