

September 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.

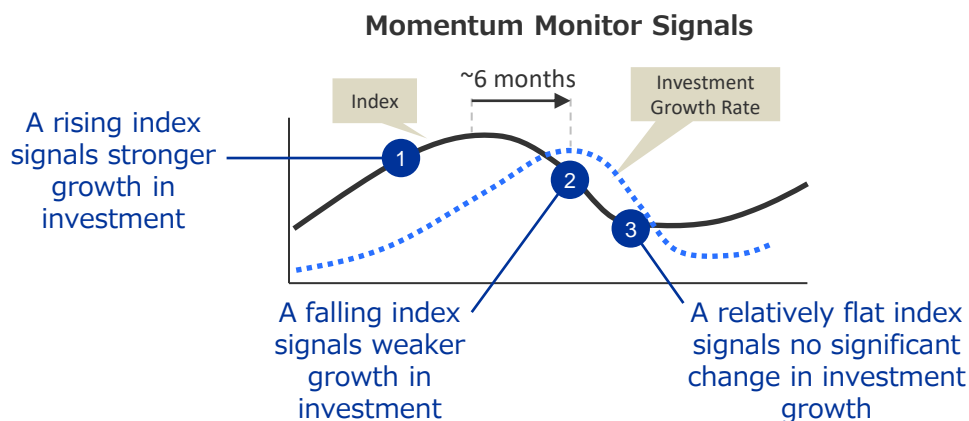
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

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

U.S. Equipment & Software Investment Momentum Monitor

September 2021

Momentum Monitor Sector Matrix



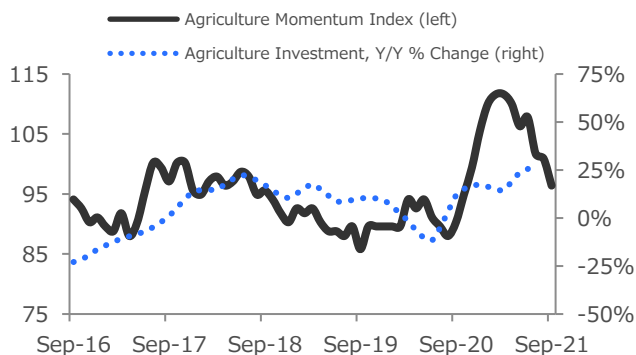
The matrix above summarizes the current values of each of the 12 Equipment & Software Investment Momentum Indices based on two factors: Recent Momentum (x-axis) and Historical Strength (y-axis):

- **"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.

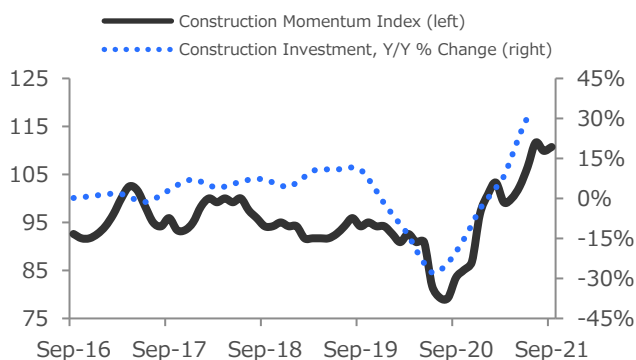
The matrix is comprised of four quadrants according to each vertical's recent momentum and historical strength readings. If a vertical is located in the top-left quadrant, its momentum reading is higher than average, but positive movement has slowed (and perhaps reversed) in recent months — suggesting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

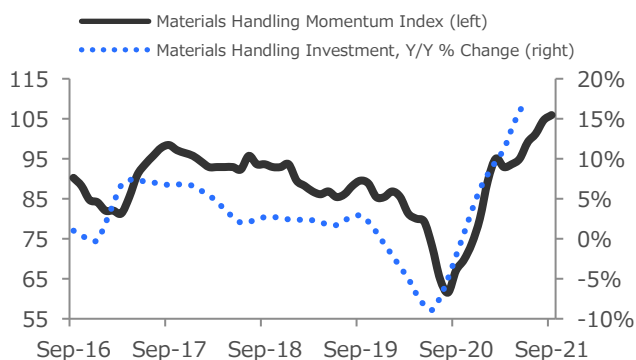
Investment in Agricultural Machinery edged down 1.2% (annualized) in Q2 2021 but is up 26% from one year ago. The Agriculture Momentum Index fell from 100.9 (revised) in August to 96.4 in September. In July, Export Prices of Food, Feed, and Beverages increased by 1.3% while Lamb & Mutton Production fell by 5.3%. Overall, recent movement of the Index suggests that agriculture machinery investment growth may ease in coming months, though Y/Y growth will likely remain in the positive territory.

**Construction Machinery:**

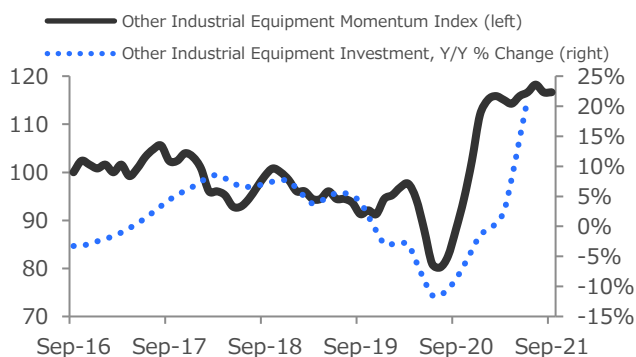
Investment in Construction Machinery grew 17% (annualized) in Q2 2021 and is 31% above its year-ago level. The Construction Momentum Index ticked up from 109.9 (revised) in August to 110.7 in September. Construction Prices for Single-Family Homes increased 1.7% and the Commercial Property Price Index rose by 2.4% in July. Overall, the current position of the Index suggests construction machinery investment growth will remain elevated over the next six months.

**Materials Handling Equipment:**

Investment in Materials Handling Equipment expanded 7.4% (annualized) in Q2 2021 and is up 17% year-above year-ago levels. The Materials Handling Momentum Index edged up from 104.6 (revised) in August to 105.9 in September, the highest level in nearly a decade. In July, Inventories of Materials Handling Equipment increased 1.9% and Unfilled Orders for Materials Handling Equipment rose 2.1%. Overall, the elevated position of the Index indicates that materials handling equipment investment growth should stay strong over the next six months.

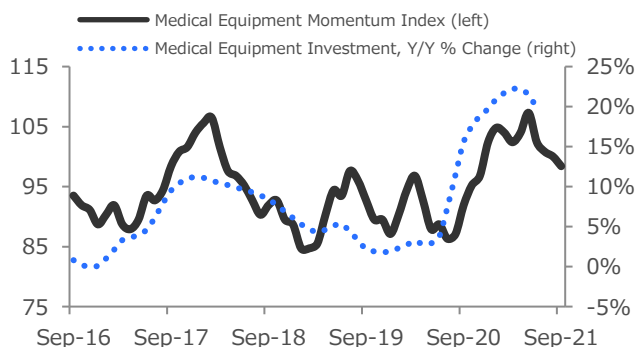
**Other Industrial Equipment:**

Investment in All Other Industrial Equipment expanded 50% (annualized) in Q2 2021 and rose by 22% Y/Y. The Other Industrial Equipment Momentum Index was unchanged from August to September at 116.7. Domestic Manufacturing & Trade Sales ticked up 0.4% in June and Machinery Industrial Production rose 1.9% in July. Overall, the position of the Index indicates that other industrial equipment investment growth should remain robust over the next two quarters.

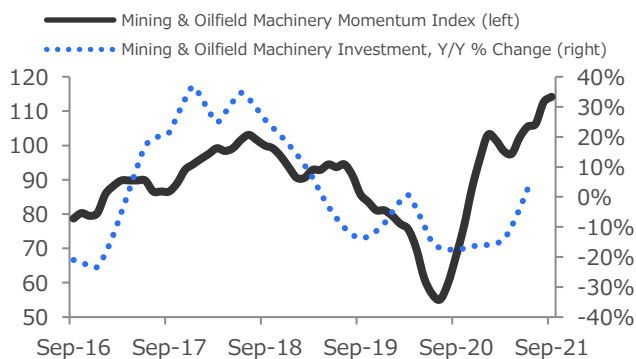


Medical Equipment:

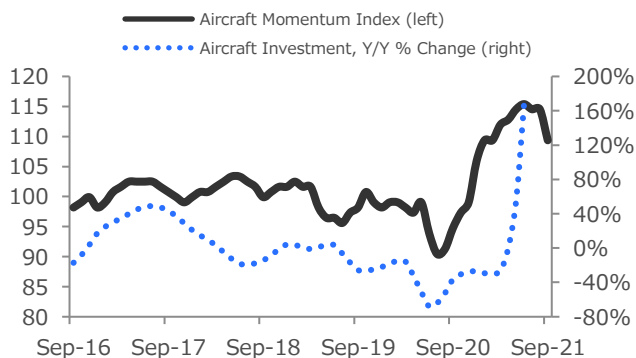
Investment in Medical Equipment ticked up 3.1% (annualized) in Q2 2021 and is up 20% over-year. The Medical Equipment Momentum Index decreased from 100.0 (revised) in August to 98.4 in September. In July, Consumer Prices for Physician's Services ticked up 0.4% and Consumer Spending on Professional Medical Services edged up by 0.1%, the weakest growth since March. Overall, the recent movement of the Index suggests that medical equipment investment growth is likely to continue decelerating over the coming two quarters, though growth should stay in positive territory.

**Mining & Oilfield Machinery:**

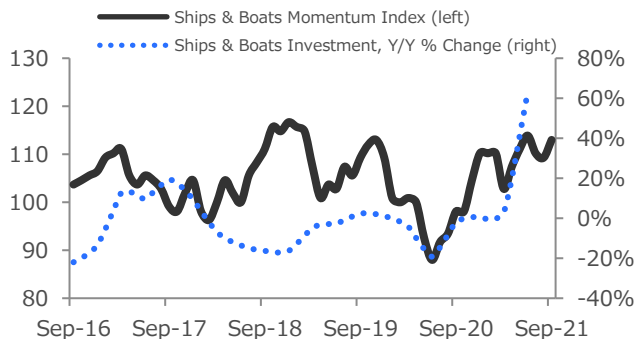
Investment in Mining & Oilfield Machinery rose 11% (annualized) in Q2 2021 and is 2.9% above year-ago levels. The Mining & Oilfield Machinery Momentum Index increased from 110.9 (revised) in August to 112.4 in September, the highest level in nine years. Mining, Oil, and Gas Field Machinery Industrial production rose by 5.3% in July and Mining & Logging Employment ticked up 0.6% in August. The Index's position suggests that mining & oilfield equipment investment growth should accelerate further over the next two quarters.

**Aircraft:**

Investment in Aircraft surged 119% (annualized) in Q2 2021 and is 169% above year-ago levels. The Aircraft Momentum Index eased from 114.5 (revised) in August to 109.4 in September. Aerospace Exports to Canada increased 3.0% in July while the Market Cap of Southwest Airlines declined by 1.5% in August. Overall, The Index suggests that aircraft investment growth will remain in the positive territory over the next six months, though Y/Y growth will likely decelerate.

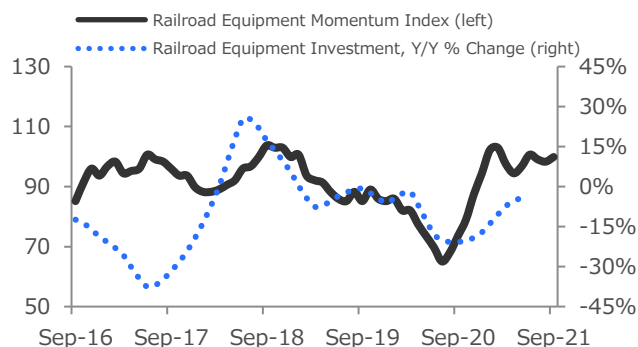
**Ships & Boats:**

Investment in Ships & Boats surged at an annualized rate of 140% in Q2 2021 and is 64% above its year-ago level. The Ships & Boats Momentum Index increased from 109.3 (revised) in August to 113.0 in September. In July, New Orders of Ships and Boats surged 160% and Houston Shipping Container Traffic increased by 1.7%. Overall, the current position of the Index suggests that ships & boats investment growth should remain robust over the next two quarters.

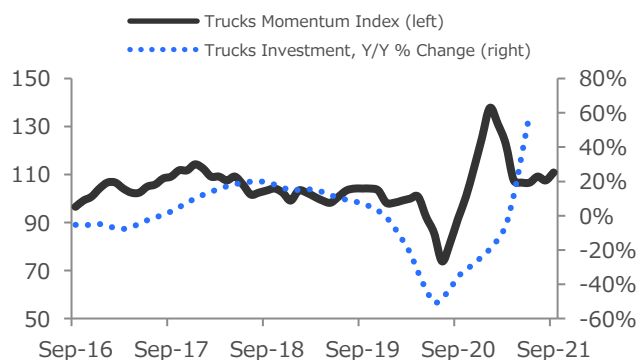


Railroad Equipment:

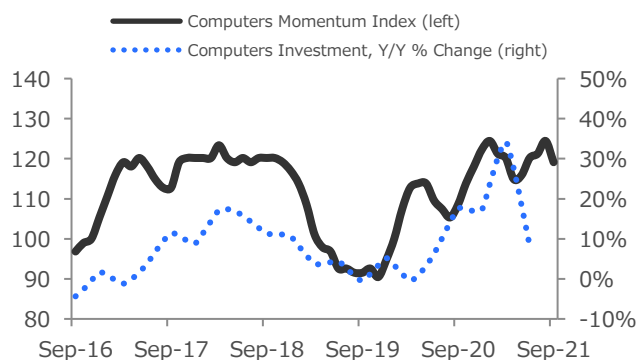
Investment in Railroad Equipment fell 20% (annualized) in Q2 2021 and is down 3.8% year-over-year. The Railroad Equipment Momentum Index inched up from 98.3 (revised) in August to 99.8 in September. The Unemployment Rate fell 0.2pp in August while Rail Carloads of Metallic Ores & Metals increased by 2.1%. Overall, the current position of the Index suggests that railroad equipment investment growth should continue to improve over the next six months.

**Trucks:**

Investment in Trucks grew 33% (annualized) in Q2 2021 and is up 61% from year-ago levels. The Trucks Momentum Index increased from 107.6 (revised) in August to 110.9 in September. In July, Industrial Production of Light Trucks increased by 17.1% and Earnings for Freight Trucking increased by 1.8%. Overall, the Index's position indicates that investment growth should remain healthy over the coming two quarters, though growth may have peaked.

**Computers:**

Investment in Computers fell 38% (annualized) in Q2 2021 but is up 8.0% year-over-year. The Computers Momentum fell from 124.5 (revised) in August to 119.1 in September. In July, Capacity Utilization for Computer & Electronic Product Manufacturing ticked up by 0.6% while Computers & Electronic Products Exports declined by 5.5%. Overall, the Index suggests that computers investment growth should remain in positive territory over the next six months.

**Software:**

Investment in Software increased 16% (annualized) in Q2 2021 and is up 15% from a year prior. The Software Momentum Index fell from 111.2 (revised) in August to 108.2 in September. Shipments of Computers & Related Products increased by 1.2% while Prices for Computer Software & Accessories ticked down by 0.5% in July. Overall, the current position of the Index suggests that software investment growth should remain elevated over the coming six months.

