

May 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.

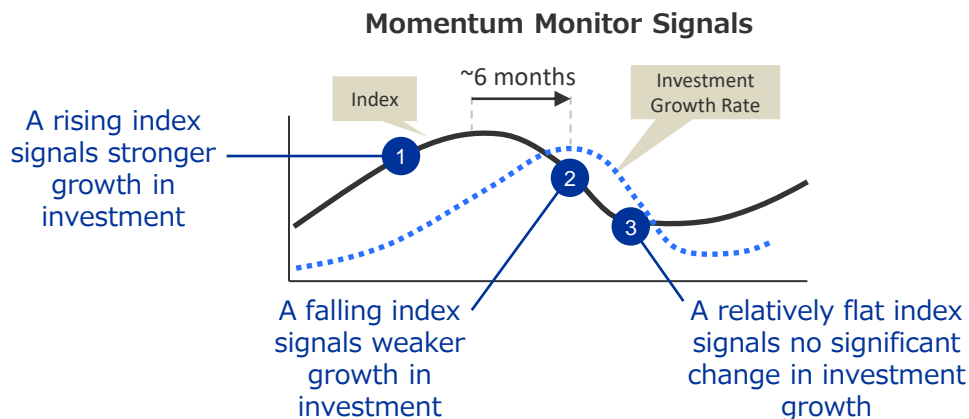
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

- | | |
|-----------------------------------|-----------------------|
| 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:

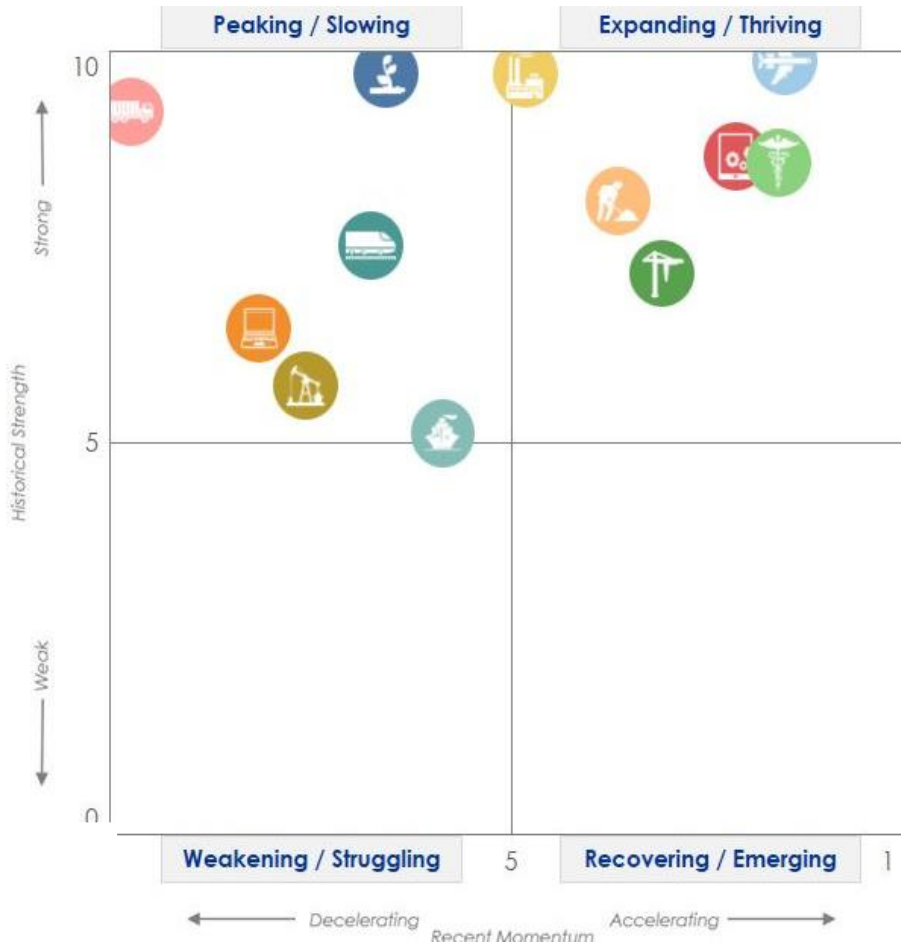
- 1 Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2 The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3 A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy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

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Momentum Monitor Sector Matrix



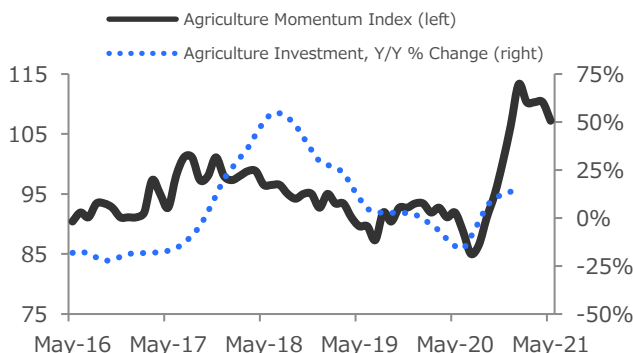
The matrix above summarizes the current values of each of the 12 Equipment & Software Investment Momentum Indices based on two factors: Recent Momentum (x-axis) and Historical Strength (y-axis):

- **"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.

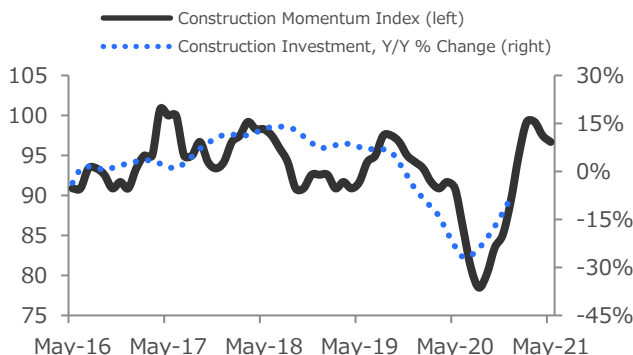
Agriculture Machinery:

Investment in Agricultural Machinery decreased 24% (annualized) in Q1 2021 but is up 12% from one year ago. The Agriculture Momentum Index decreased from 110.3 (revised) in April to 107.2 in May. Exports of Poultry Broilers fell by 7.8% in February, while Agricultural Machinery Industrial Production increased by 5.0% in April. Overall, the Index's position suggests that agriculture machinery investment growth should remain strong over the next three to six months.



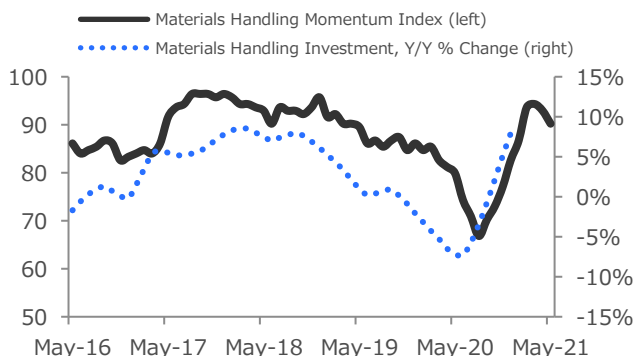
Construction Machinery:

Investment in Construction Machinery expanded 33% (annualized) in Q1 2021 and is 3.9% above its year-ago level. The Construction Momentum Index eased from 97.5 (revised) in April to 96.7 in May. Housing Permits rose by 21.3% in March, but Public Construction Spending declined 2.1% in March. Overall, the Index's position suggests that construction machinery investment growth should strengthen over the next two quarters.



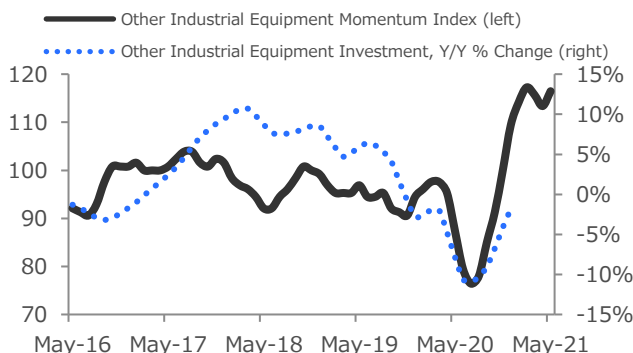
Materials Handling Equipment:

Investment in Materials Handling Equipment grew at a 4.9% annualized rate in Q1 2021 and is up 13% year-over-year. The Materials Handling Momentum Index edged down from 92.9 (revised) in April to 90.2 in May. Inventories of Materials Handling Equipment increased by 1.3% in February, while the S&P Composite 1500 Industrials Index rose by 3.8% in April. Overall, the Index's position suggests that materials handling equipment investment growth should remain in positive territory and may strengthen over the next six months.



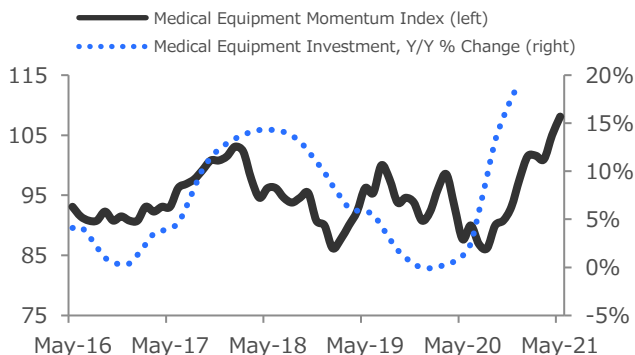
Other Industrial Equipment:

Investment in All Other Industrial Equipment rose 6.2% (annualized) in Q1 2021 and is roughly unchanged at 0.1% above year-ago levels. The Other Industrial Equipment Momentum Index increased from 113.4 in April (revised) to 116.5 in May, the second-highest reading in nearly a decade. In March, Machinery Industrial Production rose by 2.9%, while Exports Prices of Industrial Supplies & Materials increased by 5.0%. Overall, the healthy position of the Index suggests that other industrial equipment investment growth should strengthen over the next two quarters.



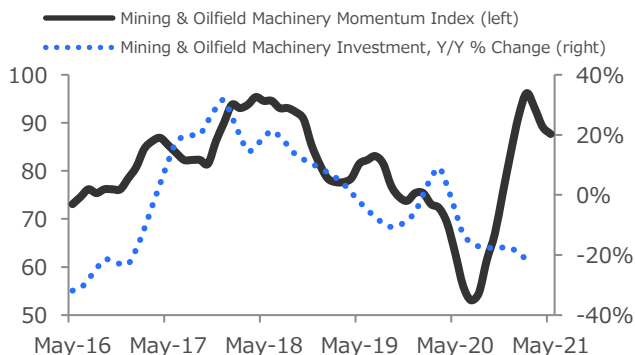
Medical Equipment:

Investment in Medical Equipment rose 14% (annualized) in Q1 2021 and is up 23% year-over-year. The Medical Equipment Momentum Index ticked up from 105.0 (revised) in April to 108.1 in May, the highest level in over seven years. In March, Medical Equipment and Supplies Industrial Production rose by 0.6%, while Other Professional Medical Services Expenditures edged up by 0.2%. Overall, the Index points to strong medical equipment investment growth over the next six months.



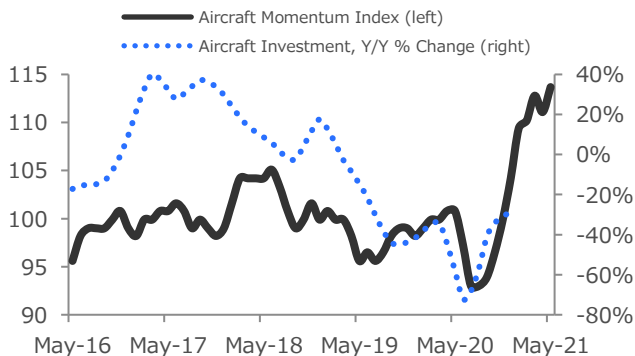
Mining & Oilfield Machinery:

Investment in Mining & Oilfield Machinery increased 18% (annualized) in Q1 2021 but is 21% below year-ago levels. The Mining & Oilfield Machinery Momentum Index edged down from 89.2 (revised) in April to 87.7 in May. The Brent Spot Price rose by 6.6% in April, though the S&P Steel Index eased 0.4% in the same month. Overall, the Index's position suggests that mining & oilfield equipment investment growth should begin to improve in the next 3-6 months, but year-over-year growth rates may remain negative in the short term.



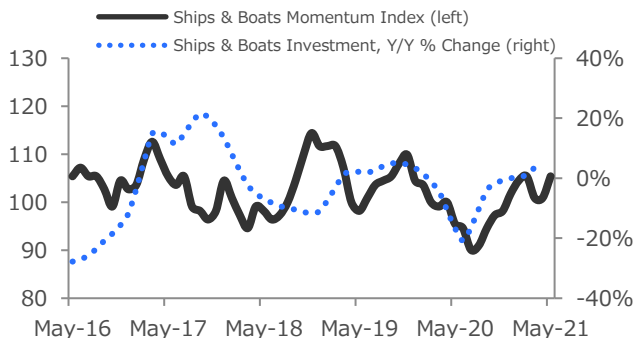
Aircraft:

Investment in Aircraft expanded 31% (annualized) in Q1 2021 but is 25% below year-ago levels. The Aircraft Momentum Index improved from 111.1 (revised) in April to 113.7 in May, marking the highest level in over eleven years. Shipments of Non-Defense Aircraft & Parts rose by 10.1% in March and Southwest's Market Cap rose by 2.8% in April. The Index's position and recent movement suggest that Aircraft investment growth should continue to improve over the next six months.



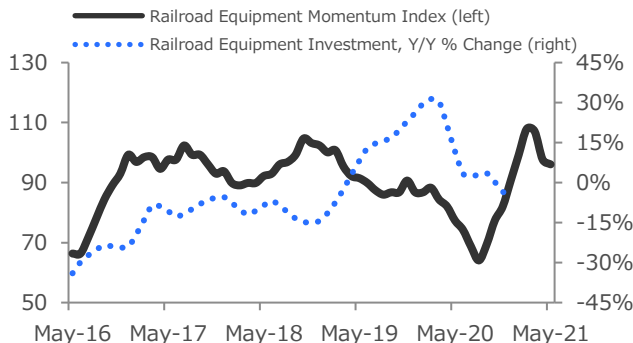
Ships & Boats:

Investment in Ships & Boats ticked up at an annualized rate of 1.3% in Q1 2021 and is 3.6% above its year-ago level. The Ships & Boats Momentum Index improved from 100.9 (revised) in April to 105.4 in May. Exports of Ships, Boats, and Floating Structures to China surged by nearly 300% in February but New Orders of Ships and Boats fell 58% in February. Overall, the Index points to modest growth in ships & boats investment over the next six months.



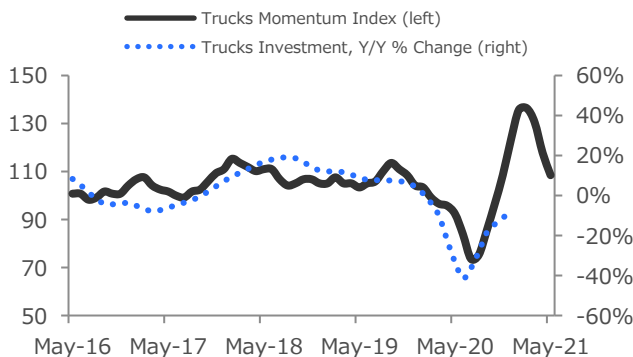
Railroad Equipment:

Investment in Railroad Equipment expanded 51% (annualized) in Q1 2021 but was down 6.3% year-over-year. The Railroad Equipment Momentum Index decreased from 97.7 (revised) in April to 96.1 in May. In March, Rail Transportation Employment edged down by 0.6%, while Rail Carloads of Coal surged by 40.0%. Overall, the Index's position and recent movement suggest that railroad equipment investment growth should return to positive territory over the next six months.



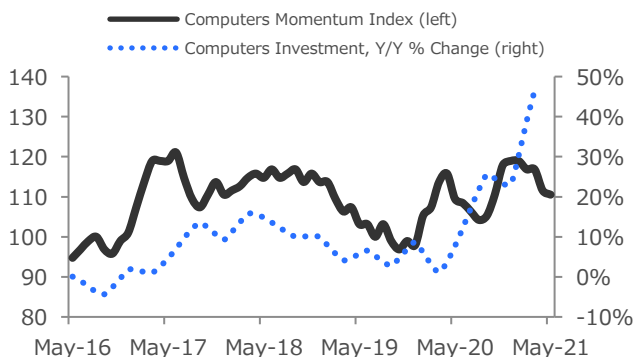
Trucks:

Investment in Trucks grew 14% (annualized) in Q1 2021 and was up 7.5% from year-ago levels. The Trucks Momentum Index fell sharply from 117.8 (revised) in April to 108.5 in May. In February, Manufacturers' Inventories of Light Trucks & Utility Vehicles rose by 5.5%, while Shipments of Light Trucks fell 15%. The elevated position of the Index suggests that trucks investment growth should return to positive territory over the next two quarters, though the recent, steep decline in the Index suggests that upside potential may be limited.



Computers:

Investment in Computers surged 65% (annualized) in Q1 2021 and was up 47% year-over-year. The Computers Momentum Index ticked down from 111.6 (revised) in April to 110.5 in May. In March, Capacity Utilization for Computer & Electronic Product Manufacturing increased by 1.7%, while Retail Sales Excluding Motor Vehicles and Parts rose by 9.2%. Overall, the Index suggests that computers investment growth may slow somewhat over the next six months but should remain strong.



Software:

Investment in Software rose 18% (annualized) in Q1 2021 and grew 7.6% from a year prior. The Software Momentum Index ticked up from 103.6 (revised) in April to 105.5 in May. The ISM Nonmanufacturing Business Activity Index rose by 25% in March, and the Richmond Fed Equipment or Software Spending Conditions Index surged by 117% in April. Overall, the Index suggests that software investment growth should accelerate over the next six months.

