



EQUIPMENT LEASING & FINANCE

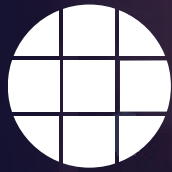
**FOUNDATION**

Your Eye on the Future

**2026**

EQUIPMENT LEASING & FINANCE

**U.S. ECONOMIC OUTLOOK**



EQUIPMENT LEASING & FINANCE  
**FOUNDATION**  
Your Eye on the Future

Established 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 equipment leasing and finance industry. The Foundation accomplishes its mission through development of future-focused studies and reports identifying critical issues that could impact the industry.

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**Equipment Leasing & Finance Foundation**

1625 Eye Street, NW • Suite 850

Washington, DC 20006

202-238-3429

Kelli Jones Nienaber, Executive Director

## Executive Summary

- The U.S. economy remained on track in 2025 despite policy turbulence, fueled by a historic AI-related investment surge and an ever-resilient U.S. consumer. While official data is unusually lagged due to the fall government shutdown, GDP appears to be on track to expand by 2.0% this year, while equipment and software investment likely expanded 9.8%, driven by historically strong growth in the first two quarters of the year.
- Many key government-produced economic reports are still significantly delayed, including the latest GDP release that contains estimates for Q3 equipment and software investment growth. Based on data available at the time of publication, investment momentum appears to be mixed: some verticals (e.g., agriculture machinery, construction machinery, and energy & electrical equipment) are experiencing strong momentum, while others (e.g., industrial equipment) are struggling.
- The AI investment boom remains the primary engine of economic and industry growth. AI-related firms continue to drive a disproportionate share of S&P 500 gains and corporate earnings, and 2025 saw a record \$350 billion in AI infrastructure spending. This surge has fueled exceptional strength in technology equipment and software investment. Yet the rapid run-up has brought clearer signs of strain: valuations look increasingly stretched, financing structures have become more complex and debt-dependent, and investors are increasingly wary that an AI-driven correction could disrupt both markets and capital spending.
- Trade policy will continue to drive the macroeconomic narrative during the first half of 2026. Tariffs, which have been a central component of the administration's economic strategy, have increased roughly eightfold over the last 12 months, yet due to a variety of factors, including pass-through delays and limited retaliation from foreign governments, the overall impact on the economy has been less severe than many economists expected. The Supreme Court's upcoming decision on the administration's use of the International Emergency Economic Powers Act will determine whether the current tariff regime continues or is replaced by a more procedurally constrained framework. Either outcome carries significant economic implications, but if the tariffs are struck down, a messy transition period may ensue.
- Monetary policy is entering a delicate phase. The Fed cut rates three times in Q4 amid mounting labor-market softness, and markets expect further easing in 2026. Yet tariff-related price pressures and persistently elevated core inflation could constrain how far the Fed is willing to go. Leadership changes add another layer of uncertainty. With Jay Powell's term ending in May, the FOMC is likely to tilt more dovish — but if the new chair is perceived as being too aggressive in lowering borrowing costs, bond traders may push long-term yields higher.
- The outlook for 2026 reflects an economy that is expanding (albeit more slowly), but also increasingly exposed to policy uncertainty, market volatility, and widening consumer disparities. These dynamics point to an economy that can still generate moderate growth, with equipment demand and AI-driven capex remaining important sources of growth. That said, the expansion is increasingly vulnerable to policy missteps and market shocks, leaving the balance of risk tilted modestly to the downside.

## Economic Forecasts

Indicator	2024	2025e	2026 Quarterly Estimates				2026 (est.)
			Q1e	Q2e	Q3e	Q4e	
<b>Real Gross Domestic Product</b> <i>(SAAR)</i>	2.8%	2.0%	1.4%	1.7%	1.9%	1.4%	<b>1.8%</b>
<b>Real Investment in Equipment</b> <i>(SAAR)</i>	4.7%	9.8%	6.1%	5.1%	4.6%	3.5%	<b>6.2%</b>
<b>Federal Funds Target Rate</b> <i>(upper bound, end of period)</i>	5.5%	3.75%	3.75%	3.5%	3.25%	3.25%	<b>3.25%</b> <i>(end-of-year)</i>
<b>Inflation: Headline CPI</b> <i>(Y/Y % change, end of period)</i>	2.7%	3.0%	3.2%	3.5%	3.2%	3.1%	<b>3.1%</b> <i>(end-of-year)</i>

Momentum Monitors

**Equipment & Software Investment a Key Source of Economic Strength**

- With the third-quarter GDP report delayed by more than six weeks, uncertainty continues to cloud the equipment investment outlook. Even so, we expect real equipment investment to have grown solidly in the third and fourth quarters, albeit at a slower pace than the robust growth experienced in Q1 (+20.4% SAAR) and Q2 (+15.0% SAAR). Investment growth in the second quarter was positive across most equipment categories, led by the transportation equipment and technology equipment and software verticals; only energy and electrical equipment experienced an investment contraction.
- Looking to the next six months, the Foundation-Keybridge U.S. Equipment & Software Investment Momentum Monitor for December reveals mixed momentum across the industry. Three verticals (Agriculture Machinery, Construction Machinery, and Energy & Electrical Equipment) stand out with readings above their historical averages and signs of acceleration. Transportation Equipment remains below its historical average but is showing signs of improvement, while the remaining three verticals (Medical Equipment, Industrial Equipment, and Technology Equipment & Software) are experiencing weaker, decelerating momentum.
- Equipment and software investment was a key source of economic strength in 2025, and although technology and software investment growth is expected to cool somewhat, the AI investment boom — combined with the Fed’s three rate cuts in Q4 — should continue to support investment growth in 2026.



Spotlight Verticals

Equipment Vertical	Q2 Investment Growth		Next 6 Months	Short-Term Outlook
	Q/Q (SAAR)	Y/Y		
Agriculture	+9.9%	-14.1%	▲	While annual investment growth remains negative, the Agricultural Machinery Momentum Index is strong by historical standards, pointing to continued improvement over the next two quarters.
Construction	+17.2%	-6.1%	▲	The Construction Machinery Momentum Index posted its strongest readings of 2025 over the past three months. Though annual investment growth is negative, current Index readings suggest improving conditions over the next six months.
Technology & Software	+20.6%	+16.3%	▼	Annual investment growth in Technology Equipment & Software has boomed in 2025. While growth is expected to remain strong, the Index suggests some moderation over the next six months.
Industrial	+1.9%	+2.3%	▼	The Industrial Machinery Momentum Index showed steady growth through early 2025 but has slipped in recent months. With the Index below its long-term average, annual investment is expected to weaken over the next two quarters.

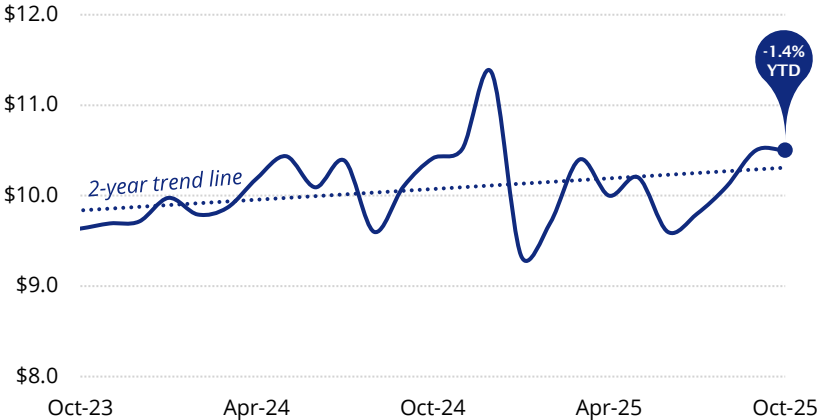
### ELFA Capex Finance Index

#### Equipment demand holds resilient despite market volatility

- ELFA's CapEx Finance Index (CFI) held steady in October as new business volume remained at its 2025 high of \$10.5 billion. While new business volume growth is slightly negative thus far in 2025 (-1.4% year to date), it is up nearly 6% compared to a year ago.
- Banks saw the largest gain in new business volume in October, increasing 7% year-to-date. Captives and independents have declined 16% and 2% year-to-date, respectively, with captive weakness driven by an unusually strong 2024 and a sharp slowdown at the start of 2025.
- Industry financial conditions remain healthy. Credit approval rates held at 79% in October, the second-highest reading since 2016. Although delinquency rates edged up (driven primarily by independents), charge-offs declined modestly across all three institution types and are now at their lowest level since May.
- Employment levels were 0.7% lower in October than a year earlier, slipping further after September's 2% decline. This marks the eleventh consecutive month in which industry employment has contracted on a Y/Y basis.

#### ELFA CFI: New Business Volume Growth

Billions of US dollars, seasonally adjusted



Source: Equipment Leasing & Finance Association

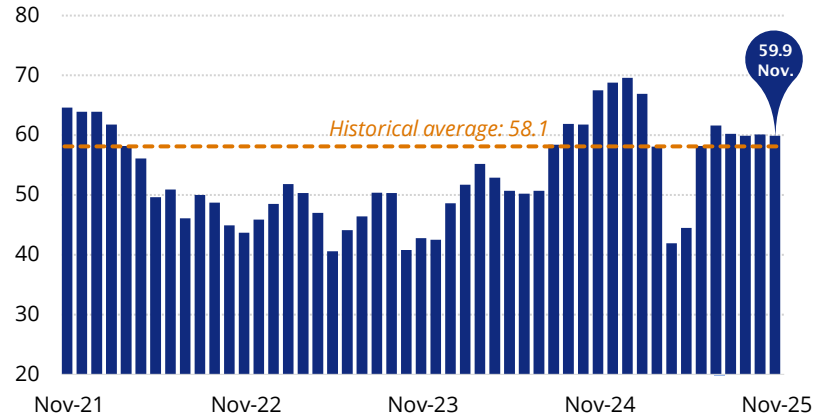
### Foundation Monthly Confidence Index

#### Industry confidence remains at heightened levels

- The Foundation's Monthly Confidence Index (MCI) ticked down to 59.9 in November but has been essentially unchanged over the last four months. November marks the sixth month in a row in which the Index has remained above its historical average.
- Most respondents (63%) expect near-term business conditions to remain the same (up from 54% in October), while 25% expect them to improve (down from 38%).
- The share of respondents expecting stronger demand for leases and loans to fund capex fell to 21% (down from 38%), with 63% now expecting demand to remain unchanged (up from 54%).
- Over the next four months, 71% of respondents anticipate access to capital to hold steady (down from 75%), though nearly one-third now expect greater access to capital (31%, up from 25%).
- Nearly all respondents rate the current health of the U.S. economy as "fair," essentially unchanged from last month.

#### Foundation Monthly Confidence Index (MCI)

Billions of US dollars, seasonally adjusted



Source: Equipment Leasing & Finance Foundation

## Supreme Court Decision Will Determine Tariff Policy

As expected, tariffs have been a central component to the Trump administration's economic agenda during his first year in office. Indeed, tariffs have been a frequently-used tool to pursue a variety of goals — including strengthening U.S. manufacturing, closing trade deficits, gaining geopolitical leverage, and raising government revenue — to varying degrees of success. The economic impact has been significant: monthly tariff revenue has quadrupled (see top chart) and U.S. importers now face an average effective tariff rate of nearly 17%, putting upward pressure on inflation. At the same time, most countries have chosen to negotiate rather than retaliate which, along with various carveouts and workarounds, has helped the U.S. economy avoid worst-case projections to inflation and growth.

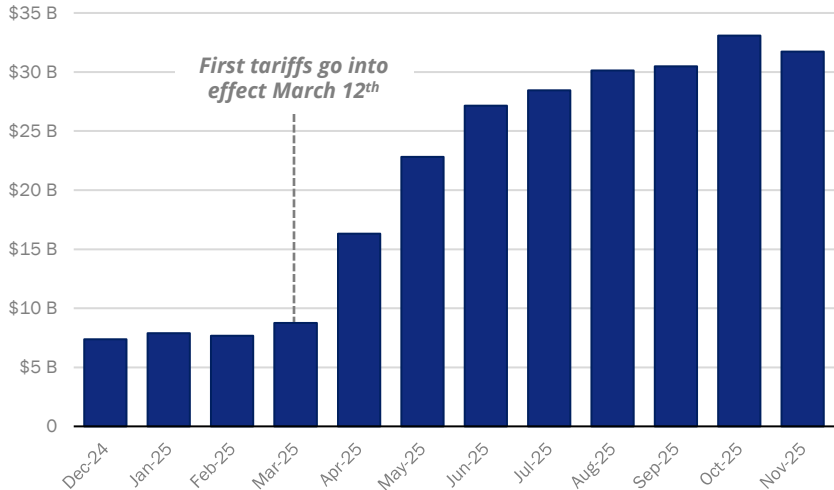
However, the legal underpinning supporting most of the new tariffs is now in question. The administration's primary legal justification behind its country-specific "reciprocal" policy is the International Emergency Economic Powers Act (IEEPA). The Supreme Court will soon rule on the legality of the administration's use of IEEPA to justify tariffs, and its decision will have wide-ranging economic impacts.

- IEEPA-justified tariffs upheld:** In this scenario, the tariffs would remain in place and businesses and consumers alike should expect more of the same: tariff rates on most countries hovering around 15-20% (with higher duties imposed on Chinese imports), along with periodic announcements of new tariffs or carve-outs for specific countries or products based on negotiations with the administration and/or the administration's evolving policy preferences.
- IEEPA-justified tariffs struck down:** In this scenario, the administration would likely turn to other authorities to impose tariffs including Section 232 of the Trade Expansion Act (which is already used to justify tariffs on pharmaceuticals, critical minerals, steel and aluminum, and semiconductors), as well as Section 122 and Section 301 of the Trade Act. While these authorities are less flexible and impose higher procedural hurdles than IEEPA (and therefore may be less effective as a negotiation / leverage tool), they could generate comparable tariff revenue if they are used in conjunction with one another.

While both outcomes are associated with economic risk, a new phase of heightened uncertainty could ensue if the Court rules against the administration. One implication is that importers may be entitled to a refund of more than \$100 billion in previously-paid duties, and it is unknown how this process would be managed. In addition, given the likelihood of replacement tariffs, some U.S. firms may attempt to front-run the new duties by increasing imports and building inventory as they did in 2025, which could impact supply chains (and complicate economic growth projections). Either way, tariffs imposed by IEEPA or other authorities will likely put continued upward pressure on inflation and lead to slower GDP growth and higher unemployment in 2026, though not necessarily an economic downturn.

## Monthly Customs Duties Receipts of the U.S. Government

Net Tariff Revenue – Removes Certain Excise Tax Revenue and Tariff Refunds, Monthly



Source: Department of Treasury, Monthly Treasury Statement.

## Supreme Court Ruling on IEEPA Tariffs

Economic and Fiscal Effects of 2025 Tariffs	Baseline	IEEPA Tariffs Invalidated
Effective Tariff Rate	16.8%	9.3%
Percent Change in PCE Price Level	+1.2%	+0.6%
Average Household Real Income Loss	-\$1,671	-\$792
Percentage Point Change in Q4-Q4 GDP Growth, 2026	-0.4	+0.1
Change in Unemployment Rate, End of 2026	+0.6	+0.3

*Baseline:* Tariff policies currently in place remain in perpetuity  
*IEEPA Invalidation:* Importers are refunded, tariffs under other legal authorities are unaffected, and lost revenues from IEEPA are not made up elsewhere.

Source: Yale Budget Lab.

### AI Buoy S&P 500 Performance and Industry Growth

The AI-related investment boom was a major bright spot for the economy in 2025. However, the gains have been highly concentrated, with much of the investment and earnings tied to a narrow group of firms, technologies, and equipment verticals. There continues to be abundant optimism about AI’s potential to transform the economy and boost productivity over time, but frothy market valuations raise the potentially painful prospect of a correction that, if realized, would pose a meaningful downside risk to the economy’s near-term outlook.

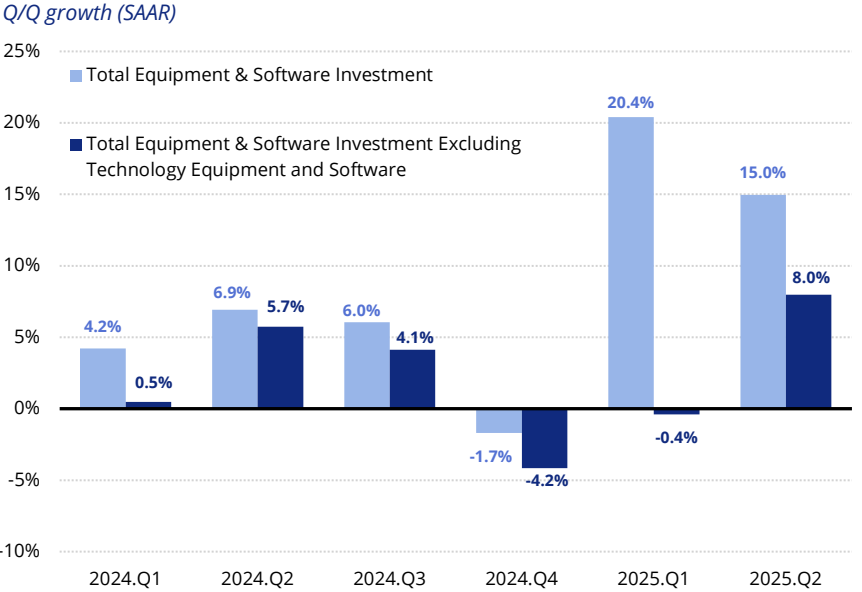
AI-related stocks represent 44% of the S&P 500 but have accounted for 75% of the index’s returns and 80% of earnings growth since ChatGPT debuted in late 2022. A massive wave of capital spending from large tech firms (e.g., Alphabet, Amazon, Meta, Microsoft, and Oracle) led to \$350 billion in AI infrastructure investment in 2025 alone. Industry leaders expect this trend to persist, with NVIDIA suggesting that annual global AI spending could reach \$3–4 trillion by the end of the decade.

This level of investment has provided a major tailwind for the equipment finance industry. Indeed, real equipment and software investment posted its strongest two-quarter performance in at least 20 years during the first half of 2025 (excluding the pandemic rebound). Similar to the stock market, however, these gains have been highly concentrated: as shown in the top chart, technology equipment and software has accounting for most of the expansion (see top chart). Investment growth has been more muted outside these verticals: for example, industrial equipment investment rose just 1.9% in Q2, while energy and electrical equipment investment contracted by 10%.

Recently, concerns have emerged over the speed and magnitude of the AI capex boom, as well as its financial underpinnings. In a recent Bank of America survey, nearly half of institutional investors cited an AI bubble as the biggest tail risk to the market. Their caution is not unwarranted: several traditional metrics suggest the market may be overvalued, including the S&P 500’s cyclically adjusted P/E ratio, which is approaching levels last seen during the dot-com era (see bottom chart). Meanwhile, financing structures within the AI ecosystem have grown more complex. Some large partnerships involve circular arrangements in which supplier, customer, and investor roles overlap. In a trend reminiscent of the late 1990s, more than one-third of the investment spending is funded debt, marking a shift from the early phase of the buildout (which was funded largely by cash flows) and introducing additional risk if AI-related technologies fall short of lofty revenue projections. Geopolitical and regulatory pressures, such as chip export controls and access restrictions to critical minerals, pose additional headwinds that could make sustaining the current pace of investment more difficult.

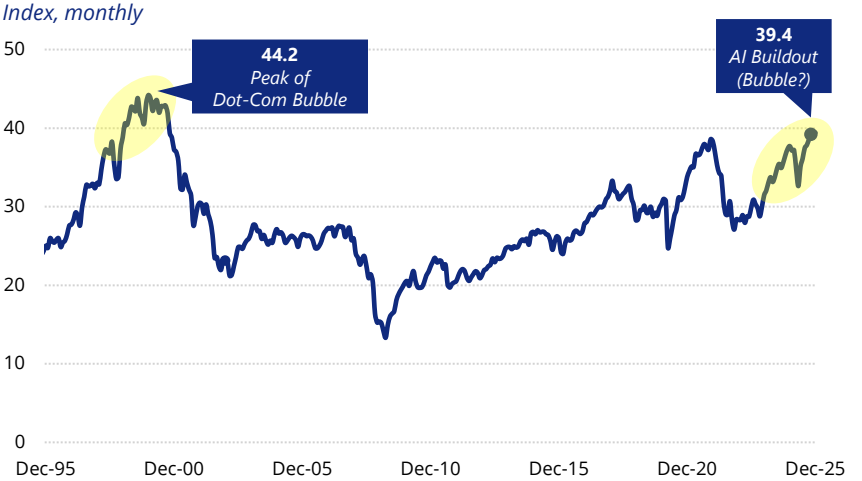
We expect that the AI buildout will continue to provide a significant boost to the economy in 2026. However, the question of whether there is an AI bubble is legitimate given current valuations, underlying financing dynamics, and whether near-term productivity gains will meet the market’s lofty expectations.

### AI-Related Investment Propels Equipment & Software Growth



Sources: U.S. Bureau of Economic Analysis, Keybridge calculations.

### S&P 500 Cyclically-Adjusted P/E Ratio (Shiller PE Ratio)



Source: Robert Shiller.

### The Fed’s Path Forward & Inflation

The Fed cut rates three times in Q4, reflecting growing concerns about a stagnating labor market and slowing economy. In the press release recounting its final meeting of the year in December, the FOMC stated that uncertainty about the economic outlook remains elevated and that downside risks to employment have risen in recent months. Looking ahead, markets are confident that more cuts are on the horizon: as of December 12<sup>th</sup>, the market-implied probability of at least two cuts in 2026 is 70%.

Still, core inflation remains elevated, and recent price pressures tied to tariff pass-through could push inflation higher in 2026. Some FOMC officials have signaled they may “look through” tariff-driven inflation if it appears temporary and not rooted in underlying demand. That perspective may provide the Fed more flexibility to continue lowering rates, even if core inflation remains elevated.

Fed composition also matters for the 2026 trajectory. Jay Powell’s term as chair ends in May, and while it is still unclear who will replace him (Kevin Hassett and Kevin Warsh are the two leading contenders), the FOMC is likely to become more dovish in 2026 irrespective of who is ultimately chosen. The bond market will be a critical check on Fed credibility: if markets interpret a more dovish posture as ill-advised and risking a resurgence of higher inflation, a sharp rise in long-term yields may result.

### Higher-Income Households Prop up Consumer Spending

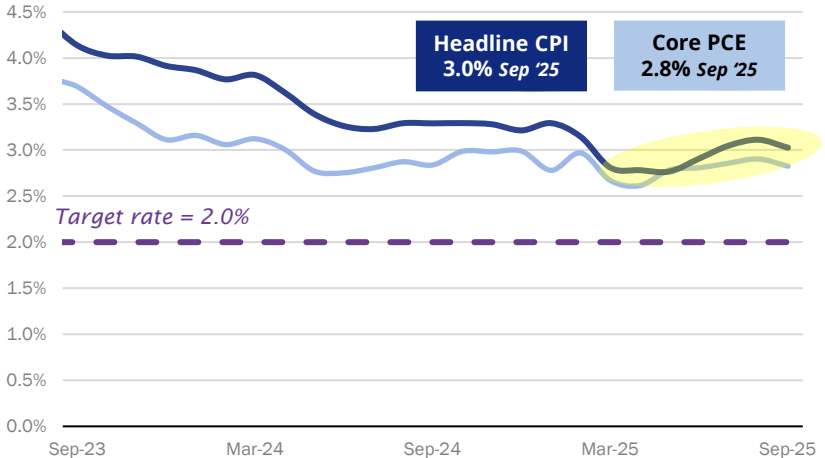
Consumer spending was solid throughout the summer and early fall, but the six-week government shutdown has created an unusual knowledge gap regarding the strength of the U.S. consumer, and recent data have raised concerns that spending is slowing in Q4. For example, Bank of America reported a 2.4% Y/Y nominal increase in credit and debit card spending in October (i.e., below the rate of inflation) and just a 1.3% Y/Y nominal increase in November. On a M/M basis, spending growth was flat.

Moreover, the gap between higher-income and lower-income households is concerning, and high-frequency data suggest that it has widened in recent months (see bottom chart). Corporate commentary reinforces this pattern: for example, McDonald’s recently noted that traffic among lower-income customers fell by nearly double digits in Q3 while visits from higher-income customers rose, and Chipotle, Yum! Brands, and Wendy’s have each reported similar pressures on their value-oriented customer bases. As Cleveland Fed President Beth Hammack recently stated, “a lot of consumption...is coming from the higher-income families, and that’s been really sustaining [GDP growth].”

The so-called wealth effect is likely contributing to this bifurcation, as strong equity markets and elevated home prices are providing a tailwind for households that hold financial and real assets. But that dynamic also presents a vulnerability: as Dallas Fed President Lorie Logan recently warned, “buoyant asset valuations can sometimes snap back without much warning, which might take the wind out of consumer spending.”

### Headline Consumer Price Index (CPI) & Core Personal Consumption Expenditures (PCE) Price Index

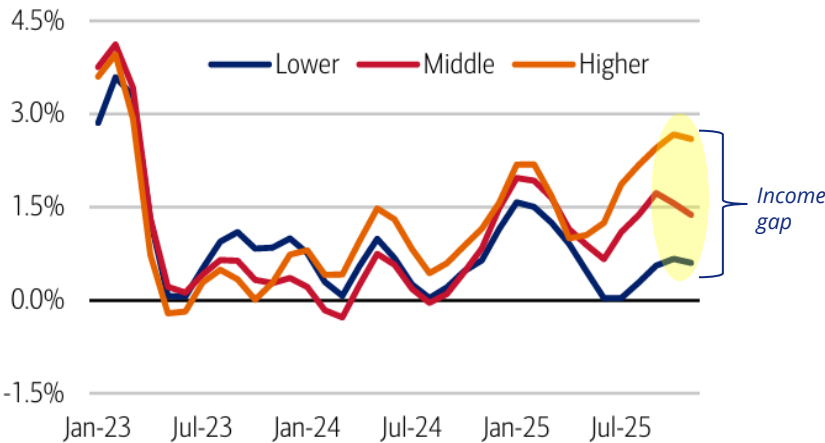
Y/Y percent change



Source: Bureau of Economic Analysis

### Credit & Debit Card Household Spending, by Income

(3-month moving average, Y/Y percent change, SA)



Source: Bank of America Institute

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