Aviation Leaders Report 2026

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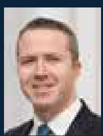

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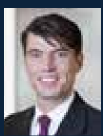

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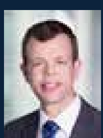

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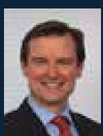

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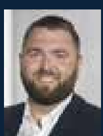

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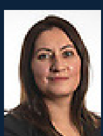

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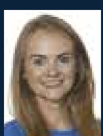

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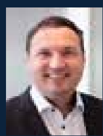

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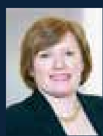

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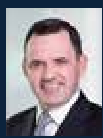

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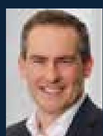

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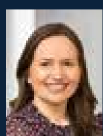

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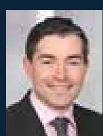

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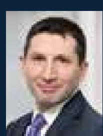

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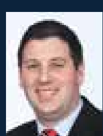

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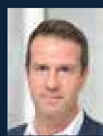

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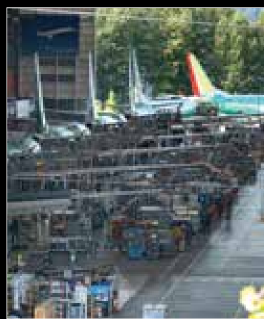

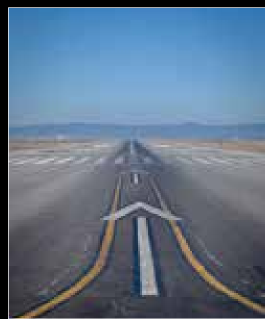

THE AVIATION LEADERS REPORT 2026

For the eighth year running *Airline Economics* and KPMG have gained insights into the commercial aviation industry through a series of in-depth interviews with major aviation leaders that delve into the real challenges facing the sector. This report details the main issues and perspectives shared by industry leaders in one insightful annual publication during a transformative period for the aviation industry.

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ALL OF THE VIDEO INTERVIEWS, WHICH WERE CONDUCTED IN OCTOBER-DECEMBER 2026 IN VARIOUS GLOBAL LOCATIONS, ARE AVAILABLE TO VIEW IN FULL HERE: WWW.AVIATIONNEWS-ONLINE.COM/AVIATION-GLOBAL-LEADERS
YOU CAN ALSO LISTEN TO THE INTERVIEWS AS PODCASTS HERE: PODCASTS.APPLE.COM/GB/PODCAST/AVIATION-GLOBAL-LEADERS/ID1541842716

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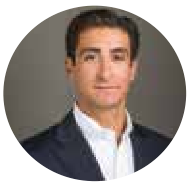
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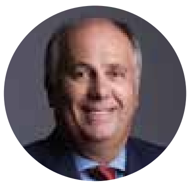
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EVOLUTION & OPPORTUNITY

We are delighted to present you with our Aviation Leaders Report 2026: Evolution & Opportunity. The report captures the views of industry leaders across the leasing, airline and banking markets and includes input from analysts covering the sector.

Our 2025 report, the Supply Strain, focused on the supply challenges facing the industry with deepening concerns around engine reliability and a significant backlog of deliveries from the OEMs. This supply challenge was set against the backdrop of stellar airline recovery in 2024. Industry leaders are consistent in their view that the aviation market continued to thrive in 2025 driven by strong demand, slowly improving supply and a real appetite for aviation in the financing markets. The industry is evolving and maturing with continued opportunity for lessors, airlines and financiers.

Airline performance

Airlines performed well in 2025, and 2026 is shaping up to be another year of strong financial performance. IATA predicts that global passenger traffic will rise by a healthy 4.9% in 2026. Airline net margins are predicted to remain stable but tight at 3.9%. A record global net profit of US$41bn in 2026 is anticipated for airlines driven by continued global growth and lower fuel prices. This is an increase from US$39.5bn in 2025. Aside from fuel, cost pressures remain for airlines, with maintenance costs a deepening concern. Record high global load factors of 84% helped to offset some of the cost and capacity challenges facing airlines in 2025.

A highlight in 2025 was the continued emergence of the Asia-Pacific region from the legacy of the pandemic with strengthening demand across the region's international corridors and a steady improvement in the China market. This recovery has translated into an increased demand for aircraft in the region. Whilst the US market faced some challenges in 2025, there is renewed optimism that the US majors are well positioned facing into 2026.

Airline business models are evolving with premium offerings and loyalty programmes now a key driver of airline profitability, particularly in the US. Demand for premium product continues from business customers but is expanding in the leisure market. In Europe, the slow consolidation of airlines is speculated to continue in 2026 and beyond.

The widely held view of participants in our report was that airline bankruptcies were at a manageable level with constrained supply allowing aircraft to be deployed to meet demand elsewhere. Bankruptcies were driven by airline specific challenges rather than systemic weaknesses. Despite challenges for low-cost carriers in the US, the picture in Europe and Asia Pacific for the model was much brighter.

Supply

While supply challenges remain, OEM supply of new aircraft is slowly improving, although it could take until 2030 or later for supply to fully recover. Participants acknowledged the positive steps being taken by OEMs to strength their resilience and performance, though challenges remain across the supply chain due to tariff and inflation pressures on raw materials such as steel, aluminium and other components. Airbus reported a 3.5% increase in its commercial aircraft deliveries in 2025 to 793 aircraft. Boeing was granted permission to increase production for the 737 MAX aircraft to 42 per month in October 2025 providing scope for the continued ramp up in production in 2026, providing quality can be maintained.

The "zero-for-zero" tariff agreement between the EU and the US in 2025 was widely welcomed by airlines, manufacturers and lessors and continues a longstanding policy that dates to the 1970s. Tariffs have a disproportionate impact on the aviation industry given its global reach and complex supply chains. While some geopolitical tensions continue, a 0% tariff regime for aviation remains essential to the success of both global aviation and the global economy. It is hoped that the continuing 10% tariff on the import of Embraer aircraft into the US can be addressed during 2026.

Engine reliability remains a significant concern impacting the supply of new aircraft as well as airline fleet planning. The GTF power metal issue discussed in our 2024 report is now better understood but is likely to take another 2-3 years to fully resolve. There is also a growing acceptance that new technology engines will require earlier and more frequent maintenance (MRO) visits. The trade-off emerging for airlines is between lower fuel costs, driven by the impressive efficiency of the new technology engines, and structurally higher lifecycle maintenance costs. Airlines are building a deeper pool of spare engine capacity – often with support from lessors – and are also seeking to defer aircraft retirements to maintain capacity.

Finance

The consistent view from participants in our interviews was that the aviation debt market had matured and is in rude health.

The interest cuts by the US Federal Reserve in 2025 gave real momentum to the financing markets as spreads tightened. The historic close link between interest rates and lease rate factors was disrupted in 2025 as aircraft shortages kept lease rates strong, despite falling spreads.

As well as cost, diversification of funding sources and matching maturities remains critical for the industry. Aviation continues to source funding from the unsecured capital markets, the structured product market, traditional banks, alternative lending / credit funds, as well as more niche products such as sukuks and Japanese equity. These financing markets are open and actively seeking aviation exposure. With the industry delivering over US$100bn of aircraft in 2025, with an anticipated increase to US$125bn in the near term, diverse and deep sources of capital are essential.

An investment grade rating remains critical to the competitive position of large aircraft lessors and for certain airlines, allowing access to deep pools of efficient capital that remain available even during periods of turbulence. The growth in the number of investment grade lessors is consistent with the evolution and increasing maturity of the aviation leasing market, with a number of aviation lessors benefiting from rating upgrades in 2025 and speculation surrounding further potential upgrades in 2026.

The appetite of the traditional banking market remains resilient, benefiting from a favourable regulatory environment in the US and the emergence of some new bank lenders as new equity investors in aviation are able to access their existing local banking relationships to raise capital in regions such as the Middle East and Asia.

For structured products, the aviation ABS market surged back in 2025 with US$10bn of debt issuances, which could hit record levels in 2026 if conditions remain stable. While there have been secondary trades of aviation ABS E-notes, primary issuances have been slower to return but there is growing confidence that a primary issuance of aviation ABS E-notes will happen in 2026. The aviation loan ABS market also continues to grow as alternative lenders fund gaps in the aviation financing market and become an additional pillar of the capital stack.

Sustainable financing took a back seat in 2025 but is acknowledged as a key long-term industry trend that will re-emerge.

Aviation leasing

Aviation leasing companies enjoyed a stellar performance in 2025, primarily driven by a continued airline demand and a favourable interest rate environment. There was a noticeable strengthening in lease rates for widebody aircraft in 2025 as airlines seek to capitalise on demand for long-haul travel and supply remains constrained. Leases agreed at lower rates during the pandemic are being gradually repriced. A combination of higher transition costs and airlines seeking to maintain capacity has resulted in continued high level of lease extensions as well as airlines seeking to acquire aircraft at lease expiry. Lessors are already discussing lease placements and extensions for aircraft into 2027 and 2028 with airline customers.

Aircraft values have continued to increase in 2025 with lessors recording significant gains over book value on their trading activity. With OEM orderbooks sold out for the foreseeable future, lessors are turning to trading activity and M&A to grow and sustain their portfolio. An ever-increasing population of financial investors (including private equity, insurance and infrastructure investors) are also attracted to aviation by the asset's stable cash returns and the attractive medium-term fundamentals.

The consolidation of the aviation leasing industry continued in 2025 with several large M&A transactions executed by lessors. There is likely to be further M&A activity in 2026 as lessors seek to reinforce and strengthen their competitive position, achieve economies of scale and stay relevant to their airline customers and OEMs. But smaller lessors have also flourished as they exploited leasing opportunities in specialist areas such as engines, regional aircraft or mid-life or end-of-life aircraft. The engine leasing market expanded again in 2025 and looks well placed for further growth.

The long-term fundamentals of aviation leasing remain strong with Airbus predicting a 20,000+ increase in the global aviation fleet over the next 20 years, creating significant long-term opportunities for aviation leasing where the proportion of leased aircraft hovers around the 50% mark. In this context, it was noted that aviation leasing is capable of a compound annual growth rate (CAGR) of 8% over the next 10 years. As the pandemic and the Russia/Ukraine crisis are thankfully confined to history, lessors are carefully reflecting on their strategy for growing into the future.

In Closing

Despite the geopolitical and other challenges of the last 12 months, the industry outlook is positive with continued robust consumer demand, slowly recovering supply and a favourable financing market. The industry has evolved, consolidated and specialised. Coupled with favourable long-term fundamentals, 2026 should continue to see significant opportunities in the aviation market.

I would like to thank all those who generously gave their time and insights and I really hope you enjoy the read.

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Chapter One: Airlines

Tariff turbulence, premium boom

Air travel is booming despite the geopolitical and economics turmoil, once again demonstrating the resilience of the sector.

Industry association IATA has predicted that airlines will book revenue above $1 trillion for the full year 2025 on the back of passenger growth and stable yields. The industry body is forecasting continued growth for 2026, with passenger traffic expected to rise by 4.9%. This is a marginal decline from last year, which IATA attributes to capacity constraints caused by the lingering supply-side issues. On the plus side, limited capacity means record-high load factors, high air fares, yields and profits despite a challenging operating environment, aided by a relatively low and stable oil price.

On airline profitability, IATA celebrates the expected record full year 2025 operating profits of $67bn, representing a 6.6% operating margin, with net profit forecast at $39.5bn with a 3.9% margin. Looking ahead to 2026, IATA is forecasting a $72.8bn operating profit and 6.9% margin, and a record net profit of $41bn, and a stable net margin of 3.9%. The forecasted slight improvement is based on a number of assumptions by IATA including the forecasted growth of global GDP to 3.1%, more moderate inflation at 3.7% that will continue to decelerate albeit the delayed impact of US tariffs may impact energy and food costs may keep inflation on the higher side impacting any further interest rate cuts.

BofA Economics' forecast suggests ~3.5% growth in passenger growth this year if the historical 1.4x demand to GDP ratio holds (assuming 2.4% real GDP growth in 2026).

Aviation has gained in prominence with investors and consumers thanks to its speedy and consistent recovery since the pandemic. The Covid-bounce has evolved into a mature and stable recovery. Passenger revenues are benefitted from higher traffic and on a global basis are up by nearly 5% year on year to $751bn. High load factors – averaging 83.8% - are keeping air fares elevated into 2026, aided by relatively low and stable jet fuel prices.

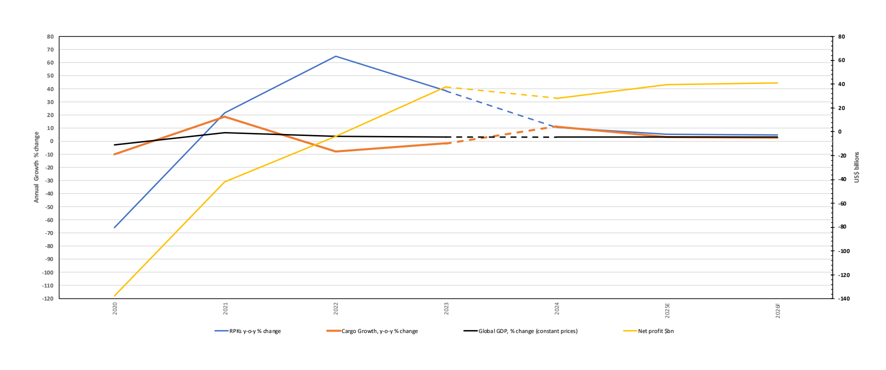


FIG. 1: WORLD ECONOMIC GROWTH (GDP), AIR PASSENGER TRAFFIC (RPK), AIRLINE PROFITS ($BN)

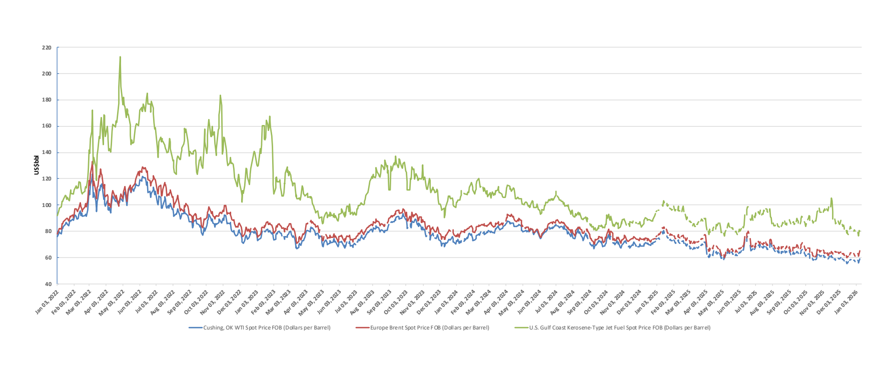


FIG. 2: OIL / JET FUEL PRICE 2025

IATA predicts total airline industry costs will reach $981bn in 2026, a 4.2% increase on the previous year. Other costs, excluding fuel, remain stubbornly high. Airlines are under continued pressure from rising labour, maintenance, and equipment costs.

After fuel, labour is the major cost driver, representing 28% of total airline costs, and is continuing to rise ahead of inflation. Pilot shortages and union demands are causing wage bill inflation across all regions.

As the supply of new technology aircraft remains constrained, older aircraft require more –and heavier – maintenance checks, which is driving up demand and constraining MRO slots that are already under pressure from lingering new entrant engine issues requiring shop visits.

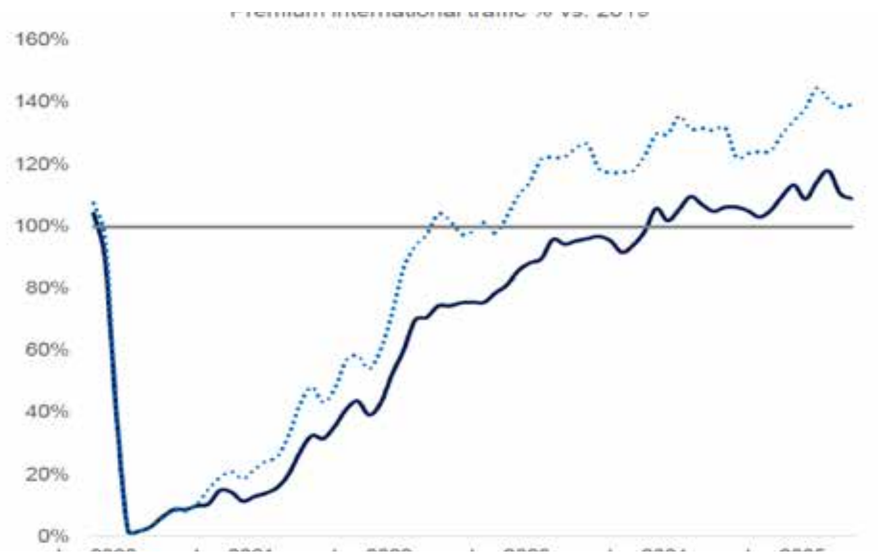
Meanwhile, leasing aircraft has also become much more expensive as capacity remains constrained due to supply and MRO issues.

Although these costs have all been rising above inflation, airlines have responded well thanks to healthy revenues. The record high load factors – globally around 84%, and closer to 90% in Europe and the US – demonstrate severe capacity constraints and suggest an approaching limit to how far revenue can stretch further without significant increase in capacity. At that point, airlines will be constrained in how much cost inflation they can continue to pass on to passengers.

PREMIUM PROGRESSION

Many airlines have been successful in enhancing ancillary revenue in a capacity constrained environment. Premium cabin options, for example, have become a major competitive advantage, especially for legacy and long-haul airlines. Premium demand has been a significant force driving margins globally, particularly in the US but also expanding into other markets.

Full-service carriers have been racing to adopt and upgrade front-cabin products, prioritising premium cabins as key profitability drivers. In North America, American Airlines has long had a leading premium offering, but it is upping its game, having introduced a new business class suite last year as part of widespread aircraft overhauls.



Source: JPMorgan (using IATA Monthly Statistics, Boeing analysis)

FIG. 3: PREMIUM NORTH AMERICA TRAFFIC

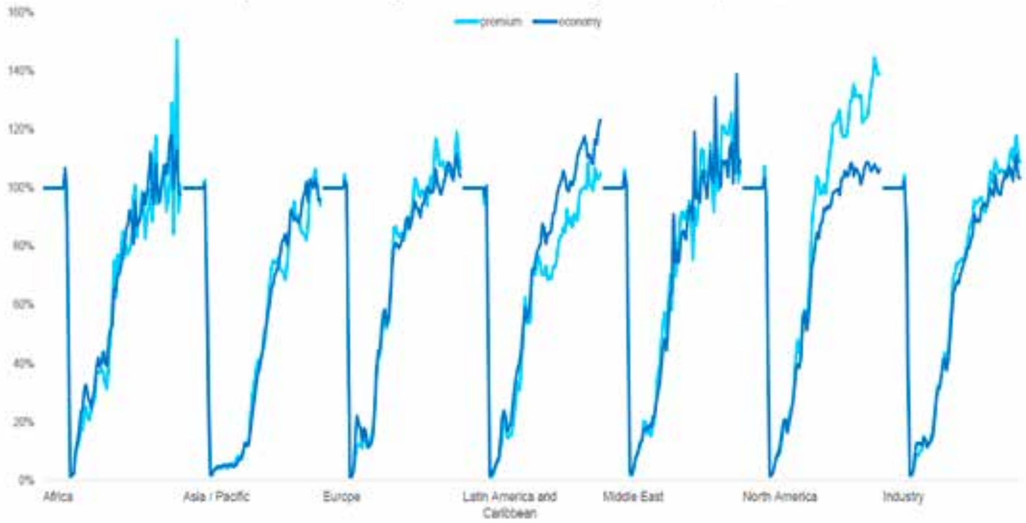
Premium seating is increasing by 30% across the American fleet because premium traffic is now 50% of American's revenues and is growing. "American's roots are in serving the premium customer," CEO Robert Isom said in December at an investor conference. "But as we go forward, it's more than just a business product. The great thing that we see now is that the business travellers, the road warriors, want all the premium services, but we see a great mix of more leisure customers that want to buy up into that cabin. And we've got to take advantage of that dynamic, and we are. Starting with our fleet, we put that down years ago to be ready for this dynamic that's happening right now. Our lie-flat seat for the real international long haul will grow by 50% over the next few years. Our premium seats are growing by 30% over the next few years. So we're ready for this dynamic and we are making huge investments in terms of lounges."

Hawaiian Airlines announced the creation of its first-ever premium cabin as part of a $600 million, five-year investment programme, with premium economy added to its A330-200 long-haul fleet by 2028. Alaska Air Group CEO Benito Minicucci said during its Q2 2025 earnings call that a seamless end-to-end premium travel experience was a "key differentiator" that it was "fully committed to investing in every aspect", including lounges and premium cabins. He added that the group's premium revenues continued to outperform and its premium cabin retrofits were on track to increase premium seat exposure to 29% by this summer, when all 218 Boeing narrowbody aircraft retrofits will be complete. Alaska confirmed that it had completed 40% of its 737 retrofits, increasing premium seat share from 26% to 27% – a segment already drives 35% of total revenue. Andrew R. Harrison, chief commercial officer of Alaska Airlines, said these "strategic investments are not only meeting a structural growing demand for premium travel, they're diversifying our revenue base and reinforcing our long-term competitive edge".

United Airlines embarked on a major update grate of its premium offering, introducing the Polaris Studio – a new suite offering with privacy doors, larger seats, enhanced entertainment and hospitality offerings as well as Wi-Fi. In its Q3 2025 earnings call, United reported premium revenues up 6% year-over-year and PRASM for premium cabins outperformed the main cabin by five percentage points. CEO Scott Kirby explained that the "commodity" portion of this business – i.e., the main economy cabin – "loses money for everyone", adding that ULCCs offer 100% commoditised seating, which is why they are struggling in the current operating environment where passenger favour brand loyalty and premium seating potential over price. "For commoditised seats on an airline, the more commoditised seats you have, the lower the margins are going to be," said Kirby, who added that "within a couple of years, the supply and demand will be balanced for the commodity portion of the business, and it will be profitable for everyone – it will be low margin as all commodity businesses are, but it will be profitable."

Legacy carriers are therefore prioritising their loyalty schemes to retain customers as well as enhancing their premium offerings. Pivoting to enhanced premium products is producing dividends. Delta Air Lines – one of the first major airlines to report its full year 2025 results (January 2026) – noted that premium revenue grew by 7% with loyalty revenue up 6%. Premium sales grew 9.1% in the fourth quarter.

Delta's premium performance fuelled its guidance for full-year 2026. The company expects adjusted earnings per share (EPS) for 2026 to be between $6.50 and $7.50, increasing 20% at the mid-point compared to 2025. This bullish forecast assumes revenue main cabin revenue will also start to move upwards later this year, which is has so far failed to do, with most of the uptick coming in the premium cabin.



Source: JPMorgan (using IATA Monthly Statistics, Boeing analysis)

FIG. 4: PREMIUM TRAFFIC OUTPERFORMANCE LIMITED TO NORTH AMERICA

The airline industry has been described by Jefferies analyst Sheila Kahyaoglu as being engaged in "a premium arms race", with airlines competing on loyalty perks, premium cabins, lounges and amenities – even Wi-Fi – systems to attract premium passengers. Delta CEO Ed Bastian noted on the January earnings call that business travel was returning with corporate confidence, with a recent survey showing that corporate customers expect to grow their travel spend in 2026.

In the Middle East, Emirates – which arguably pioneered the modern ultra-premium product – has also refurbished its cabins, adding premium economy seating on its older A380s and 777s as part of a $5bn fleet-wide retrofit, refurbishing 219 aircraft. Etihad introduced first and business class cabins on its Airbus A321LR narrowbody aircraft – a unusual move for narrowbody aircraft, demonstrating demand for premium seating. Qatar Airways is upgrading its Q Suite offering, while new Saudi Arabian airline Riyadh Air has unveiled design-led premium cabin concepts ahead of its full launch.

The trend towards premium continues in the Asia-Pacific region, with Japanese carriers ANA and JAL rolling out new suites and full-fleet premium refurbishments. Singapore Airlines & EVA Air continue to dominate premium awards, while Cathay Pacific and Air New Zealand maintain high premium standards.

In 2025 reporting, United Airlines CEO Scott Kirby explicitly characterised the ultra-low-cost carrier (ULCC) model as a "failed experiment," underscoring that the market had shifted decisively toward high-spending premium travellers rather than low-fare passengers. That trend has continued throughout the year and into 2026 shows no real signs of slowing. The casualties – specifically in the North American region – have been the low-cost carriers (LCCs) and ULCCs, which have been losing market share to legacy carriers that are attracting the more discerning leisure traveller as well as business passengers as corporate travel picks up. The impact has been so significant that some LCCs are introducing premium seating – once unthinkable for low fare carriers. Multiple budget carriers across the US, Europe, and Asia are now rolling out bigger seats, priority perks, and even business-class–style cabins to chase new revenue and meet rising passenger expectations.

Frontier announced it will add fully redesigned first-class–style seats in the first two rows starting in 2025, and is also rolling out "UpFront Plus", which guarantees an empty middle seat – mimicking European business class. Spirit pioneered ULCC premium seating with the Big Front Seat, while JetBlue has its Mint offering, described as the first true premium cabin for a low cost airline. VietJet is the first Asian ULCC to introduce a true business-class cabin. Wizz Air and Ryanair are also enhancing their upgraded options to include premium-style economy seats (front row, more leg room).

Avolon CEO Andy Cronin notes that there has been a shift in demand, leisure travellers are now willing to fly for longer to access less crowded and expensive popular destinations. "In the US, there has been a relatively well documented migration into premium travel, and that's really quite specific to the US," he says. "There is a huge growth in low cost carriers in Asia-Pacific, which is up about 12% year on year in terms of RPKs, and the Middle East is a high-growth engine. Passengers are prepared to fly for longer due to a combination of choosing different areas to go, plus more disposable income, which has led to a growth in demand for widebody aircraft and for longer range narrowbody aircraft."

Cronin sees a structural change in aircraft demand in response to that migration towards the premium traffic – for more dual or three class aircraft for those larger, longer range narrowbody aircraft.

The demand for premium travel and high-end cabin investment can be seen clearly in new aircraft orders, which are primarily being driven by leisure traffic as opposed to business travel.

Iberia, American Airlines and IndiGo has all received their A320XLR deliveries in the past year. Aer Lingus, Qantas, AirAsia, JetBlue, JetSMART and Wizz Air have XLR deliveries outstanding. American CFO Devon May called the A320XLR offering a "fantastic airplane" with more square footage that will be dedicated to premium cabins and flying longer haul destinations – on routes JFK-Edinburgh (EDI), JFK-San Francisco (SFO) and Boston (BOS)-LAX – from later this year.

James Meyler, chief executive of ORIX Aviation, provides a stark warning regarding the premium bubble that could be more fragile than indicated by current performance: "Right now, people feel good about the economy, so they're flying more and paying more," he says. "My concern is that a geopolitical or economic shock – anything from a market correction to an AI or crypto crash – could quickly pull back demand, especially for premium or frequent travel. Airline costs are likely to stay elevated, and with such thin margins, even a small drop in revenue can push the industry into losses. In that scenario, we'd return to a familiar pattern: strong airlines would manage, but highly leveraged carriers or those with legacy debt would struggle."

NORTH AMERICAN DYNAMICS

Although traffic remains strong, US airlines' revenues in 2025 suffered from the impact of the extended shutdown of the federal government, which restricted some flight networks, as well as the uncertainty around US tariffs.

The Liberation Day US tariffs announcement in April 2025 had an immediate impact on North American airlines, with week-on-week booking drops of up to 12%. In response, many airlines cut capacity, removed non-core routes and pulled 2025 guidance to protect margins. Stocks fell 10–15%, reflecting investor concerns. Airlines paused expansion and reduced or halted guidance during the first half of the year. Major US carriers – led by American Airlines – lobbied Washington for a tariff carve-out and resisted price hikes on aircraft or parts from OEMs looking to pass along tariff costs. Carriers like Delta took a very firm stance: announcing that they would defer any Airbus deliveries subject to tariffs rather than absorb the extra cost.

In April 2025, Delta CEO Ed Bastian said unequivocally: "We will not be paying tariffs on any aircraft deliveries we take. These times are pretty uncertain and if you start to put a 20% incremental cost on top of an aircraft, it gets very difficult to make that math work."

In September 2025, the US published guidance officially exempting aircraft and aircraft parts from additional tariffs when imported from the EU. This established a "zero-for-zero" tariff regime for these products, restoring a long-standing policy. A separate deal with the UK also secured a specific guarantee of zero tariffs on aerospace products, including aircraft components and engines. (The impact of US tariffs on aviation manufacturing is discussed in more detail in the next chapter).

While the industry appears to have avoided the most significant disruption for now, uncertainty remains, with tariffs and negotiations continuing to impact derivative sectors – such as steel and aluminium for example – that can cause additional maintenance and new aircraft costs.

"We haven't seen tariffs impact consumer demand," says Austin Wiley, chief executive of SKY Leasing. "Consumers have jumped back on airplanes, and airlines are reporting healthy load factors and yields. Certainly there was a pause and uncertainty in Q2 but generally that snapped back. We are not seeing any impact in terms of how airlines are thinking about their cost of new aircraft or used aircraft. We have arrived at a good spot where everyone understands that this isn't going to change the whole order of global trade. There are some costs that ultimately have to be borne now as part of the tariffs, but we still see very healthy demand going forward."

Towards the end of 2025, the uncertainty around tariffs remains but that noise has abated somewhat as airlines turn attention to a more positive annual performance.

> **"Airline costs are likely to stay elevated, and with such thin margins, even a small drop in revenue can push the industry into losses. In that scenario, we'd return to a familiar pattern: strong airlines would manage, but highly leveraged carriers or those with legacy debt would struggle."**
>
> *James Meyler, ORIX Aviation*

Spirit Airlines: A turbulent year inside Chapter 11

Spirit Airlines ended 2025 still deep in Chapter 11, marking one of the most drawn out and complex restructurings in the US airline sector in recent years.

The ultra-low cost carrier — once a symbol of rapid post pandemic growth — filed for bankruptcy protection for a second time in late August 2025.

This came just months after emerging from an earlier restructuring in March 2025, as liquidity pressures, fleet challenges, and a faltering pivot to premium all converged at once.

By the end of 2025, Spirit had made progress on financing, labour concessions, and fleet downsizing. But its path out of bankruptcy remains uncertain, with the airline still posting operating losses and weighing options that could reshape its future as an independent carrier.

Spirit's August Chapter 11 filing followed a tumultuous period in which management struggled to stabilise the business after a failed attempt to reposition the airline upmarket.

The carrier had sought to move away from its ultra low-cost roots by introducing a "premium leisure" product under its 'Project Bravo' strategy, targeting higher yield customers that would offset rising costs.

Instead, the strategy coincided with softening leisure demand, intensifying competition, and persistent cost inflation.

This was compounded by fleet and operational challenges, including aircraft groundings tied to industry wide engine availability issues and a heavy reliance on leased aircraft.

Spirit entered the second bankruptcy with 214 aircraft in its fleet, including 166 leased aircraft, leaving it highly exposed to fixed lease obligations at a time when cash generation was deteriorating.

Dave Davis, president and CEO of Spirit, said at the time of the filing that another court-supervised process was the best way to tackle these challenges.

"Since emerging from our previous restructuring, which was targeted exclusively on reducing Spirit's funded debt and raising equity capital, it has become clear that there is much more work to be done," he said.

"We have evaluated every corner of our business and are proceeding with a comprehensive approach in which we will be far more strategic about our fleet, markets, and opportunities."

A central pillar of Spirit's Chapter 11 process has been debtor in possession (DIP) financing.

On September 30, 2025, the airline disclosed that it has secured a multi tranche facility of up to $475 million from existing bondholders, supplemented by a $150 million liquidity injection from lessor AerCap as part of a broader settlement involving lease rejections.

In December, Spirit amended its DIP credit agreement to unlock a further $100 million incremental tranche, around $50 million of which became immediately available.

Additional funds remain contingent on the airline meeting milestones under its restructuring plan, and management has repeatedly pointed to labour cost savings and fleet rationalisation as key conditions for accessing further liquidity.

Asset sales have also played a role. In early December, a US bankruptcy court approved Spirit's sale of two gates at Chicago O'Hare to American Airlines for $30 million, with proceeds earmarked for prepaying DIP financing.

Perhaps the most significant element of Spirit's restructuring is its decision to cut its fleet roughly in half. Court documents filed in December revealed plans to reduce the fleet from 214 aircraft to around 106.

Under the plan, Spirit will retain at least 78 A320ceo family aircraft and between 10 and 28 A320neo family jets, with all other aircraft and their associated engines to be removed from the fleet.

With court approval, the airline has also sought to reject up to 87 aircraft leases, arguing that excess capacity and unprofitable leases are incompatible with its revised business plan.

Agreements with lessors have been central to this effort. In October 2025, Spirit reached a settlement with AerCap to reject 27 leased aircraft and terminate sale and leaseback arrangements for 36 undelivered A320neo family jets, scheduled for delivery between 2027–2028.

In separate court orders, Spirit amended and assumed leases for five A320s with Carlyle Aviation, while withdrawing two aircraft from a lease rejection motion after reaching an agreement with ST Engineering.

"This will relieve Spirit of the burden of unprofitable leases and of the costs of maintaining and storing several aircraft that are already out of service," the airline's CFO Fred Cromer said in a court statement at the time.

"Spirit must right-size its fleet to match capacity with profitable demand, which will materially lower Spirit's debt and lease obligations and realise hundreds of millions of dollars in annual operating savings."

In December, Spirit reached agreements with both its pilots and flight attendants, unlocking cost savings required under its DIP financing arrangements.

Approximately 82% of pilots, represented by the Air Line Pilots Association (ALPA), voted in favour of a deal that includes temporary pay and retirement contribution reductions from January 2026, with staged restorations beginning in 2028.

The agreement also scrapped previously announced plans to furlough 365 pilots, instead limiting captain downgrades to 25 in Q1 2026, after higher than expected resignations reduced staffing levels.

Spirit had already furloughed around 270 pilots in November 2025 and downgraded 140 captains in October 2025.

Beyond flight crews, the airline has announced the closure of maintenance stations and warehouse operations in Chicago and Baltimore from early 2026, alongside "volume based staffing adjustments" across its technical operations.

Despite cost cutting, Spirit continues to post losses. In the third quarter of 2024, Spirit narrowed its operating loss to $134.9 million from $296.4 million a year earlier, helped by lower expenses following capacity reductions. However, revenue fell sharply year on year, and net loss widened slightly to $317.5 million.

In November 2025, the airline reported operating revenue of $238.9 million against operating expenses of $311.7 million, resulting in a monthly operating loss of $72.7 million. The net loss for the month totalled $54.7 million.

These figures underline the challenge Spirit faces in returning to sustainable profitability, even with a smaller fleet and a lower cost base.

Spirit remains in active negotiations over its long term future, and management has not ruled out strategic alternatives. In the final weeks of the year, media reports suggested that merger discussions with Frontier Airlines had been revived, according to sources familiar with the matter. For now, Spirit's focus is on finalising a restructuring plan, stabilising operations, and convincing stakeholders that a leaner airline can succeed in a fiercely competitive US market.

"Liberation Day and the US tariff policies created a lot of anxiety in the market," says Mark Streeter, managing director at JPMorgan. "We have seen that in some of the weaker year-over-year results in the US airline industry. However, we ended the year on a stronger note. United Airlines guidance for 2026, while not official, leaned to pretty significant year-over-year growth – which is very attainable for United and for the airlines that are focused on what's really working right now, which is premium, loyalty and international."

Post pandemic, there has been a contraction in the US domestic market in terms of passenger numbers. IATA figures show a contraction in passenger load factors (PLF) for the North American domestic market in the year to end November 2025 of 1.9%. A 1.4% increase in capacity outpaces the essentially flat growth in passenger demand, pushing down load factors. November marked the tenth consecutive month of YoY decline in PLF for the region.

Industry experts suggest that the post-pandemic cash reserves US airlines had built up are now dwindling, and with inflation and rising ticket costs, consumers are flying less frequently. "In some cases, the cost to fly intra-state is higher than to fly internationally," says Fred Browne, chief executive of Aergo Capital, who adds that US consumers are "clearly not flying as much". Browne doesn't share the sentiment that the LCC model is dead; he sees the weakness more as an isolated, regional pattern. "Data shows that every other region aside from the US grew in terms of LCC capacity over the last year. The situation has been primarily caused because the major network carriers in the US now offer basic economy products and have frequent flyer programmes that generate a lot of passenger demand versus a Spirit or a Frontier product."

SKY Leasing's Wiley sees the bottom of the decline in the US leisure sector due to reductions in capacity, primarily as Spirit reduced its fleet, and says the future looks "pretty optimistic now for low cost carriers as they move into 2026".

AerCap's CEO, Aengus Kelly, explains the current weakness in the low-cost carrier segment, particularly in the US. "A lot of airlines let pilots go, however there was a rebound in travel post-Covid at very high fares, requiring airlines to rehire pilots as quickly as possible and pay whatever was needed. The US majors, with long-haul, premium products, were able to charge high enough fares to cover those incremental costs. However, the low cost carriers, which faced the same higher pilot pay scales, did not have access to those elevated fares or those premium customers, so their margins have been squeezed. That continues to be the case and has put pressure on the low-cost model in the United States in particular, and to a lesser extent elsewhere."

The challenges facing an airline like Spirit – which filed for Chapter 11 bankruptcy protection twice in 2025 – reflect not a systemic industry problem but the limits of the traditional ultra-low-cost carrier model, especially as costs rise and its price-sensitive customer base leaves little room to pass those costs on.

Greg Conlon, CEO of High Ridge Aviation, argues that the real structural shift in the industry is the move toward more diversified, multi-tiered product offerings – far beyond the old binary of economy versus first class. Major airlines now generate revenue across a wide spectrum of cabin experiences and price points, creating a more resilient model that can adapt to changes in demand, such as reduced business travel but increased affluent leisure travel. This flexibility is displacing single-product, ULCC-style approaches, giving larger carriers greater stability and reducing systemic credit risk across the industry.

Streeter explains the division of the airline sector into what he describes as "the haves" and "the have-nots", with those that have those three factors – a premium product, loyalty scheme and international route network – showing positive profitability and margins. "We are seeing that divide grow; those without premium, loyalty or international are struggling. Probably the best example of that is Spirit

Airlines, which only lasted five months from emerging from its first bankruptcy to refilling again in late August."

Spirit's reduction in its fleet has taken some capacity out of the US market – a welcome move by competitors at the lower end of the sector. With 3-4% of domestic capacity, any Spirit liquidation or further shrinking would have positive supply implications for the entire sector. It is assumed that Spirit is actively seeking a merger or takeover as a potential solution, and reports suggest it is in discussions with potential counterparties, which could include Frontier and/or JetBlue – both of which failed to agree a deal for Spirit in 2024.

The domestic US airline segment has been shaken further with the announcement early in 2026 of the first real major airline merger in the region in years, with Allegiant's acquisition of Sun Country Airlines for $1.5bn, creating a large leisure-focused airline with nearly 175 cities and 650+ routes. This deal follows a large merger in the regional segment between Republic Airways and Mesa Air Group in 2025.

Although these two large deals – and potentially a Spirit partnership out of bankruptcy –suggest airline consolidation is ramping up, this should be viewed more as a consequence of the cost pressures on low cost carriers in the domestic US market, rather than a more general market trend. "We have

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>
> *Austin Wiley, SKY Leasing*

seen a lot of consolidation in the US over the last decade and a half and we should have seen more in 2020 or 2021, we didn't because airlines, especially in the US, were saved by the government," says Helane Becker, independent consultant. "That is now coming home to roost. Spirit has filed for bankruptcy twice. I hope they can figure it out this time, but it's hard to cut your costs faster than you lose your revenue. The costs don't go away as speedily. They're in a slightly better position, because they can return aircraft to lessors. But in the US, I don't see a lot more consolidation. There will be some – we will see what happens with Spirit and a couple of others. But consolidation limits choice, because fares go up too high and people don't travel."

However, Avolon's Andy Cronin believes the trend for lessor consolidation due to a lack of orderbook positions could translate to the airline segment: "One feature we are seeing in both the lessor and the airline space is consolidation through the order books," he says. "There are no more aircraft for sale, so the orderbook number cannot increase. A trend toward consolidation is going to naturally evolve on the airline side, where those airlines that do not have orderbook access between now and 2032 will not be able to acquire more aircraft, which really challenges their growth story."

EUROPEAN MERGER MOMENTUM

In the European market, consolidation has been long desired to help tame fragmentation, but progress has been very slow. TAP is up for sale, but the process is protracted and not expected to make headlines any time soon. Meanwhile, Lufthansa has completed its long-anticipated purchase of a 41% stake in ITA Airways.

Lufthansa's acquisition of ITA Airways marks the culmination of a multi-year strategic effort to expand its network footprint in Southern Europe. The process began with an agreement in May 2023, when Lufthansa and the Italian Ministry of Economy and Finance (MEF) reached terms for Lufthansa to acquire a 41% minority stake in ITA Airways.

Following extensive regulatory scrutiny, the European Commission approved the deal in November 2024, imposing remedies including the surrender of slots at Milan Linate and provisions to maintain competition on key Rome and Milan routes. While Lufthansa had originally anticipated closing in late 2024, final procedural steps delayed completion into the new year.

The transaction was ultimately finalized in mid-January 2025, with the formal transfer of the 41% stake through a €325 million capital injection. As a result, ITA Airways officially became the fifth network airline within the Lufthansa Group.

Lufthansa plans to exercise options to acquire the remaining 59% of ITA, with full ownership expected no later than 2033 under the agreed structure.

In Portugal, the new coalition government formally relaunched the privatisation of TAP Air Portugal in July 2025, approving a decree law to sell up to 49.9% of the company – 44.9% to strategic investors and 5% to employees. The government has indicated that the sale will be made by mid-2026 but progress has been slow. Confirmed bidders are Lufthansa, Air France-KLM and International Airlines Group (IAG) – all of which have either submitted formal expressions of interest, met with the Portuguese government, or publicly confirmed they will participate.

Another long-running sale process in Europe has been the future of Air Europa. The sale process began in the late 2010s when IAG sought to acquire the Spanish carrier to strengthen Iberia's dominance at Madrid-Barajas and expand its Latin American network. That deal collapsed after years of negotiations due to EU competition concerns, with regulators warning that the overlap between Iberia, Vueling, and Air Europa would significantly reduce competition on key domestic and transatlantic routes, leading IAG to withdraw its bid in 2024-2025 despite previously holding a 20% stake.

As IAG, Lufthansa, and Air France-KLM subsequently exited discussions in 2025, Air Europa's parent company Globalia continued to seek a strategic investor willing to take a minority position while leaving the family in majority control. This shift opened the door for Turkish Airlines, which confirmed non-binding talks in June 2025 and soon emerged as the sole active bidder, preparing a binding offer that it later formally submitted and Globalia accepted – an investment of around €300 million, largely via capital increase, for a minority stake likely between 25% and 30%. Turkish Airlines is now widely viewed as the winning bidder due to the absence of competing offers and the strong strategic logic: the tie-up expands its access to Southern Europe, strengthens Madrid as a connecting point, and deepens its reach into Latin America through Air Europa's established long-haul network, all while avoiding the competition hurdles that derailed IAG's attempt.

Europe's legacy airline groups – Lufthansa Group, Air France-KLM, and IAG – all experienced a mixed but generally upward trajectory in 2025, with performance influenced by strong demand, cost inflation, fleet modernisation pressures, and the continued recovery in long-haul travel. All have reported solid gains in the past year but they are also under cost pressures from rising airport fees, inflation, and cabin modernisation costs as, cabin modernisation costs as they continue to pursue the premium passenger dollar. Supply chain issues are still constricting capacity but high transatlantic and international travel demand pushed up load factors and yields. That upwards trajectory may now have plateaued given the lack of additional lift, and the rising expense of leasing aircraft.

Low cost carriers in the region have fared much better than their American counterparts. Ryanair, easyJet and Wizz Air are the standout performers, even though they are besieged by similar cost pressures, aircraft delivery delays, engine issues as well as maintenance issues and slot scarcity.

There were few bankruptcies in Europe in 2025, but most notable collapses included PLAY Airlines, smaller operators Eastern Airways and Blue Islands, as well as ACMI provider SmartLynx.

Eastern Airways, a long-established UK regional carrier founded in 1997, collapsed in late October 2025 after filing for bankruptcy protection and suspending all flights. The airline had been struggling for years with mounting financial losses, rising operating costs, and the lingering effects of the post-pandemic downturn, but a single event ultimately pushed it over the edge: the termination of its major capacity-partnership contract with KLM Cityhopper. That agreement had accounted for more than half of Eastern's revenue – around 55% -- and its sudden loss left the airline with a heavy fixed-cost structure but no replacement income.

Once the KLM contract ended in October 2025, Eastern could no longer sustain its fleet, staffing levels, or lease obligations. Losses deepened rapidly: the airline had already reported a £19.7 million net loss and debts of £26 million in 2024, and by late 2025 it had cancelled routes, halted ticket sales, and grounded its aircraft. Administrators confirmed that without immediate new funding – none of which materialised – the business was unsalvageable. The collapse stranded passengers across the UK and severely disrupted regional connectivity in Scotland, the North Sea oil corridor, and underserved rural communities.

Three weeks later, Blue Islands, the Channel Islands–based regional airline, ceased trading on November 14, 2025, becoming the second regional UK carrier to collapse. The airline grounded all flights immediately after the Government of Jersey – its key financial supporter – announced it could no longer provide further funding. Blue Islands had relied heavily on government loans and subsidies, including an £8.5 million COVID-19 loan, and still owed the government roughly £7–9 million at the time of its shutdown.

Financial pressure had intensified throughout 2025: the airline accumulated debts exceeding £3.2 million in unpaid airport fees and more than £9 million owed to the States of Jersey. When additional government support was denied, the company lacked the liquidity required

to continue operating. The sudden shutdown stranded more than a thousand passengers and disrupted vital links between Jersey, Guernsey, and mainland UK cities such as Southampton, Bristol, Exeter, and the East Midlands.

Together, the collapses of Eastern Airways and Blue Islands underscored the precarious economics of regional aviation. Both airlines operated in thin, low-margin markets highly vulnerable to cost shocks and reliant on external partners to survive.

Eastern Airways was one bankruptcy that affected Aergo Capital directly – even though its aircraft was removed from the airline prior to the actual event. "Added to the Blue Islands bankruptcy, the demise of Eastern Airways shows just how difficult it is to run a successful European turboprop/regional airline," shares CEO Fred Browne. "This feeds into our wider decision to exit out of turboprop aircraft in the long term."

PLAY AIRLINES: A SHORT-LIVED RESTRUCTURING FAIL

PLAY Airlines' attempted turnaround ended abruptly in late September 2025, when the Icelandic low-cost carrier ceased operations, cancelled all flights, and filed for bankruptcy.

The decision terminated a restructuring effort that had already seen the airline dramatically scale back its ambitions, pivot away from

> **"There are no more aircraft for sale, so the orderbook number cannot increase. A trend toward consolidation is going to naturally evolve on the airline side, where those airlines that done have orderbook access between now and 2032 will not be able to access more aircraft, which really challenges their growth story."**
>
> *Andy Cronin, Avolon*

long-haul flying, and bet its future on aircraft leasing rather than passenger growth.

Ultimately, the airline concluded that its revised business model was incapable of overcoming what management described as "deep-rooted challenges" in time to stabilise the company.

PLAY entered 2025 under mounting pressure following several quarters of losses and weakening demand.

In the first quarter, the airline posted a net loss of $26.8 million on revenues of $46.4 million. Passenger numbers fell from 349,000 in the period a year prior to 286,000, and load factor fell from 81.8% to 77.2%.

Management responded by sharply reducing the airline's network. In June, PLAY announced it would exit all North American services, cutting flights from Reykjavik to New York, Boston, and Baltimore, and reducing its European footprint to focus on leisure-oriented "sun destinations".

The airline also outlined plans to shrink its operating fleet from 10 aircraft to four, leasing out the remainder.

At the centre of the revised strategy was a pivot towards ACMI and damp leasing.

Four aircraft were placed with SkyUp Malta Airlines under agreements running through 2027, with management arguing that the contracts would provide stable, predictable income of around $1m per aircraft per year.

To support the transition, PLAY raised $20m in July through a two-year convertible bond issuance.

The financing followed a proposed takeover offer from two of the airline's largest shareholders, who planned to delist PLAY from the Icelandic stock exchange and restructure operations under a new ownership vehicle.

The revised business plan also included a shift to a Maltese air operator certificate (AOC), with its Icelandic AOC to be returned, and the operation of a much smaller Iceland-based network with local crews.

In the second quarter of 2025, the airline reported a net loss of $15.3 million, widening year over year.

Ticket sales underperformed expectations, and the airline acknowledged that negative media coverage and internal resistance to the strategic shift had weighed on morale and commercial results.

By late September, management and the board concluded that the revised model had come too late to deliver sufficient improvement.

"In hindsight," the company said, "the new business plan should have been implemented earlier."

Announcing that it would cease operations on September 29, 2025, PLAY said the decision was "the most painful one imaginable".

While the airline believed the ACMI concept could have been viable under different circumstances, the combination of weak passenger performance, limited scale, and organisational strain proved insurmountable.

PLAY's collapse serves as a reminder of the challenges facing small, standalone low-cost carriers in highly competitive markets.

Unlike larger peers, who have been able to use restructuring to reset balance sheets and reposition for growth, PLAY ultimately lacked the time, scale, and financial headroom needed to recover.

Thus came to an end Iceland's short-lived challenger airline, which in June 2025 had only just celebrated its fourth birthday.

SMARTLYNX: A RAPID UNWIND IN THE ACMI SECTOR

SmartLynx Airlines' decision to cease operations in late November brought a sudden end to one of Europe's larger ACMI platforms and highlighted growing strains within the wet lease market.

The Latvian carrier, which had expanded aggressively in recent years, entered restructuring only weeks earlier but ultimately concluded that an orderly wind-down was the only viable option.

The collapse marked a sharp reversal for an airline that, at its peak, operated more than 60 aircraft across multiple air operator certificates and played a prominent role in seasonal capacity support for airlines across Europe, Africa, and beyond.

A brief and unsuccessful restructuring
On October 22, 2025, SmartLynx Latvia was sold by Avia Solutions Group (ASG) to Stichting Break Point Distressed Assets Management, a newly formed Dutch entity.

Less than a week later, on October 28, the airline filed for restructuring in Latvia, with plans to submit a formal restructuring proposal to the Riga District Court by the end of February 2026.

Those plans never materialised, and on November 24, SmartLynx announced it was ceasing commercial operations with immediate effect, citing a reassessment of its long-term outlook.

In a statement, the company said the decision was "not taken lightly".

SmartLynx's failure followed a period of rapid expansion. Over the past five years, the airline had grown its fleet from 12 to 66 aircraft, operating a mixed fleet of Airbus and Boeing narrowbodies alongside a small freighter operation.

In March, management announced plans to simplify operations by transitioning to a single Airbus-family fleet by mid-2025 and scaling back A321 freighter flying.

The strategy was intended to improve efficiency and align SmartLynx more closely with ASG's broader network.

However, the pace of expansion left the airline exposed as ACMI demand softened and competition intensified, particularly during the 2025 summer season.

Fallout for customers
The abrupt cessation of operations had immediate consequences for customers. Nigeria's Air Peace said the demise of SmartLynx had cost it around $15m, after SmartLynx suddenly withdrew four A320-200s that had been wet-leased to support operations during a period of heavy maintenance activity.

Air Peace executives accused SmartLynx of breaching contractual commitments and industry norms, alleging that payments and security deposits had been collected despite the airline's intention to repossess the aircraft.

While SmartLynx has not publicly responded to these claims, the episode highlighted the operational and reputational risks associated with sudden ACMI failures.

For ASG, SmartLynx's collapse forms part of a wider restructuring of its European footprint.

ASG has said it intends to merge SmartLynx Estonia and SmartLynx Malta into a rebranded carrier, as it consolidates its European AOCs into three core brands.

The group believes an optimal AOC fleet size is around 27–30 aircraft, and is increasingly focused on counter-cyclical growth in Asia-Pacific and Latin America.

Nonetheless, the demise of SmartLynx Airlines illustrates how quickly scale and complexity can become liabilities in the ACMI sector.

SmartLynx ran out of time and financial flexibility. In a crowded wet-lease market, its rapid unwind demonstrates that growth alone is not enough to guarantee resilience.

SOUTH AMERICA RESURGENCE

Latin America has been experiencing some growth in its airline traffic but the region is under considerable pressure from the issues between Venezuela and the US, as well as tariffs. The only other airline to file for bankruptcy in 2025 was Azul, which is successfully working towards a positive exit from Chapter 11.

Azul's bankruptcy was the result of a lack of government support during and following the pandemic. The general consensus is that the region

Azul: A clearer path through Chapter 11

Azul ended 2025 with its Chapter 11 restructuring firmly on track, and with a markedly different trajectory to that of many of its bankrupt peers.

The low-cost Brazilian carrier entered court protection in May 2025 with high leverage, significant foreign exchange exposure, and costly aircraft-related liabilities. But it ended the year having broken multiple financial and operational performance records, with strong creditor support and a clearly defined route to emergence, which is targeted for February 2026.

Rather than a fight for survival, Azul's Chapter 11 can be more accurately described as a balance-sheet reset, designed to lock in operational gains and place the airline on a more resilient financial footing.

Origins of Azul's bankruptcy

Azul's decision to seek Chapter 11 protection was driven not by collapsing demand but by structural financial pressures that had built up over several years.

In full-year 2024, the Brazilian real lost 22% of its value against the US dollar, inflating the airline's US dollar-denominated debt and lease obligations. At the same time, supply chain disruptions and engine availability issues raised costs across the fleet.

By early 2025, management concluded that an out-of-court solution would be insufficient to address the scale of its liabilities.

When the airline filed for Chapter 11, its key aims were to reduce debt by more than $2bn, improve cashflow, preserve more than 15,000 jobs globally, and maintain its status as Brazil's largest airline by departures and cities served.

Crucially, Azul entered the process from a position of operational strength, with a diversified domestic and international network and a young, flexible fleet of Embraer regional jets and Airbus widebodies.

At the time of the filing, *Airline Economics* research showed that Azul's fleet of around 200 aircraft was approximately 73% leased, with 140 aircraft on lease from a range of lessors.

AerCap held the largest share at 33.57%, leasing 47 aircraft, followed by DAE Capital with 24 aircraft and Falko with 12 aircraft.

Strong operating momentum

Azul's underlying strength has been evident in its financial and operational performance during the restructuring.

In Q3 2025, the airline delivered record results across revenue, EBITDA, and operating income, offering a sharp contrast to its loss-making Chapter 11 peers, such as Spirit Airlines.

Total revenue rose 11.8% year on year to R$5.7bn ($1.1bn), while EBITDA increased 20.2% to R$2bn ($363 million), representing a margin of 34.6%.

Operating income climbed 23.7% to R$1.27bn ($231 million), and passenger demand grew faster than capacity, lifting load factor to 84.6%.

Cost per available seat kilometre fell 2% quarter over quarter, while productivity improved. Azul closed the quarter with R$3.4bn ($618 million) in available liquidity, up 38% from a year earlier.

Management credited disciplined capacity growth, pricing strength, and cost reductions initiated during Chapter 11 for the "impressive" performance.

John Rodgerson, CEO of Azul, said the third-quarter results demonstrate that Azul is "one of the most profitable airlines in the world".

"We could not be more excited about the future," said Rodgerson. "We are truly building Azul into a resilient, robust business focused on cash-generation and growing units, combined with industry-leading customer service and operational excellence."

Financing and creditor alignment

Azul's restructuring has been underpinned by substantial debtor-in-possession (DIP) financing and broad creditor alignment.

In July 2025, the airline accessed $1.1bn of a $1.6bn DIP facility, using the bulk of the proceeds to refinance bridge loans and other short-term obligations, while adding $200m of incremental liquidity.

In November, the US Bankruptcy Court for the Southern District of New York approved Azul's Chapter 11 reorganisation plan and a $650m backstop commitment agreement, clearing both proposals for a creditor vote. The plan received "overwhelming support" and was formally approved in December.

Under the restructuring, Azul expects to eliminate more than $2bn of debt and convert the majority of its remaining obligations into equity.

First-lien creditors are expected to hold around 97% of the post-emergence equity, with second-lien creditors holding the balance, prior to any new capital raising.

The plan is supported by key stakeholders including AerCap, United Airlines, and American Airlines, all of which are significant creditors. United and American have also committed a combined $200m in new equity investment at emergence.

Equity raising and capital reset

In the final weeks of 2025, Azul launched a primary public offering of newly issued common and preferred shares in Brazil and a private placement of American Depositary Receipts (ADRs) and warrants to certain creditor entities abroad.

The offering forms part of mandatory debt equitisation under the restructuring and is designed to complete the airline's capital reset ahead of emergence.

Up to $950m of new equity is expected to be raised through a series of offerings, with $650m backstopped by commitment parties. Existing shareholders have priority subscription rights in Brazil, though dilution will be significant given the scale of the debt-to-equity conversion.

Management has said the restructured balance sheet is expected to leave Azul with net leverage of around 2.5x upon emergence — a level more typical of a healthy airline than one exiting bankruptcy.

Fleet and cost restructuring

Alongside financial measures, Azul has used Chapter 11 to reshape its fleet commitments.

The airline has restructured a range of aircraft and engine leases, returning selected A330s and Embraer E190s while assuming or entering new leases that better align with its long-term network strategy.

Deliveries of Embraer E2 aircraft have been slowed, and some A330neo aircraft are set to be returned to lessors, reducing near-term capital and rent obligations.

Management is targeting run-rate cost savings of R$747m ($136 million) from productivity improvements and renegotiated contracts, materially lifting projected EBITDA.

As of the end of September 2025, Azul operated a fleet of 185 passenger aircraft with an average age of 7.3 years, providing flexibility as the airline calibrates growth post-emergence.

With its reorganisation plan approved and equity raising under way, Azul's focus has shifted from restructuring to execution.

While risks remain — including currency volatility and ongoing negotiations with OEMs and lessors — Azul enters the final phase of Chapter 11 from a position of strength.

is recovering strongly, and despite the disruption caused by the Venezuelan upheaval, most expect that to continue. "Globally, it's been pretty strong for airlines overall, led in large part by the US majors, European carriers, Chinese carriers, and in Southeast Asia where things have been reasonably good," says AerCap's Kelly. "There has been a lot of recovery there. The situation was more difficult in Southeast Asia and South America coming out of Covid due to a lack of government support. Both regions followed a similar trajectory, with significant maintenance expenses building up - particularly around engines and, to a lesser extent, airframes. During Covid, they were able to defer much of this maintenance, but it eventually caught up with them. Over the course of 2024 and 2025, there was significant pressure on airlines in these markets, resulting in some carriers in South America entering into a restructuring process. In Southeast Asia, they have also required support, but both regions are now on a firmer footing."

The South American region has also seen the major revival in LATAM's fortunes. LATAM entered 2025 in far stronger shape than many analysts expected, posting one of the most impressive financial rebounds in global aviation following its Chapter 11 restructuring.

Early in the year, the airline delivered record Q1 2025 financial results, reporting $355 million in net income, a 38% year-on-year increase, supported by nearly US$1bn in adjusted EBITDAR and revenue of $3.4bn, up 2.7%. Passenger volumes rose 3.6% to 21 million travellers, indicating broad market recovery across its South American network.

Operationally, LATAM continued to expand its network, growing from 151 destinations in December 2024 to 153 by March 2025, and projecting 7.5-9.5% capacity growth for the year. It reinforced its fleet strategy with deliveries scheduled for 22 A320neos and two 787s in 2025 – part of more than 120 aircraft committed through 2030 – while adding new premium cabin products and rolling out fleet-wide Wi-Fi.

GOL: Rebuilding after Chapter 11

Gol Linhas Aereas ended 2025 in a very different position to where it began the year. Having emerged from Chapter 11 bankruptcy protection in June 2025, the Brazilian low-cost carrier is now firmly focused on growth and execution, rather than restructuring mechanics.

While its bankruptcy was a significant event in Latin America's aviation sector, Gol's case ultimately proved shorter and more contained than those of some of its regional peers, allowing management to pivot quickly back to commercial priorities.

By the end of 2025, Gol was reporting healthy profits, expanding capacity, and talking confidently about its "largest summer high season" ever in 2026.

Gol filed for Chapter 11 protection in January 2024, after a prolonged period of financial strain stemming from pandemic-era disruption, aircraft delivery delays, and a heavy debt burden.

The court-supervised process was designed to stabilise liquidity, restructure obligations, and give the airline time to restore a large portion of its grounded fleet, particularly aircraft affected by engine maintenance bottlenecks.

The airline exited Chapter 11 after securing $1.9bn in exit financing with a five-year term. The funding package, anchored by Castlelake and Elliott Investment Management, allowed Gol to repay its debtor-in-possession (DIP) financing in full, cover transaction costs, and exit with a significantly improved liquidity position.

According to Gol CEO Celso Ferrer, the carrier emerged "significantly stronger" following the restructuring.

"We have rationalised our fleet, optimised our costs, redesigned our network, enhanced our operational focus, and driven management efficiencies which will allow us to continue to drive success," Ferrer said at the time.

"This is supported by solid customer preference, robust demand, and a five-year plan that will bring more investments in customer experience as well as new routes."

Gol's post-emergence results suggest that the restructuring achieved its core objectives.

In the third quarter, the airline swung to a net profit of R$248m ($46.8 million), compared with a loss of R$1.4bn ($264 million) a year earlier, beating market expectations.

Operating income surged to R$850m ($160.5 million), lifting operating margin to 15.4%. This was supported by an 11.6% increase in revenue to R$5.5bn ($1.04bn), and a 5.4% reduction in operating expenses. Passenger revenues grew more than 12%, while ancillary revenues also rose.

Earlier in the year, second-quarter results had already pointed to momentum, with recurring EBITDA up nearly 68% and cash generation strengthening, as more aircraft returned to service.

At the end of September, Gol reported liquidity of R$5.4bn ($1.02bn), net debt of R$19.7bn ($3.72bn), and a net debt to EBITDA of 3.2x — down from 5.3x a year prior.

Fleet restoration and network growth

A key pillar of Gol's recovery has been the restoration and expansion of its all-Boeing 737 fleet. Over the past 12 months, the airline returned several older 737NG aircraft while inducting nine 737 MAX 8s and additional freighters, resulting in a net increase in operational aircraft.

By the end of the third quarter, Gol operated 143 aircraft, including 58 737 MAX 8s, 64 737-800NGs, 12 737-700NGs, and nine 737-800BCFs.

The carrier has said it expects its entire fleet to be fully operational by the end of the first quarter of 2026, following extensive engine overhauls carried out during the restructuring period. At the time, the fleet was 97% financed through operating leases and 3% via finance lease.

Capacity has grown accordingly. Third-quarter ASKs increased nearly 9%, while international capacity jumped more than 30% year on year.

With Chapter 11 in the rear view, Gol has also clarified its strategic priorities. The airline ended merger discussions and a codeshare agreement with Azul in September, underscoring its intention to pursue an independent growth path.

Beyond passenger operations, Gol's Smiles loyalty programme and GOLLOG cargo business have continued to deliver double-digit growth, providing diversification and earnings support.

Entering 2026, Gol's focus is on sustaining profitability, completing fleet restoration, and managing leverage in a volatile macroeconomic environment.

The company is targeting net leverage of around 3.5x by 2027, supported by what Ferrer has described as "favourable" demand conditions.

While risks remain, Gol's relatively swift Chapter 11 process appears to have delivered a robust platform for recovery.

Financial markets responded strongly to LATAM's transformation. By late 2025, its stock had delivered a 127% total return over two years as the company rebuilt profitability, cut leverage and benefited from supportive macro conditions such as lower fuel prices, a favourable FX environment and resilient travel demand. Analysts noted the company's post-bankruptcy restructuring created a structurally stronger, lower-risk balance sheet, enabling sustained free cash flow generation.

In 2025, Abra Group – which owns Avianca and GOL and is a strategic investor in Wamos Air – moved to increase its scale, signalling interest in acquiring additional carriers—most notably Aerolíneas Argentinas, which executives described as a strong potential fit should it become available for takeover. Abra also committed to a substantial long-term fleet renewal, unveiling plans to add up to seven A330neos and expand its A320neo orderbook to 138 aircraft. The group also explored introducing the E195-E2 and Airbus A220 to strengthen connectivity within Latin America, an especially significant shift for GOL, which has traditionally operated an all-Boeing fleet. By October, Abra had further signalled its intent to scale by preparing for a US IPO, positioning the company to raise new capital as GOL emerged from Chapter 11 and the group worked to integrate its airlines more closely. And in November, Chilean carrier SKY Airline signed a preliminary agreement to join Abra Group.

ASIA-PACIFIC LOW COST RECOVERY

Asia-Pacific carriers are reporting a resurgence in air travel demand, with total traffic rising by 7.8% year on year in November, according to IATA. Growth was driven primarily by the

international segment, which expanded by 9.3% – the fastest growing segment globally. Capacity growth remained broadly aligned with demand, leaving the load factor at 85.8%, the highest across all regions in November.

The region's largest international corridors are continuing to drive growth. According to IATA, the three dominant flows – within Asia, Europe-Asia, and Middle East-Asia – each delivered double-digit year-on-year increases in November. Intra-Asian travel expanded by 10.2%, buoyed in particular by strong outbound demand from China, which grew 11.5% and remains the principal engine of traffic within the region. However, not all markets contributed equally: geopolitical strains between China and Japan dampened traffic on that axis, with China-Japan growth slowing to 8.4%.

Long-haul connectivity into and out of Asia also showed robust momentum. Europe-Asia traffic rose 13.3%, supported by a 15.5% surge in flows from China to Europe. The Middle East-Asia corridor posted similarly strong figures, expanding 10.5% as carriers continued to add capacity and maintain high-frequency connectivity across these hubs. These major corridors collectively underscore that Asia Pacific's recovery is being led by markets with either strong structural demand or deep long-haul connectivity to China.

By contrast, some of the region's smaller international corridors delivered softer results and continued to lag the global average. Traffic between North America and Asia grew 6.4% year-on-year, in November, a deceleration from October, while the Southwest Pacific-Asia corridor posted a 6.7% increase, also slower than the prior month. Links between the Americas and the Southwest Pacific improved marginally-to 2.5% from 1.7% in October – but remained the weakest-performing segment in the broader Asia-Pacific network.

Most major Asia-Pacific-serving corridors recorded year-on-year improvements, with one notable exception: North/South America-Southwest Pacific. There, load factor fell 3.7 percentage points to 70.7%, as a 7.9% rise in capacity outpaced the modest 2.5% increase in demand. In contrast, the North America-Asia corridor saw load factor edge up 0.9 points to 83.9%, marking its first improvement after six straight

"The situation was more difficult in Southeast Asia and South American coming out of Covid, due to a lack of government support. Both regions followed a similar trajectory where they had significant maintenance expenses building up, particularly around engines and to a lesser extent, airframes... Over the course of 2024 and 2025 there was significant pressure on those airlines, resulting in some of them in South America entering into a restructuring process. In Southeast Asia, they have also needed some support, but both regions are now on a firmer footing."

Aengus Kelly, AerCap

months of decline-a sign that supply and demand may be beginning to rebalance more sustainably on this long-haul segment.

EYE ON CHINA

Chinese airlines navigating a turbulent financial landscape, with early-2025 losses followed by a significant rebound later in the year. In the first half of 2025, all three major state-owned carriers – Air China, China Eastern, and China Southern – projected substantial losses, driven not by weak demand but by broader macroeconomic pressures, including a weakening yuan, geopolitical tensions, and high international operating costs. China Southern anticipated even deeper losses than the previous year, while Air China and China Eastern expected elevated but slightly narrower losses compared with 2024. First-quarter results underscored the strain, with all three carriers posting sizable deficits.

By Q3 2025, however, the picture had brightened considerably. A strong summer travel season, rising domestic fares during peak periods, and steady improvements in capacity helped the "Big Three" return to collective profitability for the first time in a year. Air China, China Eastern, and China Southern all posted quarterly profits, supported by improving operational efficiency and recovering international traffic – now roughly at 85% of pre-pandemic levels, though certain long-haul markets such as North America remained deeply reduced. China Eastern delivered notable gains in operating income and net profit relative to the previous year, reflecting the strength of the turnaround.

Looking into 2026, analysts are cautiously optimistic. The strong third-quarter performance helped the major carriers achieve their first profitable nine-month stretch since the pandemic, signalling that structural recovery is underway. Still, challenges remain: domestic oversupply continues to depress fares during off-peak seasons, economic growth in China is slower than in previous years, and continued international frictions constrain recovery on key long-haul routes. Even so, with improved liquidity profiles, supportive travel policies and gradually strengthening outbound and inbound demand, Chinese airlines appear to be entering a more stable – if still delicate – phase of financial recovery.

BOC Aviation's Steven Townend notes strong growth across Asia. "A number of those planes we have been taking out from those [more troubled] parts of the world have been placed with Asian customers that are looking to expand because they are seeing strong economic growth." He also highlights the reopening of direct passenger links between China and India as a major positive development. "We have not had those direct links for five years – remarkably between the two largest populations on the planet – but those have restarted again. In the longer term for aviation, that is a very strong positive."

Although the China-India direct routes have resumed, there are severe limitations on routes between China and Japan due to escalating tensions between the two countries. All flights on 46 China-Japan routes were cancelled between late December 2025 and early January 2026, and Chinese airlines have been instructed to extend reduced Japan service until March 2026. Some major China-Japan routes (e.g., Beijing–Tokyo, Shanghai–Tokyo/Osaka) still operate, though with far fewer frequencies.

Chinese airlines are anticipating a resurgence in air travel demand however with the Big Three reported to be in late-stage negotiations with Boeing and Airbus for large-scale orders.

The resurgence in the broader Asia-Pacific region is translating into aircraft demand. Fred Browne, CEO, Aergo Capital, notes that because Asia lagged behind Europe and the US in terms of post-pandemic recovery, now that the region is fully back "online", he says "it can't be a coincidence that A330s and 777s are shooting up in value – specifically the 777-300ER (GE90) and A330-300".

Multiple 2025 aviation forecasts provide concrete evidence that the Asia-Pacific region has strong and rising demand for widebody aircraft, driven by long-haul travel growth, rapid passenger expansion in India and China, and the need for more fuel-efficient fleets. China Airlines and VietJet have both place firm orders for widebody aircraft in 2025, while IndiGo is expending its 787 fleet with leased aircraft as it waits for new aircraft to be delivered. Malaysia Airlines is also evaluating a new widebody order.

ANALYSING AIRLINE BANKRUPTCIES

Airline bankruptcies remained a persistent feature of the global aviation landscape in 2025, though they are not indicative of systemic weakness. Instead, recent restructurings reflect a combination of airline-specific vulnerabilities, lingering pandemic-era imbalances, and regional legal frameworks that vary significantly in efficiency. Across the major lessors, the consensus is clear: financial distress is both normal and expected in an industry characterised by high capital intensity, volatile input costs, and structurally thin margins.

Leading lessors emphasise that airline insolvencies are a routine element of doing business rather than a signal of broader sectoral instability. SMBC Aviation Capital CEO Peter Barrett underscores that point directly, noting that for a platform with over 170 customers, "bankruptcies are just part of the business... there are always going to be winners or losers, so it's part and parcel of doing business." He cautions against drawing broad conclusions from individual cases, stressing that the drivers of distress are rarely uniform across markets. As he explains, "it's overly simplistic to say, 'this is what happened here, therefore that's what's going to happen everywhere else.'"

Barrett attributes failures to a mix of competitive pressures, balance-sheet weaknesses, and local market dynamics, reinforcing that risk assessment in 2025 remains counterparty-specific rather than thematic.

Several of the year's high-profile restructurings have stemmed from airline-specific financial overhangs rather than current operating pressures. According to Avolon's Andy Cronin, "a common theme... is airlines which did not necessarily complete an effective restructuring during Covid... and so they carried a lot of legacy debt." These carriers entered the recovery period with unresolved liabilities, making them vulnerable once cost pressures resurfaced.

Cronin also highlights regional disparities in legal processes as a factor shaping the pace and visibility of restructuring activity. He notes that "as we head towards Asia... the restructuring process is just different... and that takes more time to work through." Despite this, overall creditor conditions remain favourable: strong demand and aircraft scarcity mean that assets emerging from bankruptcies are re-placed rapidly. As he observes, "there's such demand for aircraft that people are redeploying aircraft really quickly."

This supply-constrained environment has significantly mitigated the traditional downside risk for lessors.

While the market backdrop remains broadly supportive, structural vulnerabilities persist across multiple regions. ACG's Tom Baker points to continued fragility in certain carriers' network designs, fleet composition, and capital structures. He states that "in every part of the world, there are airlines that have fragile networks... or their fleet is too expensive... or they have the wrong fleet... [and] their liquidity is under pressure."

Baker emphasises that although some of these cases may take time to crystallise, the trajectory is clear: "It's just a matter of time before some of those will need to face the music... end of this year, next year, or... into the next year or two thereafter." Barriers to exit remain high, delaying but not eliminating the need for eventual restructuring.

The 2025 restructuring cycle is best understood as a continuation of long-standing industry dynamics rather than a new wave of systemic distress. Failures are being driven predominantly by legacy leverage, strategic misalignment, and market-specific legal or competitive conditions. With demand robust and aircraft availability constrained, the impact on lessors has been relatively benign, characterised by rapid redeployment of assets and stable credit conditions.

The sector is therefore expected to see continued – but manageable – levels of insolvency activity through 2026-27, with outcomes shaped more by individual airline fundamentals than by macroeconomic or sector-wide pressures.

FIG. 5: AIRLINES BANKRUPTCIES/CLOSURES IN 2025

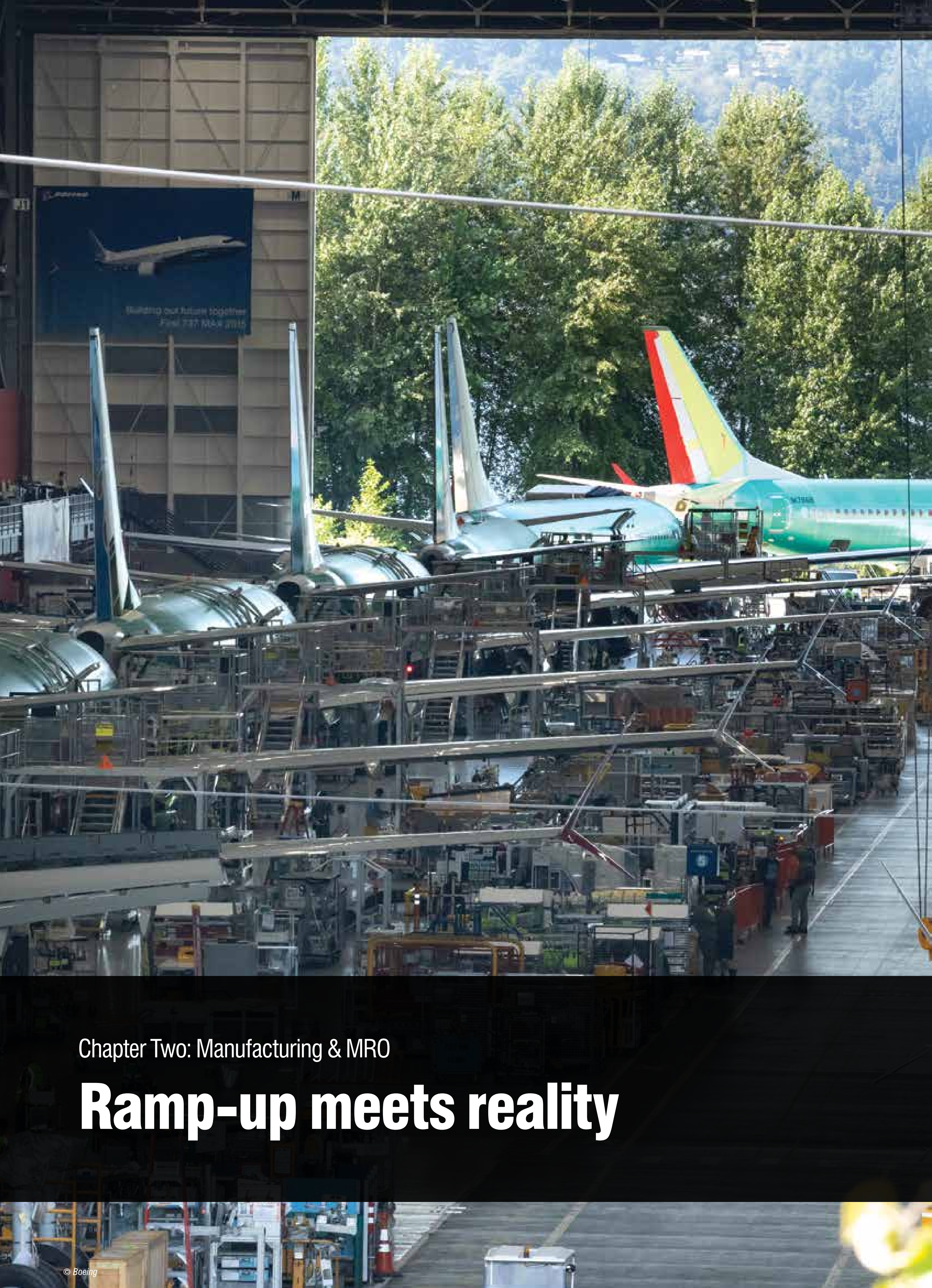
Airline	Country
Air Albania	Albania
Angara Airlines	Russia
Bees Romania	Romania
Blue Islands	Channel Islands
Braathens International Airways	Sweden
Corporate Air	USA
Eastern Airways	UK
Flybig	India
Havana Air	Cuba
Kachina Air	USA
New Pacific Airlines	USA
PLAY	Iceland
Ravn Alaska	USA
Silver Airways	USA
SKS Airways	Malaysia
SmartLynx	Latvia
Spirit Airlines	USA
Total Air Services	USA
Voepass	Brazil
Wizz Air Abu Dhabi	UAE

Source: AllPlane, Airline Economics+

FIG. 6: NEW AIRLINES IN 2025

Airline	Country
Air 001	Poland
Air Arabia Dammam	Saudi Arabia
Air Sierra Leone	Sierra Leone
Domestic Airlines	Algeria
FlyOne Asia	Uzbekistan
Magnifica Air	USA
Oneclick Airways	Georgia
Riyadh Air	Saudi Arabia
Sociedad Uruguaya de Aviación (SUA)	Uruguay
Sun PhuQuoc Airways	Vietnam
TechAir	Israel
TUS IL	Israel

Source: AllPlane



Chapter Two: Manufacturing & MRO

Ramp-up meets reality

The supply-demand imbalance that defined 2024 – captured in last year's Supply Strain report – has shifted but not disappeared.

In 2025, aircraft and engine manufacturers are finally accelerating deliveries, helped by stabilising supply chains, firmer production schedules, and renewed confidence across the upstream aerospace ecosystem. After years of bottlenecks, the long-awaited ramp-up is materialising, and the most acute shortages of new aircraft are beginning to ease, albeit slowly.

This progress is accompanied by a new set of structural frictions that continue to hold back global capacity. Maintenance, repair, and overhaul (MRO) networks remain chronically stretched, with labour shortages, parts scarcity, and turnaround delays preventing airlines from fully deploying the aircraft they already own. Compounding this, ongoing tariff regimes and cross-border trade complications have added cost, complexity, and inertia to the production and service pipelines – dampening some of the benefits of the OEM production recovery.

"Four years post-Covid, it would fair to expect the situation to have stabilised into a roughly balanced supply and demand environment," says Marc Iarchy, partner at World Star Aviation. "But that's not the case. Airlines are still having major shortfall in aircraft, which is true for both passenger and cargo, particularly on the widebody side, as well as engines. These unchanged imbalances are leading to higher lease rates, higher purchase costs and higher maintenance costs. Those imbalances are running all the way through from production to MROs to parts to pretty much the entire value chain, which is tricky to manage. We are seeing aircraft that, quite frankly, should have been retired a few years ago, having their leases extended.

As a result, 2025 is not a story of resolution but of rebalancing. The pressure is no longer driven solely by a lack of new aircraft; instead, it stems from the system's uneven recovery. Production is improving, but maintenance capacity is not keeping pace. Engines are being delivered, but shop visits remain slow. Regulatory and trade headwinds persist, pulling in the opposite direction of manufacturing momentum. Adding to those pressures is the persistent geopolitical tension and macroeconomic threat exacerbated by a global tariff war.

GEOPOLITICAL ISSUES IMPACTING OEMS

The 2025 US tariffs imposed a 25% duty on steel and aluminium (applied globally) and higher levies on components from Canada, Mexico, and China, introducing significant material cost increases for aircraft manufacturers. KBRA estimates these policies added up to $5bn annually to the US aerospace production cost base.

Tariffs have translated into more than a 10% increase in aircraft production costs, pushing up sale prices for airlines and potentially passing on to consumers. Specifically, 25% tariffs on Airbus jets threatened to impact US carriers disproportionately prior to trade agreements reached between the US and the EU.

Aircraft manufacturing relies on complex global supply chains, with many components crossing borders multiple times. Tariffs applied at each stage have further amplified total costs, disrupted procurement, and contributed to longer delivery timelines.

When the US tariffs were first announced, Airbus and Boeing faced squeezed margins or had to transfer fees to customers. Some lessors and airlines responded by reevaluating delivery schedules and contracts.

While exemptions and trade agreements provided partial relief in the short term, the added complexity has pressured OEM profitability, slowed deliveries, and caused manufacturers to rethink sourcing and pricing strategies.

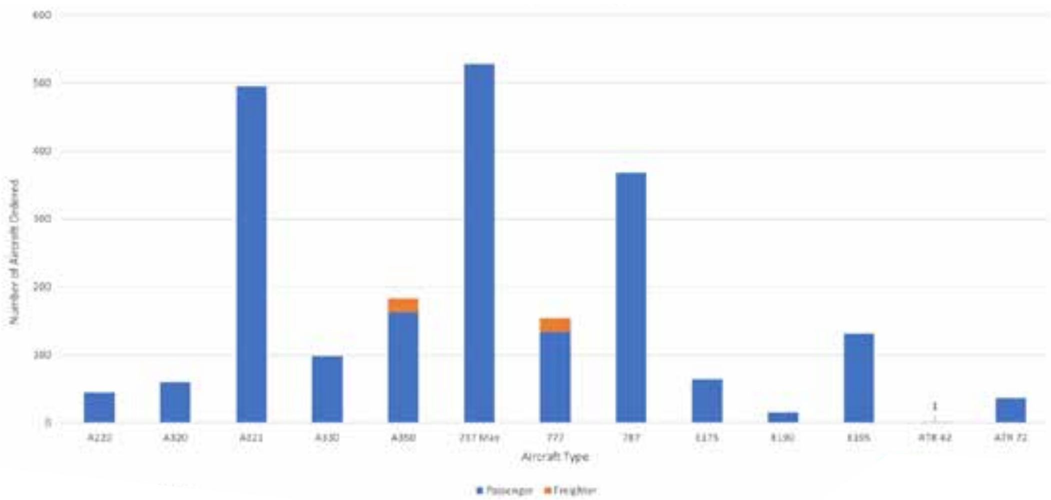
Boeing's chief financial officer, Brian West, stated that the company has been buffered against aluminium and steel tariffs by leveraging existing inventory purchased before tariffs took effect. With around 80% of its commercial-spend and over 90% of defence-spend being US-based, the firm expects minimal near-term impact. Critical materials like aluminium and steel account for just 1–2% of aircraft costs.

Boeing says it is closely monitoring supplier networks to maintain availability and prevent disruptions from tariff-sensitive suppliers. The company is also actively diversifying its supplier base – working with government authorities to explore alternative sourcing strategies, including reshoring – as a means to minimise reliance on tariff-exposed regions.

Airbus chief executive officer Guillaume Faury made it clear that US airlines would shoulder any import duties when purchasing aircraft directly exported from Europe. He asserted that Airbus would not absorb those

FIG. 7: ENGINE OEM US TARIFF EXPOSURE AND MITIGATION ACTION

Manufacturer	Reported Tariff Exposure	Key Mitigation Actions	Notable Outcomes
Pratt & Whitney (RTX)	Up to $850m hit in 2025; P&W alone lost $90M in one quarter.	Duty drawbacks, FTZs, shifting suppliers, passing costs to customers.	Significant cost pressure but expects to adjust operations; warns inflation will continue.
GE Aerospace	Approx. $500m expected loss.	Cost cutting, price increases, duty mitigation programs, supplier renegotiations.	Lobbying for tariff free regime; major exposure through CFM JV.
Safran / CFM	High exposure due to transatlantic LEAP engine supply chain.	Tariff surcharges, logistics shifts, USMCA exemptions, bonded warehouses.	Preparing for long term tariff costs; supply chain complexity increases vulnerability.
Rolls Royce	Initially at risk, but US granted engine tariff exemption.	Monitoring inflation, cost controls; transformation program.	Exemption significantly reduces risk; maintains strong trading outlook.



Source: Cirium, analysis by Airline Economics+

FIG. 8: AIRCRAFT ORDERS 2025

tariffs, stating, "When we are exporting from Europe to the United States, that's an import for the customers... it's on them." Consequently, airlines like Delta and American had refused to pay these extra costs.

Airbus benefits from substantial US production capacity – its Alabama facilities for A220 and A320 jet assembly. Aircraft substantially built in the US are exempt from import tariffs, even if some parts are sourced abroad. Faury emphasised that Alabama exports incur no additional import duties.

Airbus also highlighted the advantages of its multi-site global manufacturing footprint – including facilities in France, Germany, China, and the US – as a hedge against localised trade barriers: "We have that flexibility" to reroute aircraft or parts to avoid tariffs.

Despite the uncertainty, Airbus has maintained its 2025 delivery target (~820 aircraft) and left its financial guidance unchanged, indicating confidence in its resilience. However, Faury cautioned that tariffs contribute to supply chain pressure, exacerbating existing issues like engine shortages (engine issues are discussed in detail below).

On the regional aircraft side, Brazilian aircraft manufacturer Embraer warned in July 2025 that tariffs threatened by US President Donald Trump on imports from Brazil could lead to US airlines paying an additional $9 million per aircraft. Trump had threatened to impose 50% tariffs on Brazilian goods, although this subsequently reduced to a proposed 10% tariff as discussed below.

The company's chief executive officer Francisco Gomes Neto reportedly said aircraft shipments to US airlines would be unfeasible and could lead to order cancellations and deferred deliveries. The US is a key market for Embraer's E175 jet, which has proven popular with regional carriers, particularly as the jet fits into the US scope clause. The CEO also reportedly said tariffs could result in a delay in Embraer purchasing up to $20bn worth of US-made parts and equipment through to the end of the decade.

On July 31, 2025, the US issued the 50% tariff order but exempted civil aircraft, engines, and parts. Embraer issued an official statement at the time noting that the exemption "confirmed the positive impact and strategic importance of Embraer's activities for the Brazilian and US economies."

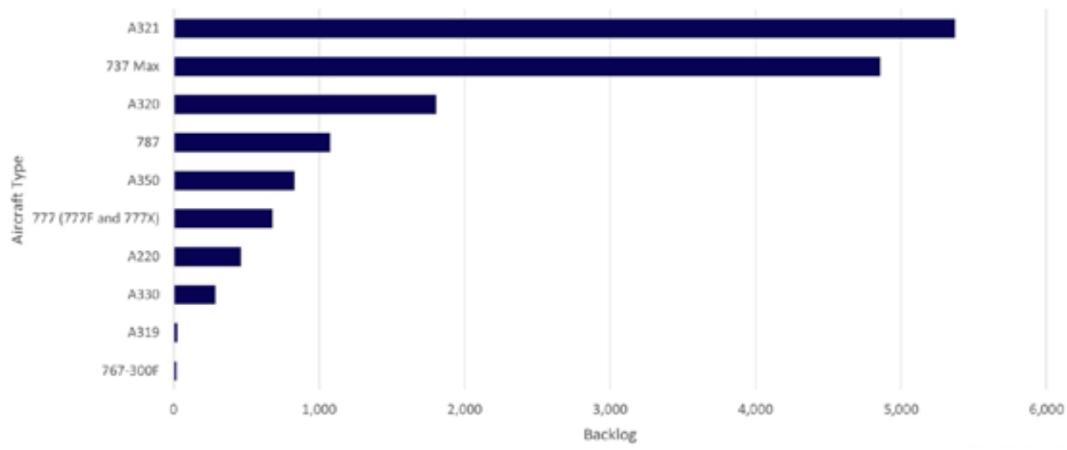
Embraer expressed relief but emphasised that it still faces the existing 10% tariff, and reaffirmed its long-standing position advocating for a return to the global zero-tariff regime for aerospace.

The company signalled that avoiding the 50% tariff prevented an existential blow but that policy uncertainty still posed risks.

In November 2025, Embraer reported solid performance in its third quarter earnings – with an adjusted EBIT margin of 8.6%, a considerable rise over the five-year average of 2.9% – however the company warned that it still expects a "relevant impact" from US import tariffs in its full year results. Speaking on the November earnings call, the company said that tariffs in the third quarter were $17 million and a total of $27 million in the year-to-date. After its first quarter results, Embraer originally said that it expects the full year impact of tariffs to be around $62 million to $65 million.

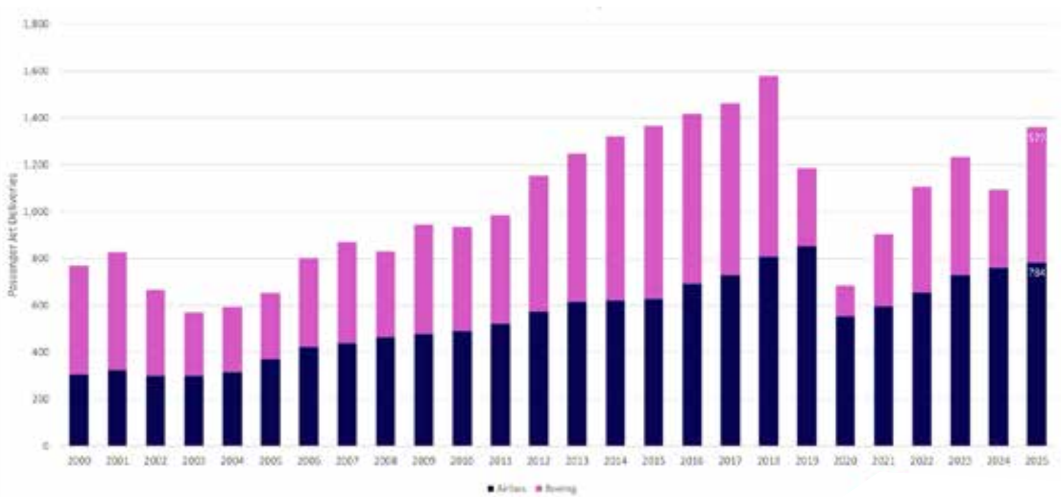
Brazil remains in trade discussions with the US, Francisco Gomes Neto, CEO of Embraer, said that he was optimistic that a deal could be done to reduce tariffs to zero on aircraft and parts. The impact on parts import into the US is particularly harmful for the regional aircraft manufacturer since it sends parts to the US for the assembly of executive and commercial aircraft that are subject to tariff payments, increasing expenses and costs for the customer to the extent it may jeopardise further orders.

For the broader industry, the initial period after the tariffs were announced created a high degree of uncertainty, which resulted in some business taking reactive steps –warehousing inventory, accelerating shipments or forward ordering – but this faded as the situation stabilised and contra trade agreements and exemptions were agreed. However, the broader



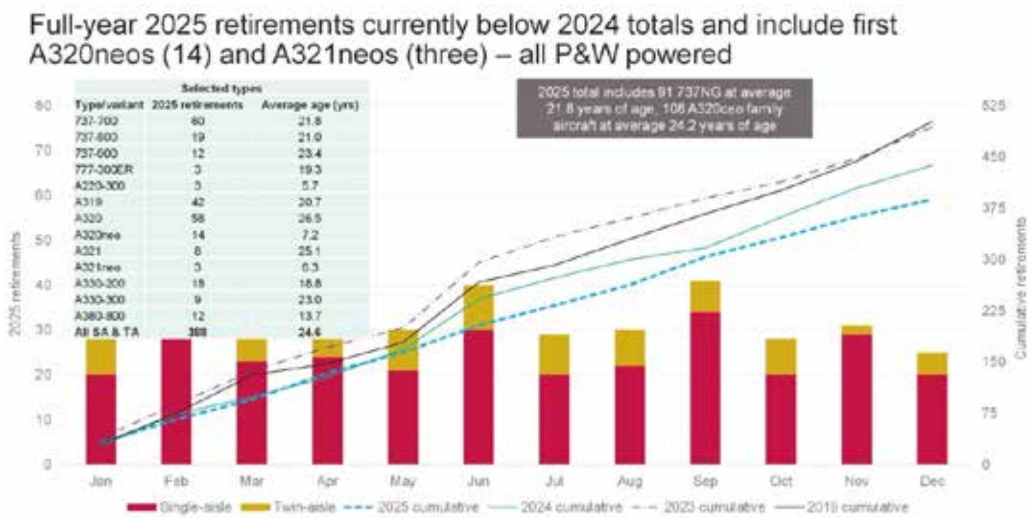
Source: Cirium, analysis by Airline Economics+

FIG. 9: ORDER BACKLOG



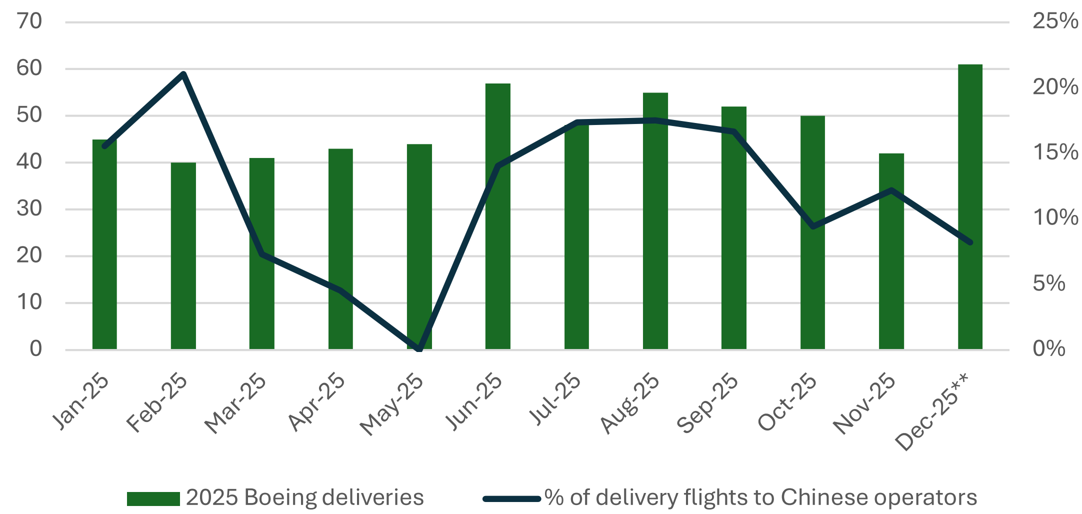
Source: Cirium, analysis by Airline Economics+

FIG. 10: AIRCRAFT DELIVERIES (BOEING & AIRBUS)



Source: Cirium, analysis by Airline Economics+

FIG. 11: AIRCRAFT RETIREMENTS



Source: Airline Economics+

FIG. 12: BOEING 2025 DELIVERIES (BY FIRST FLIGHT)

implications, specifically higher costs in the US, may have contributed to the fall in travel, particularly in the low cost segment. But Avolon CEO Andy Cronin surmises that the entire incident may have created a tail wind for Boeing. "Aviation has reinforced its importance as the US is its biggest exporter and is exempt from tariffs," says Cronin. "It's probably also been a bit of a tailwind for Boeing, where a lot of countries and businesses have been keen to show their willingness to take large ticket assets as part of their managing their own trade balances with the US. These transactions are very large scale and attract political attention and support. We have seen that when politicians go to visit one another, that's when these large scale aircraft orders are announced. There has been plenty of that activity this year."

The UK Government announced a trade deal with the US on May 8 that agreed to scrap tariffs on Rolls-Royce engines and hinted at a large Boeing purchase. The next day, IAG announced an order for 53 Boeing aircraft comprising 32 787-10 aircraft powered by GEnx engines for British Airways, as well as 21 A330-900neo aircraft powered by Trent 7000 engines. The trade agreement included an exemption of Rolls-Royce aero engines from the baseline 10% tariffs on British goods. In response, CEO Tufan Erginbilgic, described the exemption as "truly significant" saying it would help keep Rolls-Royce cost-competitive in the US market.

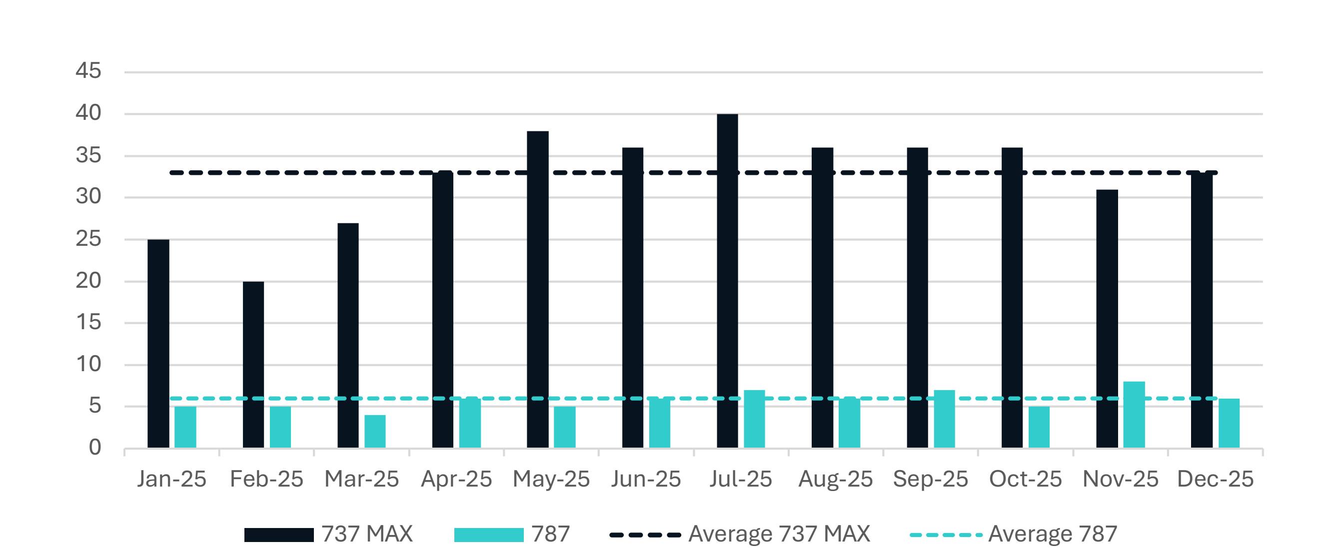
During a US state visit to South Korea, Korean Air announced a 103 Boeing aircraft order with GE engine deal again as part of bilateral trade discussions. As part of its deal, Japan placed an order for Boeing aircraft, with Malaysia, Indonesia and Cambodia including Boeing orders in their trade agreements. Boeing's influence in geopolitical agreements continues to shape order flows, while Airbus orders are shaped more by geopolitical constraints than diplomatic trophies and the European manufacturer has maintained strong traction in Asia and the Middle East.

Although Rolls-Royce is benefitting from a tariff exemption, other aero engine manufacturers are suffering from the burden of US tariffs. Industry analysis indicates that the US tariff regime heavily burdens companies whose components cross borders multiple times. This impacts engine and airframe manufacturers significantly because they often use imported parts on equipment that is assembled elsewhere and then delivered once completed across borders.

Pratt & Whitney, part of RTX, warned that US tariffs could cost the company approximately $850 million in 2025, even after mitigation measures. The company indicated that it was

"Aviation has reinforced its importance as the US is its biggest exporter and is exempt from tariffs. It's probably also been a bit of a tailwind for Boeing, where a lot of countries and businesses have been keen to show their willingness to take large ticket assets as part of their managing their own trade balances with the US. These transactions are very large scale and attract political attention and support."

Andy Cronin, Avolon



Source: *Airline Economics+*

FIG. 13: BOEING 2025 PRODUCTION (BY FIRST FLIGHT)

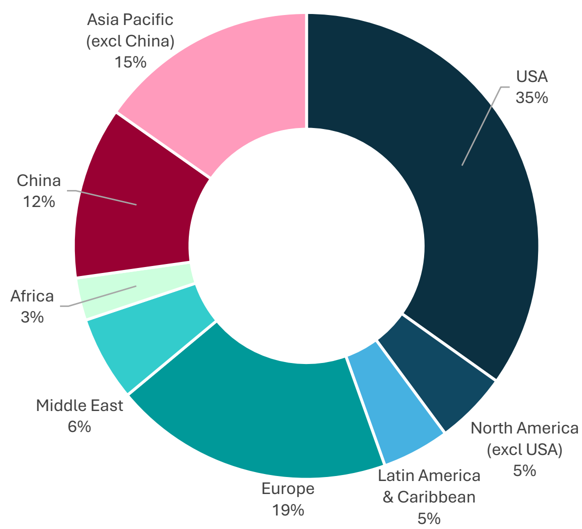
working on a series of such measures that included: using duty drawbacks, free-trade zones (FTZs), and temporary imports under bond, as well as passing some tariff costs to customers, sourcing inputs from alternative suppliers and shifting production where feasible.

Pratt & Whitney specifically has seen profit impact, losing roughly $90 million in the third quarter 2025 due primarily to to tariffs.

GE Aerospace anticipates a $500 million tariff impact in 2025, prompting a wide set of defensive measures similar to P&W such as cost-cutting and price increases, leveraging FTZs and duty-drawback programs, as well as working with suppliers to adjust cost-sharing where contracts allow.

Safran leadership has emphasised that the LEAP engine supply chain crosses borders multiple times – for example, LEAP-1A core modules move between France, the US, and Mexico, making the engine particularly vulnerable to tariff friction.

In October 2025, Safran CFO Pascal Bantegnie commented that the company expects the net impact of US tariffs to be no more than €100 million per year.



Source: *Airline Economics+*

14: BOEING 2025 DELIVERIES BY REGION

DELIVERIES INCREASE, SLOWLY

On January 12, 2026, Airbus reported 793 commercial aircraft deliveries for the full year 2025, a 3.5% increase over its 2024 total of 766. The number of deliveries was broadly in line with the company's guidance after it was revised down in December 2025 from 820 previously.

Despite persistent supply-chain constraints and uncertainty over tariffs, particularly in the first half of the year, the European airframe manufacturer maintained stable output compared to 2024, with modest gains in A220 production.

The bottom line is that Airbus has managed to meet its 2025 target, which is no small feat considering that at the end of the first half of the year some 60 aircraft were at facilities awaiting engines. This number is now considerably lower, according to Christian Scherer, outgoing CEO of the commercial aircraft unit.

In early January 2026, Scherer said that although supply chain challenges were easing, uncertainty over engine deliveries remains. He said that negotiations between Airbus and Pratt & Whitney were ongoing over the supply of geared turbofan (GTF) engines in 2026, but he indicated that agreements with other engine suppliers were "under control". RTX, parent company of P&W, has not commented on the claims.

Airbus ended 2025 with a record backlog of 8,754 aircraft. Scherer confirmed Airbus single aisle production rate at 75 aircraft a month. He also expected issues with fuselage supply from Spirit AeroSystems would now resolve with manufacturing brought in-house for the A350.

While Boeing has not issued a single formal public delivery target number for 2025, Boeing delivered 600 aircraft last year.

Both of Boeing's main commercial platforms, the 737 and the 787, have showed strong improvements in production as measured by the first flight (see Figs. 12 & 13). Gary Crichlow, appraisals valuations & lease rates team leader at *Airline Economics+*, notes that the manufacturer measures "production" after it passes a particular stage in the assembly process. Because this is not visible to third parties, an aircraft's first flight is used as a proxy.

Overall, Boeing figures shows the company managed an average 2025 monthly production rate of 33 737 MAX and six 787s. Boeing was granted permission to increase production for the 737 MAX to 42 airplanes per month in October 2025, and the company is expected to increase production every six months by increments of five airplanes. Production for the 787 aircraft is set at seven per month, increasing to eight per month "in the near future" according to CEO Robert Ortberg on the third quarter earnings call.

Boeing has not commented on engine delays impacting production rates but it has confirmed issues related to delays in fuselage shipments from the former Spirit AeroSystems facility to Boeing's final assembly lines.

Boeing is ramping up production, however, and once the MAX 10 is certified – expected in 2026 – the company will open a fourth line in Everett exclusive to the larger model, with a target of 23 aircraft a month. Based on this trajectory, Boeing is targeting monthly production rate across all types of 84 airplanes. Certification of the 737-7 is also expected this year.

Certification of the 777X has been delayed several times and Boeing does not expect the first delivery of the aircraft to occur before 2027.

SPIRIT AEROSYSTEMS SALE

In 2025, Spirit AeroSystems, an independent aerostructures supplier, was effectively dismantled and absorbed by key suppliers Boeing and Airbus. After years of quality issues, financial strain, and regulatory scrutiny, Boeing moved to re-acquire the parts of Spirit that primarily served its aircraft programmes, while Airbus purchased the Spirit sites tied to its own production lines.

Boeing closed its $4.7bn takeover of Spirit's Boeing-related commercial operations on December 8, 2025, bringing fuselage, wing, and structural component production for the 737 MAX, 767, 777, and 787 back in-house. At the same time, Airbus completed its parallel acquisition of Spirit facilities involved in producing A220 wings, A350 fuselage sections, and other Airbus components across the US, UK, France, and Morocco. Airbus also received $439 million in compensation as part of the asset transfer.

2025 marked the end of Spirit AeroSystems as an independent company, nearly twenty years after its 2005 spin-off from Boeing. The dismantling and sale of the company represents the most significant restructuring of the global aerospace supply chain in two decades.

Boeing has gained firmer control over long-troubled fuselage and structural production.

Airbus has secured its supply chain, preventing dependency on Boeing and maintaining competitive balance.

The moves reflect a broader industry trend: in an era of safety scrutiny and production pressure, the major OEMs are pulling critical manufacturing back inside their own walls.

In November, Embraer CEO Neto said that the company had been moving forward more rapidly in achieving productivity gains. He claimed that production level initiatives led to a 16% increase in aircraft deliveries this year. "From 2026 onwards, we expect even greater production stability in all product lines," he said. "We have achieved important improvements such as reducing the production time of Praetors by 40%, KC-390 by 33% and E-Jets by 27% compared to 2021 levels, more production with lower work in progress."

He went on to cover investments in new and expanded facilities at key locations along with the transformation of the company's supply chain through supply chain management 2.0, which integrates digital technologies, proactive risk management and the deployment of artificial intelligence for smarter planning and forecasting.

ENGINE SHORTAGES

At the start of this year, Embraer confirmed that it had delivered 78 commercial aircraft in 2025, placing the company just inside its forecast range of 77–85 aircraft. The total represents a modest increase over the 73 commercial aircraft delivered in 2024, reflecting steady but constrained growth amid ongoing supply-chain challenges.

In September 2025, Embraer confirmed that it was experiencing E175 production delays caused by CF34 engine shortages, creating fulfilment delays and adding to its already large backlog. Airbus has also been vocal in engine shortages delaying its own delivery schedules and enhancing its order backlog.

GE Aerospace said in April 2025 that it expected lower engine deliveries for the year due to parts shortages and slower material inputs, noting that LEAP shipments had fallen 13% year-over-year, affecting 737 MAX

> "Four years post-Covid, it would fair to expect the situation to have stabilised into a roughly balanced supply and demand environment. But that's not the case. Airlines are still having major shortfall in aircraft, which is true for both passenger and cargo, particularly on the widebody side, and engines. These unchanged imbalances are leading to higher lease rates, higher purchase costs and higher maintenance costs. Those imbalances those imbalances are running all the way through from production to MROs to parts, throughout the entire value chain, which are difficult to manage."
>
> *Marc Iarchy, World Star Aviation*

and A320neo programs. The company also noted that new tariffs were disrupting supply chains threatening to slow deliveries even further. GE's CFM partner Safran confirmed it was taking actions to mitigate tariff-related cost pressures while also confronting LEAP engine production bottlenecks, acknowledging the impact on Airbus and Boeing.

However, in its third quarter earnings call in October, Safran CEO Olivier Andriès said that output had continued to improve: "Regarding LEAP engine deliveries, output has improved quarter after quarter this year," he said. "After a slow start, we have been able to catch up on delays. And in Q3, we reached a new record with over 500 LEAP engines delivered, up 40% year-on-year and 25% from the previous quarter. Over the first nine months of the year, we have delivered a total of 1,240 LEAP engines, a 21% increase compared to last year. These strong results also reflect continued improvements across our supply chain."

Safran confirmed that the company delivered 511 LEAP engines during the third quarter of 2025, up 40% year-over-year and up 25% sequentially.

P&W said that its deliveries of commercial engines grew by 6% in the third quarter thanks to "positive production trends". RTX chair and CEO Christopher Calio said on the October earnings call that overall, the company "feels pretty good about how we've executed this year and supported the production ramps for all the aircraft OEMs. We're going to continue to work very closely with Airbus to make sure that they have what they need down the stretch of the year, while also continuing to balance the allocation of material because we've got to continue to support the fleet."

Throughout 2025, the dominant MRO challenge remained the contaminated powder-metal defect discovered in certain high-pressure turbine and compressor parts across the PW1000G fleet. The recall and powder-metal inspections continued to be disruptive, leading to persistent AOG (aircraft on ground) levels and demand for spare engines outpacing supply.

The global GTF MRO network initially struggled to service the GTF workscope but by the end of last year, P&W confirmed that MRO output had increased by 20%. Material flow improvements enabled record levels of "Gate 3" shop visit reassembly starts, helping achieve the targeted 30% MRO output growth for the year. Gate 3 is P&W terminology for the stage in an engine shop visit where the engine is reassembled after teardown, inspection, and repairs.

RTX CEO Calio was optimistic in October on the progress made here: "Exiting the third quarter, this material flow has supported a record high number of PW1100 Gate 3 starts, which is where we reassemble engines during a shop visit, putting Pratt in a position to deliver about 30% MRO output growth for the year. And across the company, we continue to focus on increasing critical manufacturing capacity to support growth, including investing over $600 million this year in expansion projects."

However, the situation continued to be hampered by surge inspections, earlier-than-planned heavy overhauls, and shortages of critical full-life parts, which kept the MRO network strained. Heading into 2026, P&W expects PW1000G-related groundings to average around 150 aircraft per day through the end of the year.

The continued pressure for parts for the GTF MRO workscope has been balanced by the company with the need for parts for new engine deliveries. The delays experienced by Airbus and Embraer suggest this balance is still some way off and will remain so into the next two years while the maintenance work is completed.

STRAINED MRO SHOP CAPACITY

Strained MRO engine-shop capacity is affecting the entire aviation ecosystem – from manufacturers racing to ramp up production and resolve entry-into-service problems, to airlines waiting on delayed aircraft deliveries and engine repairs for grounded jets, and lessors struggling to secure transition slots. "The engine reliability issues are adding a whole new level of complexity for airlines," says James Meyler, CEO of ORIX Aviation. "They're influencing decisions to retain existing and current-generation aircraft longer, contributing to more grounded aircraft, and even preventing agreed aircraft sales from completing because the engines are stuck in shops. Airlines are losing revenue on aircraft that can't fly, and while lessors benefit marginally from longer on-wing times, the broader market is extremely challenging – especially as full engine shops also delay overhauls of established types like the CFM56 or V2500. It's having a profound effect on the industry that isn't good for anyone."

Steven Townend, CEO of BOC Aviation, agrees that the shorter-than-expected time on wing for new engines is putting significant stress on the system. Airlines now need "twice as many spare engines as they did previously," forcing OEMs to divert production capacity toward spares instead of engines for new-aircraft deliveries. This in turn requires airlines to invest far more capital into their fleets, prompting lessors like his to step up engine financing to fill the gap. Townend expects these pressures to persist for "probably… two years," noting that the situation "doesn't feel like it's easing as quickly as we had expected," especially as events like the Spirit Airlines bankruptcy push additional aircraft into the market requiring immediate overhauls. The result is even greater strain on already limited global overhaul capacity.

Meyler does not expect the situation to improve until the GTF powder-metal issue is fully resolved – a process unlikely to conclude before 2027-28. He explains that by the late-2020s, the GTF fleet should have largely completed the required inspections and rework, allowing engines to return to normal, scheduled shop-visit cycles instead of today's wave of unplanned removals. He notes that time-on-wing performance appears to be improving, and points to past experience – such as the evolution of the V2500 from early challenges to a highly reliable engine – as evidence that both Pratt & Whitney and CFM have a track record of refining engine variants over time. By 2027–28, he expects the GTF to similarly stabilise, with improved durability and regularised maintenance intervals replacing the current period of heavy disruption.

Even though production struggles to keep pace with global narrowbody demand, new-generation powerplants such as the LEAP and GTF remain central to any long-term growth strategy. As Jeff Lewis, CEO of Hanwha Aviation, explains, "to grow an engine leasing business long term, you have to be looking at LEAP, GTF and… future propulsion systems that will be developed."

Lewis acknowledges that both major narrowbody engines have endured significant technical setbacks in their early years, but he is clear that these issues are being addressed. "My belief is that the technical challenges that the LEAP and the GTF have experienced… the OEMs are well underway to resolving those issues."

Richard Hough, CEO of elfc, agrees that the manufacturers are getting on top of the issues, and the engines are becoming more durable, but he says that the improvements are coming too slowly. "The challenge is the sheer scale of the fleet – after nine years in service for the LEAP and GTF families, there are huge numbers of engines that need upgrades, and it takes a long time for improvements to work through the system."

For Lewis, the current difficulties do not undermine the inherent design strengths of these engines. In particular, he is emphatic about the GTF architecture: "The GTF is an amazing platform… the challenges that they have faced really have nothing to do with the architecture of the engine."

He stresses that geared-turbofan technology itself is proven, scalable, and well positioned for further refinement as manufacturers continue to invest in durability improvements and materials-based fixes.

Industry experts expect derivatives and mid-life upgrades on both GTF and LEAP engines. Engine manufacturers are already forging ahead with improvements. Pratt & Whitney's GTF Advantage is the next evolution of the geared-turbofan family, offering higher thrust, improved fuel efficiency, and a significantly more durable hot section. The engine received FAA type certification in early 2025 and was subsequently validated by EASA on October 16, 2025, clearing the way for its entry into service later this year. Designed as an interchangeable and intermixable upgrade to the current GTF, the Advantage delivers 4% more

"The challenge is the sheer scale of the fleet – after nine years in service for the LEAP and GTF families, there are huge numbers of engines that need upgrades, and it takes a long time for improvements to work through the system."

Richard Hough, elfc

takeoff thrust at sea-level airports and up to 8% more at high-altitude airports, alongside meaningful gains in time-on-wing thanks to a redesigned hot section.

Hough expects that most of the benefits from the new GTF Advantage – around 90% – will be retrofittable to the in-service fleet. He says: "The big focus is on reliability and durability, with only modest fuel-burn improvements."

The latest-technology engines run hotter, with smaller cores, so their time-on-wing is naturally shorter, which most expect to remain a structural feature of this generation of engines.

Fred Browne, CEO of Aergo Capital, says that the GTF Advantage engine will be the real test as to whether the engine programme has significantly moved on from the issues with the current model. "The differences include a number of redesigned life-limited parts and technology enhancements throughout the gas path," he says. "The new design is more durable, with increased core airflow to reduce operating temperature and a state-of-the-art hot section to increase time on wing. The HPT will include advanced airfoil designs and improved coatings. The HPT and combustor will also feature cooling system improvements. The Hot Section Plus (HS+) retrofit for the GTF, which can be incorporated into a shop-visit will largely determine the future success of the engine programme."

ASSESSING THE IMPACT

Engine availability, durability and MRO bottlenecks have become the single most important determinant of commercial decision-making across the aircraft leasing sector. As Tom Baker, CEO of Aviation Capital Group, explains, the industry's operational flexibility has narrowed dramatically: "It's really starting to influence our degrees of freedom and our decision making."

Baker points to the Spirit Airlines bankruptcy as a particularly stark illustration: "As those aircraft get rejected or become available, one's ability to get them back into service depends on the status of the engine – whether there is powder-metal exposure, whether they're run-out, and if so, when can you get a slot at an MRO facility? How long does it take to wait for that spot? And then how long is the turnaround time?"

In his view, the engine no longer simply influences commercial outcomes – it dictates them: "Commercial decisions are determined almost entirely by the engine… it's becoming the tail that wags the dog in many of the situations we're looking at."

This constraint applies across the lifecycle: during aircraft transitions, in forward placements, and particularly when deploying new-technology engines into high-temperature or harsh operating environments. Baker notes that smaller airlines without comprehensive maintenance cover are especially exposed: "Unforeseen engine off-time or maintenance costs can put them in a very challenging situation."

Aengus Kelly, CEO of AerCap, highlights the critical importance of sophisticated engine knowledge – and negotiating power within the MRO ecosystem. He stresses that the stakes are enormous: "If you are overhauling a widebody engine, the potential cost outcomes can range from $27 million to $42 million – these are the actual figures involved. Yet some operators lack the requisite expertise to manage such a process. When an MRO shop recognises this lack of knowledge and expertise, the consequences can be significant – the operator may lose millions without even realising it."

For Kelly, deep technical capability is no longer an optional investment; it is essential risk mitigation: "In the engine world, you need experts in each engine type. That's a lot of cost and SG&A, however you need the knowledge, the infrastructure, and the ability to argue every blade, every element of a performance restoration."

Beyond expertise, scale and influence with MROs are critical. Kelly is blunt about how engine shops prioritise customers: "The question is: do you have the heft to secure slots when an engine comes off wing? If you're a nobody, the shop may say, 'We're just not interested.' Stick your engine in the corner and we'll see when we get to it."

The consequences of lacking this leverage are severe: "You may see your engine sit for six months waiting even to go into a shop. Then it gets disassembled and left at the modular level with no parts available. In such circumstances, you're at the shop's mercy, and the costs can become extraordinary."

In Kelly's view, this is where value is truly created or destroyed: "People get fixated on purchase price or lease rates. In reality, a few thousand dollars on the lease rate is immaterial if I can move an engine through the shop on time, on spec, and within budget. That's worth millions."

He emphasises that airlines must internalise the operational and financial consequences of every engine cycle they burn, warning: "Every cycle has to be worth it. If they're making $2,000 or $3,000 on a cycle, they probably shouldn't fly it – certainly not on a marginal route. Three years later, when that engine goes into the shop, they'll regret burning cycles for de minimis profit."

Asked whether the current engine environment is a temporary dislocation or a structural shift, Kelly is unequivocal: "I think it is the new normal."

While performance improvement packages (PIPs) from CFM, P&W and Rolls-Royce will bring incremental gains in durability, the fundamental constraint – global scarcity of castings and forgings – will not ease soon: "There are only so many foundries in the world, and they're not going to expand. The industrial payback on that kind of expansion is 20-30 years. So parts manufacturers tell the OEMs: you decide where the parts go – new engines, spares, or the MRO network."

This structural scarcity also shapes fleet-planning decisions, with operators reassessing exposure to harsh environments: "Flying into harsh environments significantly shortens engine life. If you can avoid it, you should," advises Kelly.

Given these pressures, Kelly notes that demand for older-technology engines – less durable but far more predictable – has remained extremely strong for three years and shows no sign of easing.

Javier Meireles, chief executive of Carlyle Aviation Partners, says that ongoing engine issues continue to be a meaningful area of focus for the company during portfolio management and underwriting assumptions. But he adds, it also provides opportunity to "work creatively" with airline customers to offer solutions to help mitigate some of these challenges. "Hundreds of aircraft remain grounded and we believe shop-visit capacity will continue to be tight allowing us to continue to leverage one of the core competencies of our platform," he says.

BALANCING DEMAND

Aircraft and engines remain in high demand as airlines seek to ramp up capacity to capitalise on the rising passenger traffic in almost all regions. The years since Covid have dampened production, and the recovery has taken much longer than anticipated due to a matrix of factors, geopolitical events, raw material and labour shortages, manufacturing issues, regulatory constraints, inflation and higher costs to name a few. However progress has been made in 2025, with production constraints easing and deliveries increasing. The recovery is still too slow for airlines seeking additional lift but it has assisted aircraft lessors as heightened demand pushes up lease rates and extends the useful lives of older equipment. As OEM customers, however, lessors too are feeling the pain of delayed deliveries of new technology airplanes.

"[Aircraft production] has improved," says AerCap's Kelly. "Production has certainly improved but we're still a long way from where the airframe OEMs would like to be. It's extremely challenging for OEMs to increase production while maintaining the level of quality required to pass the stringent certification standards necessary for an aircraft to operate safely at 40,000 feet with 200 people on board."

In late 2025, Airbus was forced into an unprecedented global software recall affecting roughly 6,000 A320-series aircraft, after a serious flight-control data corruption issue was traced to intense solar radiation. The problem came to light following an October 30 incident in which a JetBlue A320 experienced a sudden altitude drop, prompting regulators in the US and Europe to mandate immediate reversion to an earlier software version. Airlines faced worldwide disruptions as carriers rushed to apply urgent patches, causing cancellations across major hubs during peak holiday travel periods. Airbus has since reported that the "vast majority" of aircraft have received the required updates, though fewer than 100 still required modification at the time of the announcement. The episode exposed weaknesses in real-time software validation and fleetwide update coordination.

Compounding the software crisis, Airbus also identified a supplier-related defect in metal panels used on the upper fuselage of certain newly produced A320-family aircraft. These issues, discovered during inspections, were traced to inconsistencies at specific supplier facilities and prompted Airbus to initiate precautionary checks across the fleet. While the company emphasised that only a limited number of aircraft were likely to require corrective work and that the affected panels posed no immediate safety risk, the discovery forced temporary production slowdowns and triggered declines in Airbus's share price.

Airbus has stated the manufacturing flaw has been contained, with all newly produced panels meeting updated quality standards. Nonetheless, the dual impact of software problems and fuselage panel inspections raised industry concerns about quality control during Airbus's rapid production ramp-up.

Across the industry, leaders broadly agree that while aircraft deliveries are improving, the global aerospace production system remains fragile, structurally more complex than before the pandemic, and still vulnerable to supply-chain and engine-related shocks.

AerCap's Kelly is blunt about the uneven quality seen on new-aircraft deliveries. "We take delivery of approximately 90 aircraft a year, so we see a broad range of issues," he says. "Sometimes we have had to accept aircraft without seats. In other instances, the avionic systems have not met the required standard, or for example on a delivery flight there was loose piping on board, which resulted in flooding."

For Kelly, these examples point to the real systemic concern: "The biggest challenge for OEMs relates to maintaining quality as they ramp up production. The question is whether they can uphold those quality standards. If regulatory authorities begin to doubt their ability to maintain quality, they will come down on them like a tonne of bricks."

Peter Barrett, CEO of SMBC Aviation Capital, echoes that view, arguing that the industry is now in a "two-steps-forward, one-step-back" environment. "You've seen that with challenges at Airbus [with the software issue]," he notes. "It's another bit of grit in the system." More fundamentally, Barrett believes the idea of returning to pre-Covid normality is


Photo credit: Adrien Daste / Safran

misplaced. "The world has changed. The technology has changed. The complexity of what the manufacturers are doing, the scale of what they're trying to do has changed. I don't think we're ever going back to the way it was."

He adds that disruptions will remain a structural feature of the sector: "It's a bigger, more complex system, and that's going to have an impact. We will always have system events, supply-chain issues or technical issues that will have an impact. It is improving, but it's not going to be overnight." Barrett highlights that while Boeing's airframe production has stabilised and "the quality is better coming out of Seattle," the industry still faces "significant challenges on the engine side" driven not just by technology but by "the availability of trained people, the shops and the physical infrastructure."

Avolon CEO Andy Cronin similarly underscores the complexity of the modern supply chain. "Every single day, Airbus receives three million parts – that's what it takes to keep that factory running," he says. The pandemic-era collapse and subsequent rapid ramp-up created inevitable instability.

Cronin sees two continuing bottlenecks: long-lead-time engine components upstream, and short-notice cabin certification issues downstream. "On the engine supply, you can get good visibility years out," he explains. "But seats and certification remain a highly stressed situation, and that tends to bite very late in the process. From an airline's perspective, that is much more damaging."

Safran CEO Olivier Andriès confirmed in the company's third quarter earnings call in October 2025 that seats remain an industry-wide headache. "This is an area where we had many, many challenges," he said. "We have addressed the supply-chain issues and it has improved significantly, but we are still facing certification challenges – this is an industry-wide challenge."

The Buyer Furnished Equipment (BFE) bottleneck is constricting lessors from efficiently transitioning aircraft. DAE's CEO Firoz Tarapore says that the company needs to be "super thoughtful about how to transition aircraft" since rather than previously turning around the aircraft in a few months, slot constraints now need to be booked nine to 12 months in advance, "maybe even more" he says.

From a delivery-performance standpoint, BOC Aviation's Steven Townend sees clear progress: "Planes are arriving on time from both manufacturers, and that is materially different to where we were earlier in 2025."

Tom Baker, CEO of Aviation Capital Group (ACG), agrees that Boeing has made real strides: "Boeing is really starting to get their mojo back. They're delivering on time and with higher fidelity –very few quality escapes." But he stresses that Airbus's aggressive push toward extremely high production rates "is still causing fragility in the system. Their aircraft are late."

Crucially, Baker warns that even when airframe output stabilises, engine reliability will remain the binding constraint: "The engines are really wreaking havoc on the ability for airlines to operate aircraft for predictable periods of time without disruption and unforeseen cost. Even when you catch up on the supply of aircraft, until the engines become more stable and predictable, airlines will continue to need bridging aircraft and more reliable current-technology lift."

Gus Kelly shares that assessment. "The MAX 8 is an excellent aeroplane," he says, "but airlines need fleet commonality to operate profitably." Without the certification of the MAX 10, and with the777X still awaiting approval, Boeing's challenges are primarily regulatory. Airbus, by contrast, faces a different dilemma: maintaining quality while driving production to unprecedented levels. "It's a fine line they're walking," Kelly says. "They have committed to exceptionally high levels of output on the assumption that they can produce more than 70 aircraft a month. The question is whether they can maintain quality standards as production continues to ramp up. That remains the critical uncertainty."

Across leasing leaders, the consensus is clear: production is improving, but unpredictability –especially around engines – will remain a defining feature of the landscape through the end of the decade.

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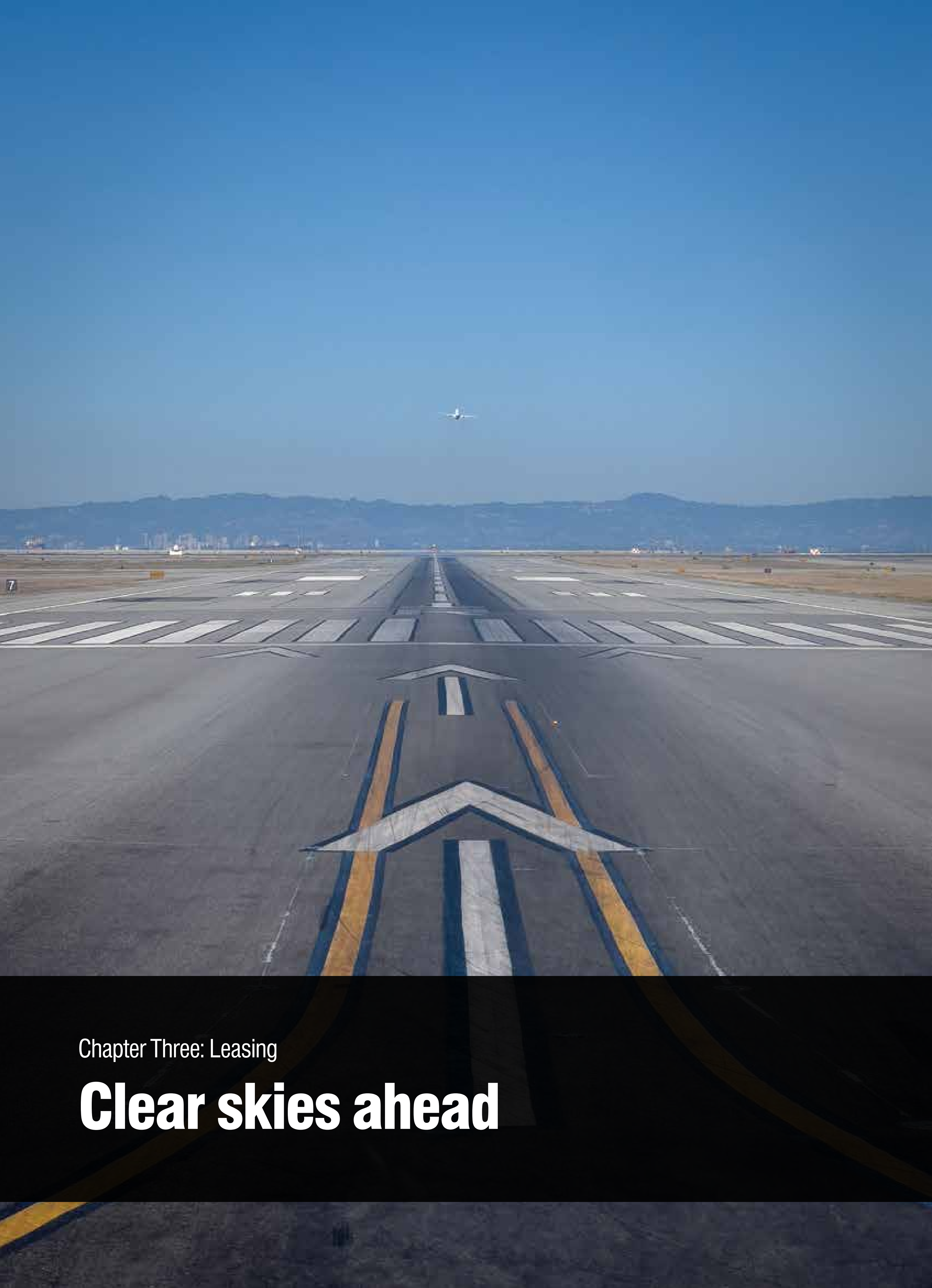

Chapter Three: Leasing

Clear skies ahead

2025 marked a pivotal shift in aircraft leasing fundamentals: lease rates strengthened across key segments, OEM deliveries resumed after prolonged disruptions, and sustained passenger demand reinforced lessors' strategic positioning.

Aircraft leasing companies have been gaining strength in the years following the pandemic and, with aircraft demand remaining elevated, 2025 has been another strong year for the sector. The main driver of that strength, as always, begins with the airlines. Airlines around the world, with only a few exceptions, have performed strongly this year even in the face of rising costs and geopolitical tensions (see Airlines Chapter for more detail).

STRENGTH OF AIRCRAFT LESSORS

"The airline market is in a pretty good place," says Peter Barrett, chief executive officer of SMBC Aviation Capital. "It has been such a turbulent and dynamic five years with Covid, the war in Ukraine, and many geopolitical events, but across all of that we have seen the continued importance of air travel to consumers and the global economy. Airlines around the world are generally doing well: demand is robust, aeroplanes are full, load factors are high, and airports are busy. There are certainly cost pressures, which is the message you'll hear right across the world in a number of different dimensions, including labour costs, the cost of aircraft maintenance, and the general cost within the system – it's a theme around the world. Yields are probably under a little bit of pressure, but generally airlines are making money."

Tom Baker, chief executive of Aviation Capital Group (ACG), observes that the airline sector remains in the aftermath of the Covid bounce and has entered a "more constructive" operating environment. "Airline businesses are hard," he says. "They need to run a solid network, make the right fleet decisions, maintain a good capital structure, strong liquidity, and have a good management team. Against the generally stable, perhaps moderately positive GDP landscape, there are more idiosyncratic situations, both geographically and among operators within those geographies. You could go region by region and find some carriers doing well because they're sticking to a disciplined strategy with a good business model and strong capital structure, while others are struggling. That's what we're going to see in 2026: generally constructive, generally stable, but idiosyncratic situations everywhere, where we as lessors need to pick our spots and make judgement calls on where we want to place new risk."

GEOPOLITICAL AND MACROECONOMICS ISSUES

Geopolitical issues are omnipresent, but these past few years have seen international tensions ramp up threatening the aviation sector, the worst being the hot wars in the Middle East and Ukraine. For the most part, airlines and lessors have learned to be flexible and respond rapidly to areas of building tension to minimise risks to the business – a hard lesson learned through the global pandemic. In 2025, economic tensions arose to add to that stress, namely US tariffs and the subsequent global response.

President Trump announced the so-called 'Liberation Day tariffs' on April 2, 2025, a sweeping package of import duties aimed at countering trade deficits. The rollout marked a dramatic shift in US trade policy, triggering immediate global market reactions. US tariffs raised production costs significantly – materials and component prices jumped, aircraft prices rose, and the intricate global supply chain suffered additional delays and inefficiencies. While exemptions and trade agreements provided partial, temporary relief, the added complexity has pressured OEM profitability, slowed deliveries, and caused manufacturers to rethink sourcing and pricing strategies. (See Manufacturing and Maintenance Chapter for more on the impact of tariffs on OEMs). Despite these pressures, airlines and lessors demonstrated adaptability, leveraging lower fuel costs and diversified portfolios to offset tariff-related challenges.

Initial concerns that tariffs could exacerbate the already strained production schedule and maintenance

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>
> *Peter Barrett. SMBC Aviation Capital*

issues, acquiring and distributing parts globally for example, have been significant. However, airlines have partially offset the negative effects through lower fuel costs, allowing margins to hold steady. Air travel remains strong, supporting high lease rates and utilisation, allowing lessors to absorb cost fluctuations through new lease agreements and diversified global portfolios that naturally diffuse localised risks.

Nonetheless, lessor CEOs are under constant pressure from their shareholders regarding the impact of geopolitical issues. "On any given day, if you open the newspaper and read the headlines, you have every reason to believe that we are in a very fragile economy that somehow is about to break," comments Baker. "We have been stressing the system with the magnitude and the velocity of change and uncertainty over the past 12 months. And in a generally dynamic system, something usually breaks when it is stressed so hard and so frequently. But it has been surprisingly stable. After 'Liberation Day', we were prepared for a very soft summer, and people sailed right through it. We were trying to figure out how to manage tariff uncertainty and then we, collectively as an industry, paused. There were probably two to five weeks during late spring, early summer, where everybody paused on transactions, because nobody knew who bore those costs and even what those costs were. And then at some point, because things kept changing, people just decided to carry on as we were. From that perspective, we have learned to live with the noise in terms of managing geopolitical uncertainty or macroeconomic uncertainty, after five crazy years."

The more experienced executives are more blasé about geopolitical and macroeconomic volatility or elongated benign periods, accepting them as part of the business they have all had to learn to manage. "We have assets that move," says Baker. "We have risk models. We have three layers of structuring with every lease. And it's the discipline around those areas that allow us to manage what we can and then avoid the areas we see excessive risk."

Heading into 2026, the US action in Venezuela is impacting air travel in the country and surrounding region but it is too soon to determine the longer-term impact of the political upheaval. Once again, leasing companies will roll with the ebbs and flows of the global geopolitical mood.

"There are always pockets of issues," says Barrett in December, before the tensions in Venezuela ignited. "For example, airlines have been stopped from flying into Venezuela, and there have been some tensions between Japan and China, which may impact some travel patterns. But those things tend to be localised, and also tend to be relatively short term. I have been doing this a long time and there are always geopolitical tensions. When I started back in the early 1990s, there was the Gulf War, then there was SARS, and then came 9/11. Geopolitical events are always going to happen, and they will have an impact. But when you stand back and look at the long term, secular trend of our industry, it has been good and pretty consistent. We learned many lessons from Covid, but a really important lesson – which is one of the reasons the aircraft leasing industry and aircraft financing industry is doing so well at the moment – is that air travel comes back. Even in the worst scenario where everybody stopped flying and during Covid they were saying that people would never travel again and switch to virtual conferences etc., but that hasn't happened. Travel is an important part of human nature. Aviation is a force for good and an important economic and social driver in our societies around the world. So yes, there are geopolitical dynamics and pressures, but they are short term and the long-term prospects of the industry are good."

ROBUST AIRCRAFT DEMAND

"Shifts in global travel patterns are reshaping aircraft demand," says Andy Cronin, chief executive of Avolon. "Overall demand has been strong and we are also seeing passengers being prepared to fly for longer to different locations to maximise disposable incomes. People are travelling for longer and longer, which has led to a growth

in demand for widebody aircraft and for longer range narrowbody aircraft as well."

With the migration toward premium travel, airlines require more dual- or three-class aircraft, particularly for larger narrowbody aircraft, says Cronin. "We believe that change in demand, which is quite structural, is here for the foreseeable future and we expect to see continued migration towards these almost small, widebodies in a narrowbody tube."

Steven Townend, chief executive officer of BOC Aviation, also sees higher demand for larger aircraft. "Global aircraft demand is still strong and comfortably exceeding supply," he says. "This applies to all aircraft types, all aircraft ages. In 2024 this demand was very apparent across all of the narrowbody types, perhaps less so on all of the widebody aircraft types. In 2025, demand has been much more widebody-focused with many discussions with airline CEOs about finding additional widebody aircraft."

The risks with owning widebody aircraft opposed to narrowbody aircraft are well known – they are more expensive to buy; they have fewer potential operators globally so are more difficult to place; they need longer lease terms and are vulnerable to market cycles and global shocks; they are more expensive to transition and maintain; the secondary market is much smaller,

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leading to longer remarketing periods and lower residual values; and they are ultimately reliant on the health of long-haul international travel for demand. As a result, many leasing companies choose to focus on highly liquid, new narrowbody aircraft, mindful that at least one lessor has failed due to its focus on widebody aircraft leasing.

For AerCap, the world's largest aircraft lessor, widebody aircraft have always formed a key part of its portfolio, which is serving it well with the current rise in demand. AerCap's CEO Aengus Kelly says: "We have always been a huge believer in widebodies, through thick and thin. We were never concerned about long-term demand for widebodies, even when others were cautious. Our confidence stems from our experience in managing and placing these assets. We understand that preserving an aircraft's value throughout its lifecycle is fundamentally dependent on having the right infrastructure, expertise, and technical capability to manage both airframe and engine maintenance costs effectively."

Kelly says that demand for widebody aircraft remains "extremely strong" noting that this will continue: "Boeing and Airbus produced more widebody planes in 2008 than they did last year, which means we are still not even replacing the existing fleet. As the largest owner of widebody aircraft globally, we see this every quarter: lessees are extending 100% of their widebody leases."

The air cargo fleet is ageing and needs to be replaced with more fuel efficient widebody aircraft, however, current demand on the passenger side to extend operating lives of older aircraft that once would have provided feedstock for cargo conversion is constricting options for cargo operators, which is compounded by the delay in the 777X programme. "The cargo fleet is quite old and needs to be replaced," says Iarchy. "The only replacement that people can think of is a 777, which has just started getting converted with IAI obtaining their STC at the end of August. At the same time, people are keeping the 777s longer as passenger aircraft because the 777X hasn't arrived yet."

Iarchy notes the same problem in the narrowbody segment where the 737-800 is needed for conversion programmes to replace the ageing 737-300 and -400 cargo fleet but the demand for lift is so great, the feedstock of passenger -800s is either unavailable or so expensive that the economics become more challenging for converting the airplane to cargo.

LEASE RATES

Aircraft lease rates have strengthened since the pandemic, driven by limited availability as OEM deliveries remain limited. Although production schedules have improved, persistent engine reliability issues and maintenance bottlenecks have kept supply tight, sustaining premium lease rates across most aircraft types.

"Lease rates have improved significantly in the last few years – by 30, 40, 50% higher than they would have been two or three years ago due to a combination of factors," observes Barrett. "Part of it is starting from a particularly low point during Covid, part of it is the strong recovery with demand being driven differently due to the supply issue... Interest rates are also an important factor. Three or four years ago, we had historic low interest rates, which have now increased significantly, and are holding steady at a good level."

Barrett notes that each aircraft type has different dynamics that play into the strength of lease rates. Rates for widebody aircraft for example, he says, have strengthened the most in 2025 but they started from a much lower base than other aircraft types. "That remains the current market dynamic," he adds. "Rates for the larger capacity aircraft, the A321 family on the narrowbody side in particular, are particularly strong. We would like to see the certification of the 737 MAX 10 and to see production started since that aircraft type will attract strong lease rates."

Lease rates for used aircraft are also strong as demand remains robust. "We are particularly seeing aircraft like CEOs and NGs, that we would have extended for a couple of years at pretty low rates during Covid, increasing by $100,000 a month to enter the mid $200,000 for used aeroplanes," adds Barrett. "That's a pretty good rate. Demand is good. Over the last couple of years, there's been a number of aeroplanes we have taken back from customers in different circumstances, which have been placed very quickly. Frankly, if we had more aeroplanes, we could place them. So rates are going to stay where they are in that zone for a while yet."

Some industry players are seeing a little softening in certain narrowbody rates, however, which show signs of plateauing as deliveries accelerate and airlines begin to push back against what they view as excessive pricing.

"We have had this big run up in narrowbody lease rates but we are probably reaching a bit of a plateau," says Townend. "There is a point at which – although airlines are doing well and making good money – they won't take additional aircraft if they get too expensive. We have seen this before as we recovered from previous downturns. The widebodies still have a little bit further to run before we reach that plateau. So that's maybe what happens this year."

The industry is agreed that lease rates for widebody aircraft are on the rise, buoyed by long-haul recovery and structural demand shifts.

Cronin has witnessed continued upward momentum in lease rates, particularly in the widebody market. "If you take a basket of widebody aircraft, appraisers are looking at about a 7% increase in rentals through the course of 2025 and we have been calling that out," he says. "One of the predictions in our outlook paper from three years ago called out that increase in widebody rentals, and we see that trend continuing to run."

He explains that appraisers tend to be a lagging indicator of lease rates because their valuations are based on historical data. He notes that for aircraft Avolon is placing for delivery next year, rental levels are above current appraised values – a trend he expects to persist. "On the widebody side, demand is significantly outstripping supply, driven by passengers choosing longer journeys and the continued constrained availability of aircraft," says Cronin.

Although production of narrowbody aircraft has recovered more quickly, Cronin says it is more difficult for OEMs to invest the capital needed to ramp up widebody production, leading to continued shortages in supply.

Joe McConnell, partner and deputy co-chief investment officer at Castlelake, agrees that the undersupply of widebodies from the OEMs will continue for some time: "Given how much of the industrial production at Airbus and Boeing was switched over to narrowbodies, it is not possible for them now to really ramp widebody supply to any material degree over the next five years," he says. "We expect lease rates for widebodies to remain rather firm, while narrowbody lease rates will enter back into an annual depreciation schedule, which will be a slow burn over the next five to seven years for both new technology as well as current-tech assets."

Higher and more stable interest rates have strengthened lease rate factors and most lessor CEOs are content that rates in place now, as Cronin puts it, "entirely consistent with the long-term return profile that this industry should be able to provide". He adds that the market is nowhere near "overheated" or in "bubble territory", but consistent with long-term industry fundamentals.

Cronin highlights an emerging trend. He sees that the relationship between interest rates and lease rates has shifted, largely due to production and engine reliability challenges in aviation. "We have seen a growing disconnect between aircraft price inflation and broader base interest rates, driven mainly by engine reliability issues," he explains. "Over the past decade, interest rates have fluctuated significantly, but today we're in a more stable environment with moderate inflation. It's worth remembering that we once faced negative inflation and negative interest rates – a far riskier time for investing in long-lived assets than now, when inflation is positive and base rates sit a couple of points higher. That's likely to remain the base case going forward."

Meyler notes that although lease rates have risen sharply, which he says is only appropriate given how low they were during Covid and the surge in post-pandemic restructurings, inflation is now the biggest input on

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Joe McConnell, Castlelake

lease rates since it increases the price of everything, especially new aircraft purchases. "Inflation has significantly increased the cost of both maintenance and new aircraft – compounded annual price rises of 4–5% over several years have pushed asset prices much higher. To maintain returns, lease rates must rise accordingly. Airlines argue rates can't go higher, but if aircraft costs increase, lease rates have to follow. This inflation-driven cost pressure – often attributed to maintenance or labour – also directly impacts lease rates because they're tied to aircraft purchase prices."

Austin Wiley agrees that higher costs will slow down lease rate rises. "For new technology aircraft, we expect lease rates to track with manufacturer escalation," he says. "MAX and Neo aircraft will be more expensive as a result of escalation in 2026 and onward, even in 2027, and we expect lease rates to generally track that escalation rate. We are expecting low single digit growth in MAX and Neo lease rates as our base case assumption. Current technology aircraft has had a tremendous run over the last two or three years and those lease rates are at very healthy levels today. Given the shortages, airlines that weren't able to make orders early in Covid, are now faced with a shortage of lift so we expect lease rates on 8-, 10-, 12-year-old A320s, and 737NGs to remain stable."

LEASE EXTENSIONS

Airlines are continuing to make earlier lease extensions – a feature of the market since Covid – to lock in access to aircraft. Most lessors are placed out to 2027 but report airlines seeking negotiations sooner. "The extension requests are coming in earlier and earlier," says Firoz Tarapore, chief executive of Dubai Aerospace Enterprise (DAE), "because, as airlines consider alternatives, they need to make up their minds earlier and earlier in terms of committing to buyer furnished equipment (BFE) supply chains, in terms of committing to new aircraft orders, for example. So we are in a situation where we need to respond and make a decision today for 2027 transactions for example, which is a bit sooner."

Lessors are also continuing to place older aircraft that are viewed as a reliable alternative to new options that have been plagued with engine reliability issues.

"We don't have anything available new or used this year or next year, and so the earliest availability is in 2027, so any discussions we are having are from 2027 and 2028 onwards," says Townend. "We are continuing to place used aircraft that don't redeliver until 2027, and we are continuing to place new aircraft that deliver in 2027 and 2028. That timeframe remains extended because the airlines don't see aircraft availability easing and realise that they need to try and lock lift in now."

Availability of engines and BFE is front of mind for many airline fleet managers. BFE delays and slot availability are a major concern. "The other area that is a significant issue for airlines is seats," says AerCap's Kelly. "The certification process for aircraft seats has become a major bottleneck in the production system. We now advise airlines that if they want a new seat configuration for an upcoming aircraft, they must begin the process at least two and a half years before the delivery date, otherwise they risk missing it."

AerCap has a spare engine fleet of over 1,200 engines owned and managed and has been closely tracking engine availability as well as repair times for troubled powerplants which remain significant. "At any given time, our spares business has approximately 50 engines in transit around the world each day, supporting carriers across multiple regions," says Kelly, who notes that he regularly speaks with airlines globally regarding average engine cycles and current repair-turnaround times.

Engine demand remains high as airlines continue to fly their older aircraft, they need more spare engines. "Overall demand for engine leasing remains very strong, though it varies by region and engine type," says Jeff Lewis, chief executive of Hanwha Aviation. "Older widebody engines – such as the Pratt 4000, RB211-524H, Pratt 2000, and CF6 – are in exceptionally high demand because fleets expected to retire have stayed in service longer, driven largely by continued demand for widebody freighters and a lack of replacements."

"In the narrowbody market, the CFM56-7B continues to see stronger demand than the 5B. The 7B market is larger and suffered higher utilisation during the pandemic and the 737 MAX grounding, which burned off green time faster. The 5B still has demand, but greater supply – particularly from A319 retirements – has made placements more competitive."

Engines are in such demand that lease rates have risen dramatically for the most popular types but also there have been instances of relatively new aircraft being scrapped to take advantage of the value of their engines: "The current environment shows investors scrapping six-year-old aircraft to utilise the green time on the engines as they are more valuable than the aircraft as a whole," says Fred Brown, chief executive of Aergo Capital. "This isn't sustainable over the long-term for either the airframers or engine OEMs. The main challenge is to navigate back to some sort of equilibrium, whereby Pratt & Whitney and CFM have to increase durability of their engines, with the improvements/repairs at the time when these engines go into shop. The main issue isn't reliability its durability."

The availability and value of engine green time remains challenging, and has emerged as a key driver of trading and leasing decisions. "A consideration that has been increasingly important over the past 12-18 months is the value of green time: the realisable benefit from utilising the two engines is in some cases comparable or even greater than the benefit of utilising the aircraft as a whole," says Gary Crichlow, appraisals valuations & lease rates team leader at *Airline Economics+*. "This has driven part-out activity of some young A320neos. At the height of the US tariffs one US carrier parked a newly delivered European-manufactured aircraft and dropped the US-made engines with the intent of used them on its incumbent fleet. The value of green time has increased so strongly in recent months that there appears to be an increasing divergence between the price an airline is willing to pay for access to that green time now, and the price an investor might be willing to pay to make their return over a time horizon where an eventual market rebalancing (and hit to residual value) becomes increasingly likely as time goes on."

Although MRO turnaround times remain elevated, they are improving and the durability improvements that the engine manufacturers are developing and rolling out now and over the next few years will help to ease this situation.

TRADING ENVIRONMENT

The aircraft trading market has shown remarkable resilience. Barrett notes: "It's a good trading market for aircraft… we'll have our best year ever for trading aircraft in 2025."

Despite earlier concerns about interest rates and geopolitical uncertainty, demand remains strong, and bids currently exceed available inventory, signalling a deep and stable market.

One of the main drivers behind this strength is investor confidence in aviation as a sector offering steady returns. As Barrett explains: "Aircraft assets offer good, steady returns… they're real assets, they have real demand, they have real cash flows, and they do recover." Investors, including wealth funds and smaller lessors, are attracted by the long-term resilience of aviation and the supply-demand dynamics. Regional markets like Japan are performing well, and new money continues to enter the space, making it a varied and substantive buying environment. While Barrett acknowledges that cycles will bring ups and downs, he expects robust trading activity to continue into 2026.

With such strong demand for new and used aircraft, it is unsurprising that the trading environment has been robust again this year, with larger lessors making record gains on sales. In last year's report, a marked trend was that airlines were a significant buyer of aircraft in the secondary trading market in 2024, which has continued into 2025. "Demand is extremely strong," says Kelly. "First, there are the strategic buyers – the airlines – which are now buying more than 50% of the assets we sell. Globally, we are the biggest seller of used aircraft. Historically, airlines may have bought about 20% of the aircraft we sell because they wanted to hold on to them to avoid return conditions. But that has now increased to more than 50% of total sales. Airlines now know that they are going to need these aircraft for a long time to come."

Sales to airlines typically take place at the later stage in the aircraft's useful life but as supply remains constrained, competition for such assets has increased, pushing up prices. "When a strategic buyer wants the aircraft, it drives the price up. We have also seen a proliferation of startup companies, including in the MRO sector, that are seeking aircraft for airframe, engines, and the used serviceable material (USM), in order to avoid the cost of a full overhaul," says Kelly.

Overhauling a CFM56-7B engine with full performance restoration and a complete Life Limited Part (LLP) set costs about $12 million, which equates to roughly $1,200 per cycle per engine or $2,400 per aircraft over 10,000 cycles. To reduce these high costs, MRO shops increasingly use USM. When selling engines with remaining "green time", the goal is to price them close to the per-cycle cost of a newly overhauled engine. Kelly explains that rising overhaul rates have driven strong demand for these assets, supporting high prices and robust trading gains in the market.

Cronin highlights the scale and diversity of recent trading activity, noting that in the nine months to September, the company "acquired 147 aircraft, and sold or agreed to sell 129 aircraft", including the acquisition of Castlelake Aviation Limited. He agrees that the market is active on both the buy and the sell side, with a mix of buyers driving demand. About 60% are established lessors seeking to strengthen their orderbooks, while the remaining 40% are financially oriented investors gaining confidence in the sector's recovery. Cronin points out that many lessors feel under-ordered and are looking to secure growth pipelines, while financial investors see aviation as a stable, asset-backed opportunity. This dynamic has created a varied and competitive trading environment.

McConnell agrees that the aircraft trading market remains exceptionally robust, driven by a combination of pent-up supply and favourable market dynamics. He comments that Castlelake has had a record 2025, underwriting twice its previous peak volume, which he expects to continue at elevated levels into 2026. "A significant backlog of assets that were not traded during the pandemic is now entering the market, alongside portfolios from smaller players exiting aviation and aircraft emerging from pre-pandemic ABS structures," he says. McConnell goes on to note that healthy airline performance, stabilising interest rates, and strong capital markets have created what he calls as a "Goldilocks" environment, where values are solid yet still offer attractive opportunities for disciplined investors. While competition from both established and new entrants is strong, McConnell believes that thoughtful deployment of capital will allow Castlelake to capitalise on this momentum while managing risks associated with evolving technology and market shifts.

Baker explains that ACG has transitioned from a passive holder of assets to an active asset manager, using trading to manage risk, age, and exposure. "Historically, ACG was not a very active buyer… we held stuff forever… but we've been developing our trading capability significantly." With OEM order books and sale-leaseback channels constrained, Baker notes that lessors now rely heavily on portfolio

> “The [sale-leaseback] market is so competitive right now that it doesn’t make sense to chase deals. We’ve even halved our CapEx this year. I’m not deploying capital just for the sake of it. We’re pulling out of deals constantly, and I’m often surprised by who outbids us. It feels like underwriting standards are slipping in parts of the industry. As supply ramps up – we’re already seeing more aircraft coming to market through RFPs – I expect greater discipline to return to the open market.”
>
> *Ted O’Byrne, AviLease*

trades and M&A to grow, adding, “All the big lessors are trading between each other… and it’s incredible how much money there is in the system right now on both the buy side and the sell side.”

Tarapore emphasises the sheer scale of opportunities and the importance of execution certainty over price. “In 2024, we evaluated just north of 650 aircraft… in 2025, the path was very similar to that.” While only a fraction meets DAE’s underwriting criteria, the company sees a diverse mix of buyers – from fellow lessors seeking exposure to specific carriers, to financial investors and those pursuing engine strategies. Tarapore underscores that reliability is key: “If somebody said, ‘I’ll buy two aircraft and my price is 10% higher,’ if we didn’t sense execution certainty, we’re quite happy to accept lower price.” This reflects a market where speed and confidence often outweigh valuation.

Townend links trading strength to operational efficiency, noting that timely OEM deliveries allow lessors to stick to their plans. “The great thing about getting your deliveries coming in on schedule is that everything else you plan can follow.” He adds that the mix of assets being sold has shifted toward older, lower-yielding aircraft placed during Covid, yet gains on sale margins remain intact. Townend also points to rising valuations: “When we had our fleet appraised at the end of June, the valuation came back 15% ahead of our net book value – – equivalent to $3 billion of hidden equity value that will be released over time through trading.”

CHASING GROWTH

The leasing market’s active trading environment has set the stage for an industry-wide pursuit of growth. Every major lessor is chasing scale, driven by the need to strengthen portfolios and secure long-term competitiveness. While recent headwinds – such as tariff uncertainty, airline bankruptcies, and persistent challenges around MRO slot availability, OEM production delays, and engine reliability – have tested resilience, many of these pressures have begun to ease or are being managed operationally. Against this backdrop, growth strategies remain a central focus.

Traditionally, lessors have relied on organic expansion through sale-and-leaseback transactions and direct OEM orders. However, with production constraints and delivery delays limiting the pace of fleet additions, these avenues are increasingly insufficient to meet ambitious growth targets. The sale-leaseback channel is very competitive. It remains an important channel but the margins are so competitive that some players have been surprised at the final terms for certain transactions.

“The market is so competitive right now that it doesn’t make sense to chase deals,” says Ted O’Byrne, chief executive of AviLease. “We’ve even halved our CapEx this year. I’m not deploying capital just for the sake of it. We’re pulling out of deals constantly, and I’m often surprised by who outbids us. It feels like underwriting standards are slipping in parts of the industry. As supply ramps up – we’re already seeing more aircraft coming to market through RFPs – I expect greater discipline to return to the open market.”

Jie Chen, chief executive of CDB Aviation says that the sale-leaseback market is extremely competitive especially with lessors that do not possess an orderbook. “Margins are more competitive than ever so discipline is essential,” he says. “CDB Aviation is concentrating on organic growth relying on our strong orderbook. We remain open to sale-leaseback and portfolio sales to supplement our growth. “

As a result, consolidation has become the dominant theme: mergers and acquisitions now represent the most viable path to scale, portfolio diversification, and improved bargaining power. This shift underscores a structural reality – today, inorganic growth is not just an option but, for many leading players, the only realistic route forward.

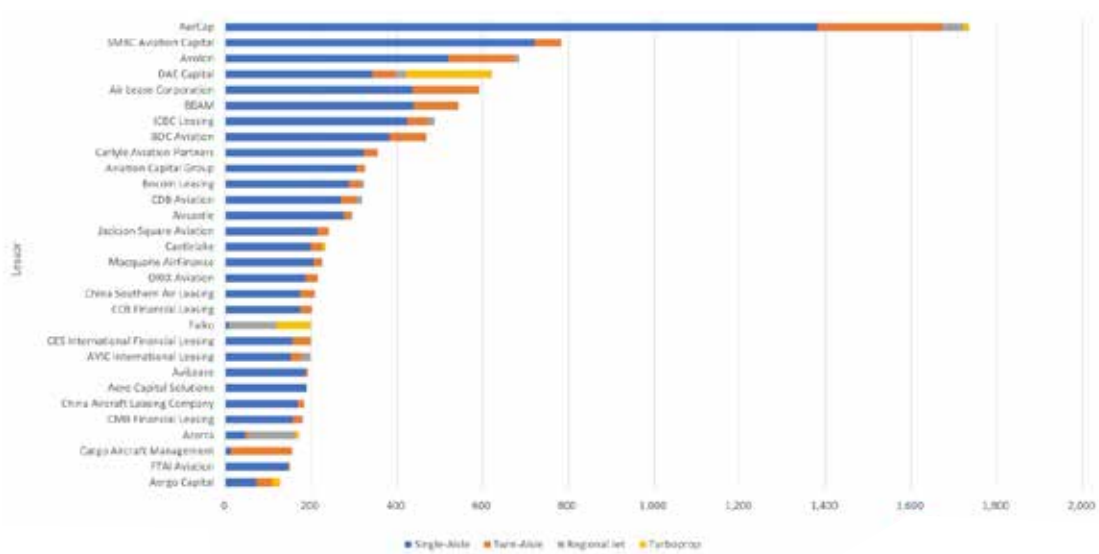
“We’ve always believed in sourcing aircraft through multiple channels – orderbook, trading, and sale-leasebacks – but the market has changed,” Peter Barrett. “Sale-leasebacks remain part of the mix, yet they’re far more competitive than three or four years ago. That’s why we maintain an orderbook and why we trade actively: it’s about getting the balance right.”

KPMG

FIG. 15: TOP 30 AIRCRAFT LEASING COMPANIES (RANKED BY PORTFOLIO SIZE IN UNITS)

Rank By Fleet	Lessor	Single-Aisle	Twin-Aisle	Regional Jet	Turboprop	Total Portfolio	Backlog	Indicative CMV (HL$bn)
1	AerCap	1383	291	47	13	1734	278	58.8
2	SMBC Aviation Capital	721	62			783	227	31.3
3	Avolon	521	155	9		685	460	26.3
4	DAE Capital	344	54	24	200	622	74	16.1
5	Air Lease Corporation	437	153	2		592	216	28.4
6	BBAM	439	104			543	0	21.4
7	ICBC Leasing	425	50	13		488	4	16.7
8	BOC Aviation	384	84			468	327	20.8
9	Carlyle Aviation Partners	324	32			356	8	9.0
10	Aviation Capital Group	308	17			325	123	12.0
11	Bocom Leasing	288	30	5		323	0	11.8
12	CDB Aviation	270	38	11		319	130	11.9
13	Aircastle	276	15	5		296	7	8.0
14	Jackson Square Aviation	215	27			242	66	9.9
15	Castlelake	199	26	3	6	234	1	5.5
16	Macquarie AirFinance	207	17	2		226	99	6.4
17	ORIX Aviation	187	29			216	0	7.3
18	China Southern Air Leasing	176	32			208	0	8.5
19	CCB Financial Leasing	175	27			202	0	8.3
20	Falko	8		112	80	200	0	1.8
21	CES International Financial Leasing	157	42			199	0	10.1
22	AVIC International Leasing	153	25	20		198	0	7.8
23	AviLease	186	7			193	60	7.2
24	Aero Capital Solutions	190				190	0	3.3
25	China Aircraft Leasing Company	169	14			183	104	5.8
26	CMB Financial Leasing	158	19	4		181	4	7.6
27	Azorra	46	7	111	7	171	19	3.1
28	Cargo Aircraft Management	13	143			156	0	2.8
29	FTAI Aviation	146	5			151	0	2.5
30	Aergo Capital	73	36		19	128	0	3.3

Source: Cirium Fleets Analyzer 1 January 2026 - owned and managed feet



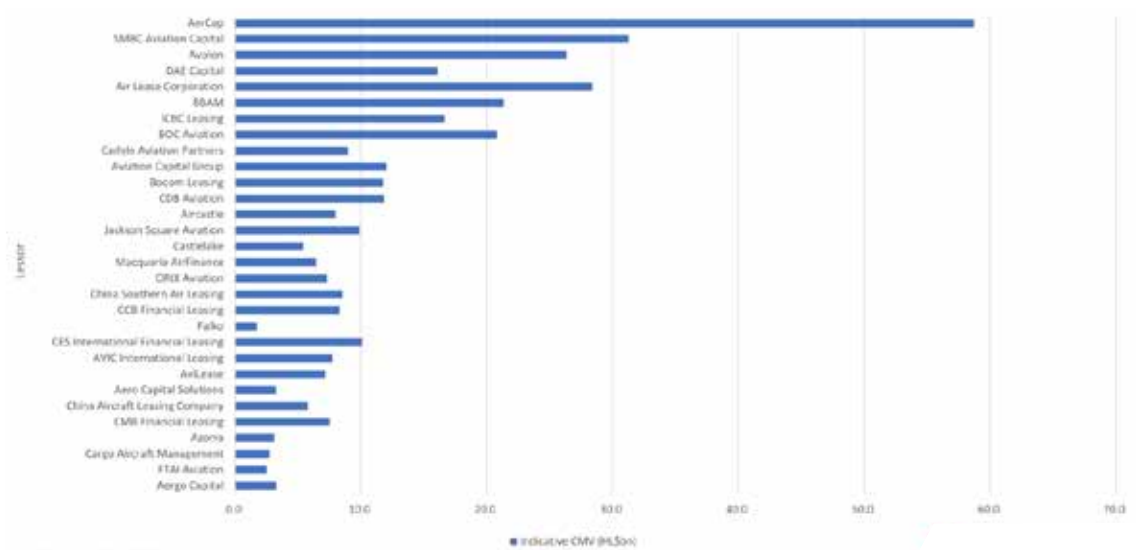
Source: Airline Economics+

FIG. 16: TOP 30 AIRCRAFT LESSORS (BY PORTFOLIO SIZE)

FIG. 17: TOP 30 AIRCRAFT LEASING COMPANIES (RANKED BY PORTFOLIO VALUE)

Rank by Value	Lessor	Single-Aisle	Twin-Aisle	Regional Jet	Turboprop	Total Portfolio	Backlog	Indicative CMV (HL$bn)	Rank By Fleet
1	AerCap	1383	291	47	13	1734	278	58.8	1
2	SMBC Aviation Capital	721	62			783	227	31.3	2
3	Air Lease Corporation	437	153	2		592	216	28.4	5
4	Avolon	521	155	9		685	460	26.3	3
5	BBAM	439	104			543	0	21.4	6
6	BOC Aviation	384	84			468	327	20.8	8
7	ICBC Leasing	425	50	13		488	4	16.7	7
8	DAE Capital	344	54	24	200	622	74	16.1	4
9	Aviation Capital Group	308	17			325	123	12.0	10
10	CDB Aviation	270	38	11		319	130	11.9	12
11	Bocom Leasing	288	30	5		323	0	11.8	11
12	CES International Financial Leasing	157	42			199	0	10.1	21
13	Jackson Square Aviation	215	27			242	66	9.9	14
14	Carlyle Aviation Partners	324	32			356	8	9.0	9
15	China Southern Air Leasing	176	32			208	0	8.5	18
16	CCB Financial Leasing	175	27			202	0	8.3	19
17	Aircastle	276	15	5		296	7	8.0	13
18	AVIC International Leasing	153	25	20		198	0	7.8	22
19	CMB Financial Leasing	158	19	4		181	4	7.6	26
20	ORIX Aviation	187	29			216	0	7.3	17
21	AviLease	186	7			193	60	7.2	23
22	Macquarie AirFinance	207	17	2		226	99	6.4	16
23	China Aircraft Leasing Company	169	14			183	104	5.8	25
24	Castlelake	199	26	3	6	234	1	5.5	15
25	JP Lease Products & Services	90	16			106	0	5.0	33
26	ABL Aviation	55	24	4	2	85	0	4.8	40
27	Altavair	40	57			97	0	4.6	36
28	Griffin Global Asset Management	58	14			72	6	4.1	48
29	Mitsubishi HC Capital	13	31	1		45	0	3.8	66
30	ABC Financial Leasing	89	12	1		102	0	3.7	34

Source: Cirium Fleets Analyzer 1 January 2026 - owned and managed feet



Source: Airline Economics+

18: FIG. 16: TOP 30 AIRCRAFT LESSORS (BY PORTFOLIO VALUE, CMVS US$BN)

Larger lessors are able to offer customers large scale deals, such as Southwest's 36-strong sale-leaseback deal concluded at the very start of 2025 with BBAM, and more recently, United Airlines sale-leaseback agreement with SMBC Aviation Capital for 20 737-9s. "Airline customers want efficiency and counterparties who can deliver consistently over time," adds Barrett. "That's why you're going to see more large tranche transactions – 20, 30, even 40 aircraft – rather than ones and twos. For big carriers, working with a competitive, long-term player like SMBC Aviation Capital is an attractive proposition."

Scale has always been important for aircraft lessors as have merger and acquisitions to achieve significant growth. But in the constrained supply environment, consolidation has become perhaps the only way for lessors to gain and maintain market share and dominance over the market. AerCap struck two mega mergers – first with ILFC and then with GECAS – which propelled the company into the realm of the "mega lessor", with size and scale way ahead of its closest competitors. A fact that has not passed unnoticed by those few at the top of the lessor ranking tables.

RISE OF THE MEGA LESSORS

In a move that surprised many, a consortium led by Sumitomo Corporation, along with SMBC Aviation Capital, Apollo, and Brookfield, announced a definitive agreement to acquire Air Lease Corporation (ALC) in an all-cash deal on September 2, 2025. The transaction is valued at approximately $7.4bn in equity, or $28.2bn including debt obligations, and is expected to close in the first half of 2026, subject to regulatory approvals. Air Lease stockholders approved the merger agreement in December 2025.

Japanese companies' interest in aircraft leasing investment has rekindled as lease rates and profitability continue to rise in response to sustained demand for aircraft. Air Lease's large orderbook is attractive in a constrained delivery environment, as is its client portfolio.

SMBC Aviation Capital, majority-owned by two prominent Japanese shareholders – Sumitomo Mitsui Financial Group and Sumitomo Corporation – marks its 25th anniversary this year. With the landmark Air Lease transaction, 2026 is shaping up to be a defining year for the aircraft lessor. SMBC Aviation Capital has an own managed and committed fleet of close to 1000 aircraft, with 100 plus customers around the world. After the acquisition of Air Lease's orderbook and fleet, this will swell to over 1,200 aircraft today, with an additional c.400 aircraft on order. Barrett describes the deal as a "landmark transaction" for the company and the industry. He says: "2026 will be a big year for us; we will be an even bigger business, and we will be able to offer more to our airlines and investor customers. 2026 is going to be a very exciting year."

When pressed on why the deal makes sense for SMBC Aviation Capital today, Barrett notes the importance of scale in the leasing industry: "At a macro level, we feel that scale is important," he says. "In a maturing, commoditising industry, scale is relevant in many dimensions. It's relevant for our customers; it's relevant in terms of the supply of aircraft; it's relevant for our suppliers. Larger, stronger counterparties are important to the OEMs. Scale is also very relevant for the investor market. We have seen the industry develop over the last number of years, and we felt that ALC is a very a good business with an excellent portfolio, and a strong team. We also felt that the business was at a point where there was an opportunity to have those conversations."

The idea for the acquisition of ALC originated at the 2024 Farnborough Airshow, where the leading players – Peter Barrett, Steven Udvar-Hazy, executive chairman of Air Lease, and John Plueger, chief executive of Air Lease – first convened to explore the possibility of a merger or sale. Although the announcement a year after that fateful meeting shocked the market (with many previously refusing to believe that Steve Hazy or John Plueger would ever really retire), upon reflection industry observers have come to recognise the many rationales for the deal.

"In a maturing, commoditising industry, scale is relevant on many dimensions. It's relevant for our customers; it's relevant in terms of the supply of aircraft; it's relevant for our suppliers. Larger, stronger counterparties for the OEMs are important. Scale is also very relevant for the investor market. We have seen the industry develop over the last number of years, and we felt that ALC is a very a good business with an excellent portfolio, and a strong team."

Peter Barrett, SMBC Aviation Capital

Foremost is scale. As Barrett states, size really does matter in the aircraft leasing sector. In every interview with leasing company chief executives over the years, the importance of scale has been highlighted, and this year's Aviation Leaders interview series is no exception.

Tarapore notes that compared to 20 years ago, the leased fleet owned by the top 10 lessors has more than doubled, adding that he believes scale will become more concentrated "because every year we've got to find a way to get bigger and stronger". He tempers that comment with the question of whether bigger necessarily equals more profitability, which is a question all lessors chasing scale need to consider. "We don't want to be so big on one particular airline that when trouble hits, we can't get out of the way, or have so many aircraft on order that to secure placements we discount lease rates because anything is better than zero," says Tarapore. "Both those things are systemic destroyers of capital returns. We don't want any of that. We want to find that sweet spot where we continue to be relevant, but we continue to be proportionally relevant to our clients."

AviLease has been gaining scale quickly and has made no secret of its desire to become a significant leasing player, acquiring Standard Chartered's aviation leasing business in 2023.

Speaking to James Kelly, head of aviation finance at KPMG Ireland, in New York in 2025, AviLease's O'Byrne, made it clear that M&A is a defined investment channel for the company but noted that this requires opportunity and experience to value companies properly, execute trades and integrate platforms. "There is value in scale," says O'Byrne. "We think that the minimum threshold is a balance sheet of around $20bn. The question is first how we get there, and beyond that is knowing what incremental value there is for driving above that threshold. That may be the $75bn topline level or it could be less than that, and then what you need to do to get to that scale? Considering the input costs of our industry, could I improve my input costs by getting to that $75bn mark or am I good enough at $20bn – that is a key question for the top 10 lessors. In the next year, there will be consolidation within the top 10. The winners will be those that borrow the cheapest and who buys the cheapest, and then what balance sheet level you need to be to achieve that efficiency. That's the question that we all need to answer."

Townend recognises the need for scale but notes that it needs to be accompanied by relevance. "We have always said that we don't have to be the biggest, but we want to always make sure we're one of the top five," he says. "It's not about having scale for the sake of scale. It's about relevance. It's about making sure that we are relevant to Airbus and Boeing, to be able to get the right aircraft at the right price, at the right time; that we have relevance to the funding markets, to maintain that investment grade credit rating; and relevance to airlines to be able to close the larger transactions with the top tier operators. You need scale to be able to do that."

The drive to member the top five lessors is fuelling the current trend toward larger-scale acquisitions. As the industry expands, the scale required to stay relevant to customers is also increasing.

Townend appreciates that relative scale is changing. Where, at the end of the last decade, a lessor may have needed above $20 billion in assets, he now believes that number is much higher. "You will probably need to have at least $35-40 billion by the end of this decade to be certain of being in that bigger group," he says. "That's really just a process of the industry maturing. If the airline industry and the broader aviation industry is going to continue to grow as we all expect, and lessors are going to maintain their 50% financing market share, then there's an inevitability to that level. Once companies achieve this scale, they can only fund themselves efficiently if they are investment grade. However, while there will be a small group of large investment grade lessors starting to move away from the from the pack, there will still be scope for companies at a smaller level to have niches and defensible positions."

Despite the many questions facing top ten lessors, it is clear that scale is the aim – just not at any cost. "To get a competitive edge in the leasing sector, you need scale, and that scale is coming only through consolidation because orderbook deliveries are still slow and unlikely to change in the very near future given how the size of the OEM backlog," says Kalash Pandey, managing director at Goldman Sachs.

The success of AerCap since it became a "super scale" lessor has not passed unnoticed by its chief rivals. With the acquisition of Air Lease's orderbook and control over the management of Sumisho Air Lease's fleet, SMBC Aviation Capital will become a significant super scale lessor challenging AerCap at the top of the lessor rankings.

SMBC Aviation Capital and Air Lease are currently the third and fourth largest aircraft lessors by portfolio size. The proposed orderbook acquisition and subsequent management of Sumisho Air Lease's fleet would see SMBC Aviation Capital overtake Avolon as the second largest aircraft lessor, with a post-merger portfolio of 1,685 owned, managed, and committed aircraft.

Commenting on consolidation in general, Cronin, agrees that consolidation is a natural part of a maturing industry and particularly for the aircraft leasing sector that has a very long investment cycle. But he adds that today there is a significant barrier to entry at scale. "The challenge to achieve the scale needed to attain an investment grade corporate rating are much higher today," he says. "The challenges are higher unless you have a sovereign or a large financial institution willing to take a very long term bet. And then consolidation can be slow because many shareholders aren't in a rush to sell these very profitable, long-term businesses. There are many instances where shareholders have said decided to continue to hold onto assets that have an attractive return."

The problem that every leasing company is facing is the limitations on growth via an OEM orderbook, since the supply is so constrained that production schedules are sold out over a long-term horizon. "Up to the start of this decade, and even up to 2023-4 there were about 30 lessors with order books," says Cronin. "If you go out to 2030, that number shrinks to seven lessors with orderbooks and there are no more aircraft for sale, so that number cannot increase… It's no coincidence that the top three lessors in the world – Avolon, SMBC Aviation Capital and AerCap – are all the product of the consolidation of three or four platforms."

Using CMV data from Cirium, the merged SMBC Aviation Capital and Air Lease portfolio would be valued higher than AerCap, at nearly $60bn.

AerCap participated in the bidding for the Air Lease acquisition alongside other parties, however according to Kelly, the bid price was not at a level that made sense for its shareholders: "I wouldn't say that ALC wasn't for us," says Kelly. "It was. We were a bidder, but we did not reach a price point that made sense for our shareholders. It's a great deal for Peter [Barrett] and for SMBC, and further consolidation is positive for the sector, which remains too fragmented. I think consolidation is a positive trend and I hope we will see more of it in 2026, where we can also participate."

Kelly goes on to explain that he is expected to be involved in every major transaction in the leasing space but also "disciplined", a principle he believes AerCap demonstrated in the Air Lease process. "If an asset trade makes sense because we can bring something to the table that the selling entity does not have, and the outcome is beneficial for our shareholders, we will proceed. But if it does not, we won't," he says. "There are platforms currently for sale, but from an aircraft-value perspective, we do not see compelling opportunities in those trades given the current environment."

Macquarie Airfinance is currently undergoing a sales process and there is one larger platform seeking bidders along with a number of smaller portfolio sales, which will help to consolidate the market further but not to the extent that it will create another mega lessor, at least not yet.

In 2025, DAE fully integrated Nordic Aviation Capital (NAC). For Tarapore, the acquisition was the right size, at the right time for the company. "The Nordic transaction was an opportunity for DAE to take a quantum leap up in our market position," says Tarapore. Before the acquisition, DAE's fleet size was approximately 500 aircraft; after the NAC deal, it is now approximately 750 aircraft, which Tarapore describes as a "nice quantum size up", placing DAE "in a different league" where it can "punch in a heavier class".

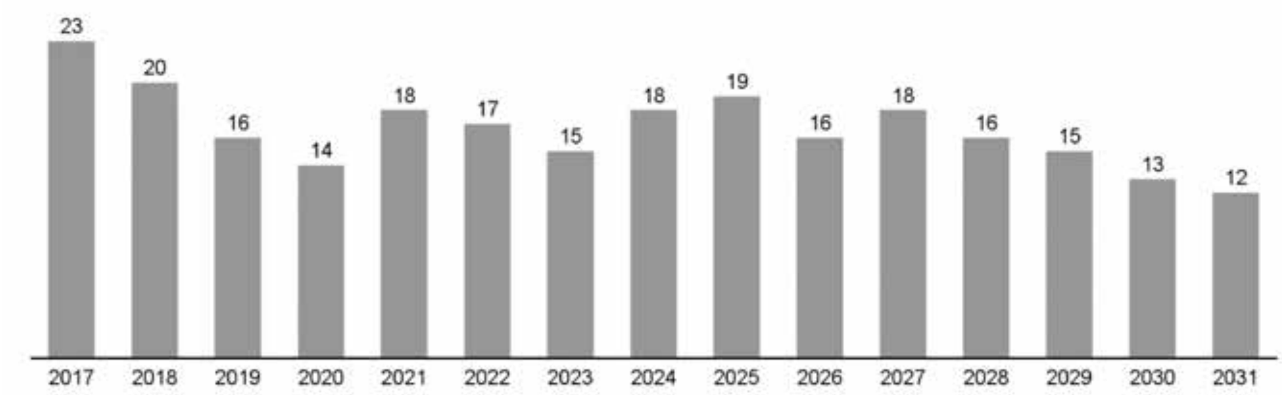
NAC, with its large regional and turboprop fleet alongside commercial narrowbody aircraft, was a diversified asset class and departure for DAE, which created an immediate selling opportunity. "The crown jewel was the ATR position," shares Tarapore, who adds that the company struck a deal "almost immediately" to sell the E2 aircraft, which were outside its expertise, to Azorra, and sold the older assets "to a financial buyer" as the assets were "not consistent with what should be in the portfolio for an IG rated lessor".

DAE has grown considerably thanks to consolidation with the acquisition of AWAS and NAC, and Tarapore is seeking additional targets to continue to build his position in the lessor rankings. "We feel very good about the platform that we've created and the space in which we operate," he says. "Now that the NAC transaction is completely in the rear view mirror – we closed in May 2025 – we are looking forward to finding the next opportunity that further augments our platform so we are very excited at both the operating and the trading environment that might allow us the opportunity to get to the next level."

Consolidation – specifically of large scale leasing platforms – also creates buying opportunities for smaller lessors. Baker notes that those opportunities from the Air Lease deal depends on SMBC Aviation Capital's plans has for the initial portfolio. "Many believe that big chunks of that portfolio will come into the market through the trade sale channel, which will create billions of dollars of growth that some will be able to tap into," he says. "But there are structural constraints to getting to a place where there are three, four or five top lessors, because we all depreciate 3% a year and we're all actively trading,

"I wouldn't say that ALC wasn't for us. It was. We were a bidder, but we did not reach a price point that made sense for our shareholders. It's a great deal for Peter [Barrett] and for SMBC, and further consolidation is positive for the sector, which remains too fragmented. I think consolidation is a positive trend and I hope we will see more of it in 2026, where we can also participate."

Aengus Kelly, AerCap



Source: BOC Aviation, Cirium

FIG. 19: LESSORS WITH ORDERBOOK DELIVERIES

as we've observed, which means we need to buy $5bn of assets to be up net $4bn at the end of the year, because you're depreciating X number of billion, and you're probably selling X number of billion. It's very hard, once you get to a certain size, to continue to scale."

Such industry dynamics mean that scale will likely remain constrained to the top few leasing companies. Tarapore observes that two decades ago, the top 10 lessors represented 70% of the leased fleet, while today the top 10 lessors control only 45%, even though the number of aircraft has doubled. "This is due to the growth of the underlying market, which means that scale will become more concentrated because every year we have to find a way to get bigger and stronger. But that will not necessarily result in superior returns; that's the part we struggle with." He goes on to explain that the company has a portfolio of around 750 aircraft today but it needs to examine carefully the profitability potential of growing to a 1,500 plus portfolio. "We ask ourselves whether we are better off where we are, or are we better off if we were at 1,500 – we're not sure that there's a clear answer to that," he says. "We are exploring what that number should be from a bottom-up perspective, considering the market capacity. We don't want to be so big to one particular airline that when trouble hits, you can't get out of the way; or have so many aircraft on order that when we do our placements we'll take $15,000 less because anything is better than zero. Both those factors are systemic destroyers of capital returns. We don't want any of that. We want to find that sweet spot where we continue to be relevant, but we continue to be proportionally relevant to our clients."

AerCap, the world's largest lessor, contracted more than 100 aircraft, engine and helicopter purchases in 2025 alone. For Kelly, the company's scale and market reach materially enhances the value it provides to its airline customers. "When the going gets tough, we have the ability to move quickly and at scale to resolve issues, as we did, for example, with Spirit Airlines," he says.

Kelly notes that while the company may have recorded a loss on the Spirit transaction, it was not material in the context of AerCap's broader portfolio. "A handful of aircraft is not going to move the needle," he explains. "What interests us far more are the larger transactions where others cannot respond as quickly," he says. "Time and scale are competitive advantages. We've seen that repeatedly, which has allowed us to add very significant numbers of assets to the company's backlog. But it requires hard work; if you simply show up at the weekly bake-off for a sale-leaseback, you are not doing your shareholders any favours."

Those shareholders and investors in the leasing channel continue to expand. The Air Lease transaction is a good example of new pockets of insurance, infrastructure and private equity capital entering the sector, attracted by its stable returns despite the pandemic shock.

Baker warns new entrants that it is harder than it looks to gain significant returns in such a maturing, long-dated sector: "It's incredible how much new equity is coming into our space," he says. "I would urge [equity investors] to look at data centres or New York office real estate or crypto where the easy money is because in aviation, in a maturing industry, it's hard to earn a buck on a risk-adjusted basis through the cycle as new equity entering the aircraft investor space."

While some caution against overly optimistic expectations, others highlight aviation's unique appeal to long-term capital providers. Greg Conlon, chief executive of High Ridge Aviation, explains that aircraft leasing appeals to investors due to their long-term fixed-rate contracts. "Most capital investors ask: What's your return profile? What's your risk profile? And what's your duration? In aviation, we can articulate all three. We have long-term leases – between eight and twelve years of fixed-rate cash flow. They like that it's cash-paying currently; these are yielding assets from day one, with aircraft on lease paying you every month."

Conlon notes that compared to sectors like data centres, which require years of upfront investment before generating returns, aviation offers immediate cash flow backed by hard assets. "The assets are fungible – you can move them between regions if needed. And the space behaves like infrastructure: long-lived projects with steady cash flows, but with higher yields than traditional infrastructure and backed by mobile assets."

This combination of stability, yield, and flexibility has drawn capital away from commercial real estate and other private credit strategies into aviation, supported by robust historical data that makes residual values relatively easy to model.

The current enthusiasm contrasts sharply with the pre-Covid environment. Baker notes that the peak of the last cycle occurred around 2016, with 2018 and 2019 proving particularly challenging for returns. Low interest rates during that period lowered barriers to entry, leading to an oversupply of aircraft and capital. Investors, driven by a search for yield, flooded the market, squeezing out excess rents and eroding margins. Covid served as a reset button, clearing out inefficiencies and creating space for new strategies. During the pandemic, distressed and restructuring-focused investors entered the market, seeking double-digit returns amid uncertainty, adding further complexity to the investment landscape.

But, as McConnell explains, the following bull market created investment that split the market: "We are emerging from a bull run period from 2010 to 2020 where there was too much fragmentation. There was too much capital rushing in from all areas," he says. "Leasing companies, as well as many startup airlines, were trying to take market share and pressure some of the majors. The pandemic – like any good downturn – weeded out the survivors from the rest. At the airline level there is a much more healthy environment with many of the sizable airlines performing pretty well today, which a direct result of consolidation and cost cutting through the pandemic. The leasing companies will continue to consolidate. There will always be new entrants, and while we welcome more market participants to provide more liquidity for this asset class, some of the larger and mid-sized players will continue to work on consolidating the market, which is healthy for everybody."

Today, the sector is often described as entering a "Golden Age" of aviation and aircraft leasing. The investment thesis has become more structurally sound, attracting long-term capital from infrastructure funds and insurance companies seeking stable, high single-digit returns.

Barrett emphasises that this trend is not entirely new – leasing companies have long engaged with investors – but agrees that the scale and diversity of capital now entering the space is unprecedented. Barrett sees this as transformative, noting that aviation is increasingly viewed as a predictable, real-asset business with strong cash flows. He highlights that aircraft financing, once a niche market, has become mainstream, and the demand for capital will only grow as manufacturers continue to produce aircraft and airlines expand fleets.

Cronin echoes this view, pointing to the growing interest from infrastructure and insurance investors who value the stability of aviation cash flows. He underscores the unique characteristics of the asset class: diversification across global airlines, inflation-linked residual values, and technological barriers that limit disruption. With only two major manufacturers and significant constraints on production scale-up, aviation offers unmatched forward visibility and residual value protection. Cronin also notes the structural shift in ownership over the past 15 years, with most top leasing companies now backed by Asian investors – a sign of the industry's global appeal and evolving investor base.

Although the influx reflects confidence in aviation's upward trajectory, supported by supply constraints and robust demand growth, Baker cautions that the diversity of investor profiles – each with different return hurdles and strategies – can create friction. While the sector's fundamentals are strong, the challenge lies in managing the sheer volume of capital and maintaining disciplined deployment to avoid repeating past cycles of oversaturation.

CHASING IG STATUS

For leasing companies, attaining sufficient scale to achieve an investment grade (IG) corporate credit rating is a critical milestone. IG status unlocks access to deep pools of capital in the bond markets at significantly lower rates, providing a competitive advantage in funding costs and liquidity. However, reaching this level is far from easy – particularly for new entrants. The journey requires not only size but also a proven track record of resilience through multiple market shocks.

Barrett notes that rating agencies have become more comfortable with the sector, thanks to its demonstrated stability through extreme stress events: "We've been through the downside scenario of all downside scenarios. You can point to the evidence of what happened during Covid, the Russian recovery—real things that show resilience. That does help. Leasing companies have performed well, and there's more dialogue with agencies now. But upgrades are hard; there's a natural cap for all credit ratings. Still, there's probably more upside than downside in the current environment."

Cronin reinforces how far the industry has come: "Fifteen years ago, rating agencies said there was no way a monoline leasing company could get

"M&A has a permanent space in the leasing sector. Some companies are growing, some are shrinking. Some are selling, some are buying. This is an industry of deal makers, and there is always something going on. Clearly, the size and scale of these transactions have been noteworthy and it would not surprise me at all to see more consolidation, more formation of new businesses, over and over again."

Ryan McKenna, Grifin Global Asset Management

to investment grade. Today, you have a number of lessors firmly in the mid-triple-B space. We are regular issuers in the bond market, and the sector now represents 2–3% of the overall bond market. Investment grade access is much more liquid and less dependent on deep-dive sector analysis compared to when we were high yield."

This evolution reflects the growing mainstream acceptance of aviation as an asset class. IG-rated lessors can tap vast pools of capital at competitive rates, similar to infrastructure or renewables, while high-yield issuers face more scrutiny and higher costs. Cronin highlights that Avolon achieved this status organically, despite shocks like Covid, Russia, and the fastest interest rate hikes in 40 years – evidence, he says, that resilience and disciplined balance sheet management are key.

Ryan McKenna, chief executive of Griffin Global Asset Management (Griffin), illustrates the steep hurdles new entrants face in the aircraft leasing sector. "M&A has a permanent space in the leasing sector," says McKenna. "Some companies are growing, some are shrinking. Some are selling, some are buying. This is an industry of deal makers, and there is always something going on. Clearly, the size and scale of these transactions have been noteworthy and it would not surprise me at all to see more consolidation, more formation of new businesses, over and over again. We have not done any M&A; we haven't had a cost of capital that would really work for that. We have been working really hard to build and grow our balance sheet to become investment grade. The more efficient your cost of capital, the more options you have. We have an inward-focused team trying to do the best we can to deliver consistent results, to grow, to continue to maintain that unsecured balance sheet, and to have time to continue to grind that cost of capital lower. So we have not been particularly front-footed on M&A, but that could certainly change... Many of the companies with the huge balance sheets have incredible cost of capital, so it makes sense for them to do some of those deals."

Achieving investment-grade status without the scale, diversification, and track record of established players is a formidable challenge. While post-Covid liquidity has attracted new pools of equity and debt capital, many underestimate the critical role of credit ratings in reducing funding costs and enabling sustainable growth. For Griffin and similar entrants, the path forward requires building sufficient size and credibility to transition from niche financing to mainstream bond markets – a process that incumbents have taken decades to master.

Griffin's pursuit of investment-grade status reflects a broader trend across the leasing sector, where major platforms have steadily climbed the ratings ladder. As Mark Streeter, managing director, North America Credit Research (Transportation), JPMorgan, points out: "Most of the big leasing platforms have been able to very successfully march up the ratings ladder. We've seen names like Macquarie Airfinance cross over to investment grade. Griffin's making good progress towards investment grade. Aircastle has been upgraded to mid triple-B to go along with one high triple-B rating. We now have Avolon at mid triple-B, and AerCap at high triple-B. Dubai Aerospace has made good ratings progress higher." These upgrades have delivered strong returns for credit investors – often outperforming equity metrics – highlighting the strategic value of ratings momentum. Yet, as Streeter points out, equity returns remain muted despite aircraft shortages, due to the influx of undisciplined capital and private equity's growing role in M&A. For Griffin, this underscores the importance of disciplined balance sheet growth and cost-of-capital management to join the ranks of established IG players, while navigating an industry where consolidation and private capital continue to reshape competitive dynamics.

Azorra represents another example of a lessor navigating the complex path to IG status, emphasizing flexibility and niche specialisation. John Evans, chief executive of Azorra, says: "We're on a path towards investment grade. It takes steps to get there. We also want to have a diversified source of funding on the liability side of the balance sheet, so we still use those bilateral bank relationships, we're tapping the unsecured markets. We have secured term loan B as well." For Azorra, flexibility is paramount: "One of the things that really gets underestimated in commercial aircraft leasing is that we're investing in a mobile asset, so preserving the maximum mobility of that asset and the ability to move it in the case of having an issue with an airline is really paramount for us. The unsecured market, while it's a little bit more expensive for us... gives us the most flexibility on being able to move aircraft around."

Evans adds that the company's strategy includes educating rating agencies on its focus on smaller narrowbody and regional aircraft – a niche with strong demand and broad operator diversity. "Our current KPIs pretty much meet investment grade on every point except scale... So we're going to continue to scale and try to lower our borrowing costs through improving our ratings." Recent portfolio acquisitions, such as 49 aircraft from Dubai Aerospace's NAC deal, have already earned positive outlook upgrades from S&P and Fitch, underscoring the importance of scale in the IG journey.

Aircastle is investment grade rated by all three major rating agencies – BBB with S&P, Baa2 with Moody's and BBB+ with Fitch. Michael Inglese, chief executive of Aircastle, underscores the central role that investment-grade status plays in its strategy. "Our IG rating is a fundamental tenet of our strategy," says Inglese. "Having the flexibility and the efficiency of raising capital to pursue opportunities is very important to us. The investment-grade market is incredibly deep. It's been very robust. Investors have been educated over the last decade and have come to appreciate the resilience of the business model through Covid and the Russian invasion... The rating agencies have taken a fresh look at it in light of those two black swan events and come to recognise the resilience of a good leasing platform is pretty remarkable."

Inglese emphasises that IG access provides speed and certainty when launching deals compared to secured bank financing, which involves longer lead times and greater execution risk. Achieving this milestone was no easy feat, says Inglese: "We started in the high-yield market in 2010, first got upgraded to triple-B minus in 2018, and we just got upgraded to triple-B flat. It's a hard journey... We have a pretty good understanding of what ratios, debt levels, and interest cover the agencies expect, and it's a focus of ours to make sure we preserve that."

Betsy Snyder, independent advisor and formerly a senior analyst at S&P, underscores the structural hurdles to achieving and maintaining investment-grade status. "Well, I think the main answer to why they haven't gotten to investment grade yet is size," she says. "Size does matter for the rating agencies; usually they like to have, at least, a few hundred aircraft that are of a certain dollar value. There are only a few who have not reached investment grade yet – Griffin, TrueNoord, Phoenix – and then once they get to investment grade, they are very focused on accessing the unsecured debt market, stretching out maturities – both lease and debt – so they don't bunch together and create financial risk if markets contract."

Snyder notes that those who have worked hard to achieve IG status are determined to preserve it, managing portfolios for geographic and airline diversity. "You look at what we just went through with Covid... aircraft lessors, for the most part, kept their ratings and have actually improved them since then. They went through repossessions, lease renegotiations, impairment charges, and even the insurance situation with aircraft stranded in Russia – and recovered insurance proceeds relatively quickly. If they could keep ratings through that period, they'll do everything to maintain them."

Outside the investment-grade lessor sector, a substantial group of leasing companies operates under a different model – one increasingly shaped by asset management strategies rather than balance sheet scale. As Austin Wiley, chief executive of SKY Leasing, explains: "There are two dominant funding models for leasing companies going forward. One, the investment-grade unsecured route, which is generally ordering aircraft from the manufacturer and placing those aircraft with airlines. And then the alternative asset management

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Michael Inglese, Aircastle

model, the one that we utilise at SKY… which focuses on building portfolios of aircraft through sale-leasebacks and secondary market acquisitions using secured bank and ABS debt."

While consolidation may continue among IG players, Wiley sees the opposite trend in the asset management space: "We see more specialisation – engine leasing strategies, young midlife aircraft, and mid-to-end-of-life strategies," he says. "Investors have specific views on risk and return… Some people like asset risk, some people don't; some people like credit risk, some people don't." Success in this segment hinges on access to large pools of equity and debt, strong origination capabilities, and global remarketing expertise. Rather than consolidation, growth will come from specialisation and investor-driven strategies, positioning asset managers as agile players in a market where flexibility and niche expertise matter more than sheer size.

INDUSTRY OUTLOOK

The outlook for aircraft leasing remains broadly positive, underpinned by strong fundamentals and evolving capital dynamics. Demand for aircraft continues to outpace supply, and with manufacturers still working through production constraints, lessors will remain critical in bridging the gap for airlines. Barrett emphasises that this demand will drive continued innovation in financing: "There's huge demand for aircraft and capital to fund them. Our job as a leading industry player is to find smart, innovative ways to bring that capital in and deliver the best products and services to our airline customers. That theme will define not just this year, but the remainder of the decade."

Barrett also points to sustainability as a key challenge, but frames aviation as a "force for good," enabling global connectivity and economic growth. This optimism is echoed by Cronin, who sees a stable operating environment conducive to attractive long-term returns: "We're in a good market for aircraft leasing. The industry has done a good job navigating early-decade challenges and now has an incredible platform for the next stage. The trends to watch are engine durability, maintenance costs, supply chain stability, and the evolution of equity ownership, particularly the continued influx of Asian capital."

Baker offers a more cautious but constructive view: "Optimists in this industry die lonely and poor, so I try not to be too optimistic – but the shoe never seems to drop. We've built systems and processes to manage a more dynamic environment, and we see net tailwinds for 2026. Profitability is easier; growth is harder. The challenge is preserving opportunities and being opportunistic when growth windows appear."

Townend highlights improving macro conditions: "Airlines are making money, global profits are near historic levels, oil prices are stable, interest rates are flat or falling, and supply chain predictability is improving. All of that makes planning easier and supports a reasonably optimistic outlook for next year."

The next decade for aircraft leasing will be shaped by several structural themes. First, the continued inflow of infrastructure and insurance capital, alongside traditional equity, will reshape ownership structures and broaden the investor base. Supply-chain stability will remain critical, with progress in OEM production and parts availability essential to meeting global demand. Sustainability pressures will intensify, driving innovation in financing models and fleet strategies as the industry seeks to decarbonise. Scale will become even more important, as larger lessors with investment-grade ratings dominate access to low-cost capital, reinforcing consolidation trends across the sector. Finally, regional dynamics will evolve, with Asian equity playing an increasingly prominent role in ownership and strategic direction. Together, these forces will define the competitive landscape and influence how leasing companies position themselves for long-term success.

Despite uncertainties, the sector enters 2026 with strong tailwinds, a resilient business model proven through multiple shocks, and a clear role in supporting global economic growth. The challenge – and opportunity – lies in disciplined execution amid structural change.

"There are two dominant funding models for leasing companies going forward. One, the investment-grade unsecured route, which is generally ordering aircraft from the manufacturer and placing those aircraft with airlines. And then the alternative asset management model, the one that we utilise at SKY… which focuses on building portfolios of aircraft through sale-leasebacks and secondary market acquisitions using secured bank and ABS debt."

Austin Wiley, SKY Leasing

Chapter Four: Finance

Financing growth

Aviation finance has crossed a threshold. With interest expense now the single largest cash cost for major lessors, the industry's centre of gravity has moved decisively toward balance-sheet discipline: matched funding, tight maturity gaps, and measured fixed–floating mixes. Investment-grade platforms are financing themselves like global corporates – anchored in deep, repeatable unsecured bond markets – while deliberately widening liquidity through Asian and Middle Eastern banks, sustainability-linked loans, Sukuk, Japanese long-term money, and private/insurance capital. The result is a broader, more resilient funding stack. At the same time, the aviation asset backed securitisation (ABS) market has reopened on the debt side and is on the cusp of restoring equity flows, restoring an essential trading valve – especially for non-IG issuers. Against an accelerating OEM delivery ramp, consolidation and structured equity are knitting these pieces together, rewarding scale, ratings strength, and consistent access to capital across cycles.

RATES AND LIQUIDITY

In aviation, the cost and availability of money is the first-order variable; everything else – market access, structures, and consolidation – follows. As such, a favourable interest rate environment tends to dictate those fortunes.

In 2025, US monetary policy shifted from a long period of holding rates steady to a series of late-year rate cuts, reflecting the Federal Reserve's careful balancing of cooling labour-market conditions against still-elevated, tariff-distorted inflation. After maintaining the federal funds rate for much of the year, the Fed cut rates three times from September to December, bringing the target range down to 3.50–3.75%. These moves came amid softening job growth and confidence that tariff-related price increases would prove temporary rather than structural. Yet inflation remained above the Fed's 2% target, and the FOMC became unusually divided, with policymakers split between those prioritising employment risks and those concerned about persistently elevated inflation.

Looking ahead to 2026, expectations diverge sharply. The Fed's own projections place the median interest rate around 3.1%, implying only modest further easing. Many forecasters – including Goldman Sachs – expect one or two additional cuts as inflation gradually recedes and tariff pass-through fades by mid-year. Others see very different risks: JPMorgan no longer expects any cuts in 2026, citing resilient economic growth and sticky inflation, while Moody's Analytics forecasts up to three early-year cuts if labour-market weakness deepens. The result is an unusually wide uncertainty band shaped by how rapidly US inflation decelerates and whether unemployment moves toward the expected 2026 peak.

Globally, the inflation–interest-rate cycle is also easing, but with important regional nuances. The IMF and World Bank both project a broad disinflationary trend through 2026, with global headline inflation expected to fall from roughly 3.4% in 2025 to between 2.6% and 3.1% in 2026. This reflects softer labour markets, lower energy prices, and improved financial conditions, though US inflation is still expected to run above target for longer than in other advanced economies. At the same time, global growth is forecast to moderate: trade disruptions, tariff uncertainty, and structural headwinds continue to weigh on Europe and parts of Asia, while the US remains comparatively resilient. These trends underscore a global environment in which monetary easing becomes more feasible, but remains highly data-dependent – mirroring the cautious, conditions-driven approach unfolding in the United States.

As Mark Streeter, managing director, North America Credit Research (Transportation) at JPMorgan, notes, the shape of the curve and the Fed's dovish tilt matter less for the long term and more for the short term financing

Source: BOC Aviation, Cirium

FIG. 20: INFLATION AND CENTRAL BANK INTEREST RATES 2024-2025

costs that dominate aviation. The key question, he argues, is how much lower borrowing costs will actually moderate lease rate pressure – and whether airlines can adjust their operating models to the new capital cost reality.

Lessors are benefiting from robust financing markets and historically tight spreads – amplifying their profitability and competitive position. Rather than being at the complete mercy of interest rate fluctuations, lessors are tightening their funding mix to take full advantage of the current environment.

As Steven Townend, chief executive of BOC Aviation, notes, “interest is the single largest cash cost of any big lessor”, while its funding strategy defines competitive positioning. BOC Aviation has robust banking group, the support of which has caused its historical funding model to move from 65% capital markets and 35% bank market to 55% bond market and 45% bank market. Townend explains the importance of this strategy: “The default position for bank funding is traditionally floating rate, whereas the default position for bond markets is fixed rate,” he says. “As we look at what we expect to happen, and what we have seen happen in interest rates over the last 12 months, we are expecting short-term rates to fall further. By taking more of that bank market funding, we have positioned ourselves with more floating rate funding than a number of our peers. With about 30% total funding at floating rates, it will adjust quickly as those short-term rates come down.”

Not all lessors follow this strategy; most prefer a fixed-rate, asset-liability-matched funding approach.

Peter Barrett, chief executive of SMBC Aviation Capital, maintains that the company is “not in the business of interest rate trading” but notes that the current period of stable interest rates is good for the business overall. “The base median case is probably in the zone where we are today, which is good for the industry and for trading,” he says. “The liability side of the balance sheet is critical for an aircraft leasing company. If you can’t get that right, it’s hard to get everything else right.” He stresses that SMBC Aviation Capital’s strength lies not only in “very strong support of shareholders,” but also in its deliberate use of multiple pools of capital. “We go to a lot of different types of markets. We were in the bond market in November and had a very successful 10-year issue at the peak, five times oversubscribed… but we also have a very strong relationship with the bank market. We do a lot of bank financing, and we also do a lot of long-term strategic financing in Japan.”

Barrett explains that this diversified liability strategy is inseparable from disciplined asset-liability management: “A very important thing for us is to manage our interest-rate exposure, to try and manage our assets and liabilities. And we have the smallest funding maturity gap of all the big lessors.” That matching discipline is intentional: “If we’ve got a fixed income, we’d like to have a fixed liability against that and to hedge our book as much as we can.” In an environment where short-term rates are easing, market access is strong, and margins are attractive, Barrett says the lessor will continue to act tactically: “Where the margins are good, we’ll take advantage of that.”

In late November, SMBC Aviation Capital issued $750 million ten-year senior unsecured 5.25% notes, which priced at US Treasuries plus 115 basis points.

Firoz Tarapore, chief executive of DAE, reinforces this disciplined approach to interest-rate risk, noting that while the industry watches the Fed closely, the goal is not to profit from rate movements but to remain insulated from them. As he puts it: “We’re a dollar business… dollar rates have come down, maybe not as quickly as some people anticipated, but we still think that… both labour and inflation developments point to an interest-rate environment that’s going to be more benign than what we see today.” For DAE, any easing is only “marginally beneficial,” because only a very small portion of its liabilities float: “In general, everything that we do is as matched as it can be.”

That matching is intentional: “We want to make money by correctly getting the value of the metal, as opposed to correctly betting on the direction of rates.” In Tarapore’s view, the purpose of monitoring monetary policy is not opportunistic timing but understanding the health of the underlying economy. And as inflation and labour conditions move back toward equilibrium, Tarapore argues, the industry should operate in an environment “where liquidity won’t be impacted, and absolute rates will be low,” underscoring why a fixed-rate, asset–liability-matched model remains both prudent and strategically advantageous.

INVESTMENT GRADE IMPORTANCE

Investment-grade status, Betsy Snyder explains, is the cornerstone of capital-markets access for both airlines and lessors, since it offers deep, inexpensive funding and near-instant execution: “You announce the transaction that day… you get a lot of interest, and you price it that afternoon.” It is equally transformative for airlines, as demonstrated when Delta issued $2bn in investment grade unsecured notes in early June 2025 – which was split into $1bn three-year notes and $1bn of five-year notes. The transaction marked the airline’s first high-grade bond sale in years, primarily used to refinance pandemic-era government loans, capitalising on the improved financial health of the airline and the investment grade ratings from both S&P and Fitch at that time.

Southwest also issued senior notes in October 2025 that were rated BBB+ by Fitch, and in Europe IAG issued €500 million senior unsecured 3.352% five-year bonds.

The percentage of airlines with investment-grade ratings increased to 35% by mid-2024 is continuing to hold, though some, like United Airlines (Ba1, BB, BB+), are hovering just below the IG threshold.

Cost of capital is a key competitive lever for leasing companies, which is why reaching investment-grade status is viewed as the ultimate milestone. But attaining investment grade is difficult; the primary barrier is scale, since “size does matter for the rating agencies” says Snyder. She adds that rating agencies expect portfolios with several hundred aircraft and meaningful dollar value, supported by global diversification—

FIG. 21: SELECT US AND EUROPEAN AIRLINE AND LESSOR CORPORATE CREDIT RATINGS CHANGES

Airline Corporate Credit Ratings

	Ratings Year End 2019			Current Ratings		
Airline	Moody's	S&P	Fitch	Moody's	S&P	Fitch
Southwest Airlines (LUV)	A3	BBB+	A-	Baa2	BBB	BBB+
Ryanair Holdings (RYAAY / RYA.L)	NR	BBB+	BBB+	NR	BBB+	BBB+
easyJet (ESYJY / EZJ.L)	Baa1	BBB+	NR	Baa2	BBB+	NR
Delta Air Lines (DAL)	Baa3	BBB-	BBB-	Baa2	BBB-	BBB-
Alaska Air Group (ALK)	NR	BB+	BBB-	Ba1	BB	BB+
International Airlines Group (IAG)	Baa3	BBB	NR	Baa2	BBB	NR
Lufthansa Group (DLAKY / LHA.F)	Baa3	BBB	NR	Baa3	BBB-	BBB-
JetBlue Airways (JBLU)	Ba1	BB	BB+	Caa1	B-	B-
United Airlines Holdings (UAL)	Ba2	BB	BB	Ba1	BB+	BB
Air Canada	Ba1	BB+	BB	Ba2	BB	BB
Wizz Air (WIZZ.L)	Baa3	NR	BBB	Ba2	NR	BB
Air France–KLM (AFLYY / AF.PA)		BB+	BBB-	NR	BB+	BBB-
American Airlines Group (AAL)	Ba3	BB-	BB-	B1	B+	B+

Source: JPMorgan, Moody's, S&P, Fitch

FIG. 22: SELECT US AND EUROPEAN AIRLINE AND LESSOR CORPORATE CREDIT RATINGS CHANGES

Aircraft Lessor Corporate Credit Ratings

	Ratings Year End 2019			Current Ratings		
Airline	Moody's	S&P	Fitch	Moody's	S&P	Fitch
BOC Aviation	NR	A-	A-	NR	A-	A-
SMBC Aviation	NR	A-	A-	NR	A-	BBB+
Aviation Capital Group	Baa2	BBB-	NR	Baa2	BBB-	WD
Air Lease Corporation	NR	BBB	BBB	NR	BBB	BBB
AerCap	Baa3	BBB	BBB-	Baa1	BBB+	BBB+
Aircastle	Baa3	BBB-	BBB-	Baa2	BBB	BBB
Avolon	Baa3	BBB-	BBB-	Baa2	BBB-	BBB
Dubai Aerospace Enterprise	Ba1	BB+	BBB-	Baa2	NR	BBB
Avation	NR	NR	NR	B1	B	BBB
Macquarie Airfinance	NR	NR	NR	Baa3	BBB-	BB+
Griffin Global Asset Management	NR	NR	NR	NR	BB	BB
Azorra	NR	NR	NR	B1	BB-	BB-
TrueNoord	NR	NR	NR	NR	B+	BB-
Phoenix Aviation	NR	NR	NR	B2	B	B

Source: JPMorgan, Moody's, S&P, Fitch

"aircraft diversity, geographic diversity, airline diversity".

PIF-owned AviLease achieved investment grade in April 2025, with a Baa2 with stable outlook by Moody's and BBB with stable outlook by Fitch. AviLease said at the time that the ratings reflected its "strong financial position, high-quality portfolio of aircraft and strategic alignment with Saudi Arabia's Vision 2030". Moody's rationale noted AviLease's "high-quality fleet" consisting primarily of new technology aircraft such as 737 MAX and A320neo family aircraft. In addition, the rating agency said the lessor benefitted from its "significantly lower" debt to equity leverage compared to other rated lessors.

"From day one, AviLease was set up with an investment grade profile in mind," said AviLease CEO Ted O'Byrne. "Achieving investment grade ratings in under three years since our establishment is a remarkable feat, and we believe it positions AviLease within a select group of lessors in the industry in record time."

O'Byrne has been clear that he is working to secure AviLease as one of the industry's top leasing companies but he acknowledges that takes time: "We have a patient, large and strategic shareholder, that understands that scale equals value for the shareholder." O'Byrne has a minimum threshold of $20bn balance sheet – "that's our North Star, because that is the level where we start to see efficiencies". He adds that the company is making its way to that point "patiently and with discipline" in the knowledge that a lessor of that magnitude requires a flexible and fully diversified balance sheet. "The rating was absolutely part of that goal," he says. "The rating agency has acknowledged the maturity and experience that we have acquired and assembled since the start of the company through the acquisition of Standard Chartered's leasing platform."

Achieving investment-grade status is difficult enough, maintaining it requires a disciplined balance sheet. Snyder adds that this also takes "a certain amount of unencumbered assets", which explains why top-tier lessors seldom use ABS structures whose encumbrances and structural constraints would work against those hard-won ratings. Once achieved, investment-grade status is jealously guarded, not just because of its cost-of-funds advantage, but because IG platforms have proved their resilience: "They've gone through Covid… repossessions… impairments… Russia insurance losses… and for the most part kept their investment-grade ratings." Yet Snyder also notes that movement upward is limited – the criteria are "pretty strict and hard to change", meaning upgrades from strong BBB+ names into the A-category are possible only "over time", not in the short term.

Upgrades are rare, but in 2025 two aircraft leasing companies benefited from an upward movement. Avolon received multiple rating upgrades across major credit rating agencies. Fitch Ratings upgraded Avolon's Issuer Default Rating to BBB (from BBB-) in May 2025, citing the company's strengthened financial profile, improved leverage discipline, resilient business model, and enhanced funding flexibility, all highlighted in Fitch's annual aircraft lessor peer review. Moody's also upgraded Avolon, raising its rating to Baa2 (from Baa3) in May 2025, supported by stronger-than-expected financial performance, improved profitability and cash flow, and a balance sheet underpinned by a young, fuel-efficient fleet. Together, these upgrades reflect Avolon's rising scale, robust liquidity, and its position as one of the top aircraft lessors.

Aircastle's most recent upgrade came in October 2025, when S&P Global Ratings raised its long-term issuer credit rating to BBB (from BBB-), assigning a stable outlook. S&P cited Aircastle's steady operating performance, growing and increasingly modern fleet, and strong lease-rate environment, supported by a global shortage of new-technology aircraft. Aircastle also benefited from supportive shareholder backing from Marubeni Corporation and Mizuho Leasing, along with solid liquidity and consistent profitability. The upgrade confirmed Aircastle's strengthened credit fundamentals and its improved resilience in a supply-constrained aircraft market.

Michael Inglese, chief executive officer of Aircastle, said at the time of the upgrade that it reflected the company's "steady profitability, growing fleet and strong liquidity". After rating action, Aircastle issued $650 million unsecured senior notes at 5.000%.

Inglese has described Aircastle's IG status as a fundamental tenet of its funding strategy but he admits gaining that status took some time. "We took a long time to get there. We started in the high yield market in 2010 and we were first upgraded to BBB- levels with the agencies in 2018 and we have only recently been upgraded to BBB flat. So it's a hard journey. Preserving that level is a key focus for us."

The lessor journey toward investment grade has kept pace with the maturing industry. As the scale of the platforms have expanded so too has their access to the capital markets, appeal to investors, and eventually qualification by the rating agencies with an investment grade rating.

Over the past two decades, the aircraft leasing sector has transformed from what Vinodh Srinivasan, managing director and co-head of the structured credit group at Mizuho, describes as

"We took a long time to get [to investment grade]. We started in the high yield market in 2010 and we were first upgraded to BBB- levels with the agencies in 2018 and we have only recently been upgraded to BBB flat. So it's a hard journey. Preserving that level is a key focus for us."

Michael Inglese, Aircastle

FIG. 23: 2025 AVIATION ISSUANCE

AIRLINE ISSUANCE VOLUME ($MM)

Pricing date	Issuer name	Facility	Amount ($mm)	Tenor (yrs)	Coupon
Jan-25	Atlas Air	Term loan (Reprice)	985	4.2	S+300
Feb-25	American Airlines (AAdvantage)	Term loan (Reprice)	2,275	2.3	S+225
Feb-25	JetBlue	Term loan (Reprice)	763	3.7	S+475
Mar-25	VistaJet	Term loan	700	5.3	S+375
May-25	American Airlines (AAdvantage)	Term loan	1,000	6.5	S+325
Jun-25	Delta Airlines	Senior notes	1,000	2.6	4.95%
Jun-25	Delta Airlines	Senior notes	1,000	4.6	5.25%
Jul-25	Alaska Air	Term loan (Reprice)	744	4.1	S+175
Jul-25	Atlas Air	Term loan (Add-on)	300	4.2	S+150
Sep-25	Delta Airlines (SkyMiles)	Term loan (Reprice)	588	2.8	S+300
Oct-25	American Airlines	Class B EETC	221	9.0	5.65%
Oct-25	American Airlines	Class A EETC	884	12.5	4.90%
Oct-25	Southwest Airlines	Senior notes	750	3.0	4.38%
Oct-25	Southwest Airlines	Senior notes	750	10.0	5.25%
	Total		$11,960		

LESSOR ISSUANCE VOLUME ($MM)

Pricing date	Issuer name	Facility	Amount ($mm)	Tenor (yrs)	Coupon
Jan-25	AerCap	Senior notes	750	7 .0	4.88%
Jan-25	AerCap	Senior notes	750	3 .0	5.38%
Jan-25	Aircastle	Senior notes	500	5 .0	5.25%
Feb-25	Truenoord Capital	Senior notes	400	5 .0	8.75%
Mar-25	AerCap	Junior subordinated notes	500	30NC5	6.50%
Mar-25	Aviation Capital	Senior notes	300	5 .0	4.75%
Mar-25	Aviation Capital	Senior notes	500	2 .0	5.13%
Mar-25	Avolon Holdings	Senior notes	850	5 .0	5.38%
Mar-25	Macquarie AirFinance	Senior notes	650	3 .0	5.20%
Mar-25	SMBC Aviation Capital	Senior notes	500	5 .0	5.10%
Jun-25	Azorra	Senior notes	550	5 .0	7.25%
Jun-25	Pheonix Aviation Capital	Senior notes (Add-on)	50	5 .0	9.25%
Jun-25	Pheonix Aviation Capital	Senior notes	550	5 .0	9.25%
Jul-25	Aircastle	Senior notes	650	5 .0	5.00%
Jul-25	Aviation Capital	Senior notes	750	5 .0	4.80%
Jul-25	Avolon Holdings	Senior notes	650	5 .0	4.90%
Jul-25	Azorra	Term loan (Reprice)	541	5 .0	S+275
Sep-25	AerCap	Senior notes	600	10 .0	5.00%
Sep-25	AerCap	Senior notes	600	5 .0	4.38%
Sep-25	Avolon Holdings	Senior notes	1,250	7 .0	4.95%
Oct-25	Pheonix Aviation Capital	Senior notes	592	4.9	S+325
Nov-25	SMBC Aviation Capital	Senior notes	750	10 .0	5.25%
Dec-25	Avolon Holdings	Senior notes	850	5.0	4.70%
	Total		$14,083		

Source: JPMorgan

"a cottage industry" with only a single investment-grade lessor into a mature, globally diversified asset class supported by deep institutional capital. He notes that the fragmented "mom-and-pop" equity that once characterised the market has largely disappeared, replaced by sophisticated investors that provide a stable foundation for growth. Today, a number of the larger lessors routinely access the unsecured debt markets as investment-grade issuers, backed by institutional capital on both the debt and equity sides. Srinivasan highlights the influx of private equity, infrastructure funds, insurance capital, and investment from regions such as the Middle East and Asia, which historically focused solely on supporting local airlines but now sponsor multiple leasing platforms. This broadening and globalisation of the capital base, combined with the expansion of new technology fleets and stronger corporate governance, has created what he describes as "a firmer base of institutional and equity support for the sector," enabling more lessors to attain and sustain investment-grade ratings.

Now firmly IG rated, O'Byrne says that in the coming months and years, AviLease will work to diversify its funding. "Today, we only have bank relationships. We are all unsecured financing, which, for a startup, is pretty special. That says a lot about the credibility we have obtained very quickly as well as the 100 pound gorilla backing us –obviously everybody's looking past us into PIF. That's something I want to sort of change over the coming years. I don't want to rely on our shareholder. PIF is not providing any direct support on our liability structure, but that relationship has allowed us to open some 36 banking relationships at very good terms, and all unsecured. That provides flexibility in the way we manage our liabilities and our portfolio. Going forward, you can expect us to continue to diversify our liability stack into the debt capital markets."

The investment grade unsecured bond market is the deepest pool of capital in the world where issuers can print even in a crisis, says Srinivasan, "maybe at a wider spread, whereas other markets tend to shut down". He adds that the pricing differential between investment grade and high yield issuers narrowed over the past year to as much as 50 bps – when historically it was between 250 to 300 basis points (bps) – which he says reflects greater investor comfort with lessors.

The journey to IG status is long and arduous, maintaining it is even more trying, but only two leasing companies have achieved A status – BOC Aviation and SMBC Aviation Capital – both of which have strong banking parents.

There has been some discussion whether AerCap, the world's largest aircraft lessor, might be upgraded to A status at some point. Analyst sentiment toward AerCap remains strongly positive, with most major houses highlighting the company's strengthening financial position, resilient earnings profile, and favourable market dynamics. Analysts across TD Cowen, Susquehanna, Barclays, Morgan Stanley and Bank of America have consistently maintained Buy or Strong Buy ratings, emphasising AerCap's robust capital levels, strong operating cash flows and the ongoing supply-demand imbalance in the aircraft market that continues to support lease rates and asset values. While none have explicitly predicted an imminent move into the A-rating category, their assessments consistently point to improving credit fundamentals – particularly steady deleveraging and diversified funding access – that align with the conditions required for eventual rating progression.

There is a realistic path for AerCap to achieve an A corporate credit rating, but not immediately. The company is performing well, and its upgrades to BBB+ across agencies in 2024–2025 confirm long-term momentum. However, to cross into the A tier, AerCap must deliver continued deleveraging, stronger liquidity buffers, and sustained earnings performance over multiple cycles. AerCap remains a top-tier BBB+ issuer with clear upward momentum, even if a formal A-level upgrade remains a medium-term rather than immediate prospect.

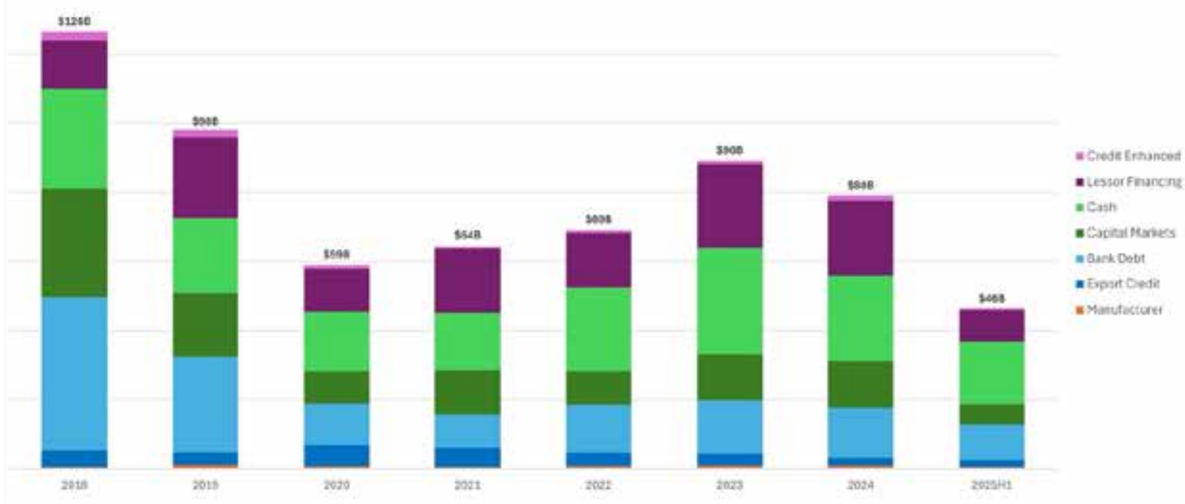
Moving to an A rating would help lower capital costs even further for the mega lessor but with debt pricing far below sub-100bp spread, AerCap is comfortably pricing ahead of its peers. As a frequent issuer in the bond market, AerCap chief executive Aengus Kelly, says that the company can "easily issue $2bn at five-year unsecured at 78 basis points" – as it did on January 6 with two tranches of senior notes, $900 million 4.125% three-year notes and $850 million 4.750% seven-year notes. However, Kelly says that the bank markets are becoming just as competitive with liquidity from Japan, the Middle East and the private credit market, which he says will provide funding "as the same rate or lower".

BANKING MARKET STRENGTH

Tom Baker, chief executive of Aviation Capital Group (ACG) rated BBB- by S&P and Baa2 by Moody's, says that the investment grade rating has allowed

"US banks are benefiting from the more flexible regulatory environment right now and there is research to show those banks will be able to increase their balance sheet capacity lend. Regulation is always a challenge but right now, the current administration, at least in the US, is very favourable toward the banks."

Olivier Trauchessec, MUFG Bank



Source: Boeing

FIG. 24: AVIATION INDUSTRY DELIVERY FUNDING MIX

the company to become a senior unsecured regular issuer in the US bond market, which he says has always been "a very reliable, always open, very predictable and efficient way to finance the company". However, he also observes that the bank market is very strong since the pandemic, with more liquidity coming from bank markets in Asia and the Middle East.

Although there has been some weakness in the European bank sector – with the exit of NordLB and HCOB – and some banks maintaining relationships with only their strongest investment grade clients, in the rest of the world demand for aviation credits and assets is high.

"The traditional aviation banking sector is robust: we have seen a couple of exits but for strategic rather than risk reasons, although some institutions are not doing as much as they would like so diversifying into other sectors such as shipping or rail," observes Justin Patrick, finance & banking team leader at *Airline Economics+*. "Target products are senior unsecured lessor debt deals as well as JOLCOs and insurance-backed facilities. For those institutions who are priced out of the above or cannot lend into JOLCO structures, selective secured mid-life equipment financing has become the norm."

Regulatory constraints for mainstream banks may also be easing enabling more balance sheet lending, says Olivier Trauchessec, head of global aviation at MUFG Bank: "US banks are benefiting from the more flexible regulatory environment right now and there is research to show those banks will be able to increase their balance sheet capacity lend. Regulation is always a challenge but right now, the current administration, at least in the US, is very favourable toward the banks."

Trauchessec expects to see strong participation from traditional aircraft finance banks. "Some are limited by ESG policies that restrict them to financing new aircraft, but many remain active, and ESG appears to be less of a focus than before," he says. "The local bank market is particularly dynamic, with new regional investors regularly entering the space. These banks typically lend to local airlines and lessors, providing significant liquidity, though they struggle to finance outside their home regions. We continue to educate and bring new investors—often these local banks—into the sector. Together, they complement traditional aircraft banks: the traditional lenders take an asset-based view, while local banks rely more on credit strength and their familiarity with local carriers and leasing companies."

Baker agrees that the bank market is "super strong – especially the Asian bank market," he adds. "Over the last five years, we have tapped multiple channels to open up more opportunities to diversify our funding sources, and gain access to pockets of efficient financing."

ACG has recently accessed the Japanese bank market. In October 2025, ACG closed a strategic refinancing of an existing unsecured term loan, originally closed in 2022 under the Japan Bank for International Cooperation (JBIC) co-financing program. JBIC, as Japan's government-backed financial institution, provided a $300 million, seven-year term loan, complemented by MUFG's underwriting of the initial $300 million, five-year unsecured commercial bank portion, sourced from a broad syndicate of lenders.

The Japanese market has long been one of the most disciplined and relationship-driven segments of global aviation finance. For ABL Aviation, which operates through an exclusive joint venture with a Japanese partner, success in this market has been built on depth rather than scale, as chief executive Ali Ben Lmadani explains.

"In Japan, you really have five players," he says, noting that in such a concentrated ecosystem, credibility is earned over time. "The Japanese market is about long-term partnership. You have to be there through the cycle – up and down – consistently showing up and delivering for your Japanese investors."

ABL Aviation's standing in this environment has been shaped by resilience and disciplined execution, attributes that resonate strongly with Japanese institutions. "We protected all our investors during Covid. We did not lose money for any of our investors," Lmadani says, adding that performance through the downturn has reinforced trust and cemented investor loyalty.

Despite Japan's prominence in global finance, its aviation investment universe remains tightly defined. "People think the Japanese market is big, but in reality you can only do around 20 airline names – the tier-one credits," Lmadani says. "That requires selectivity, strong structuring, and a focus on asset and counterparty quality rather than volume."

With a Japanese parent, ORIX Aviation's Meyler, is an expert on the region. "The Japanese market is very active for us because the Japanese economy is performing very well generating appetite for aviation assets," he says. "We are also seeing a large number of new private equity backed entrants that are trying to build portfolios, either for an ABS transaction or to spend aviation specific funds, or they are working to grow their asset ownership. It is true that Japanese investors do tend to focus on the very blue chip airline credits and new technology, while private equity backed aviation funds are looking for the higher yields that tend to focus more on midlife, older assets, and are more willing to take higher credit risk to secure that higher return."

The Japanese investor landscape sits within a broader context of global capital shifts. Looking more broadly, Lmadani notes that while Japan remains a core pillar of stable, risk-aware aviation investment, new pools of capital – particularly from the Middle East – are becoming increasingly active. "We see growing appetite from Saudi Arabia, Qatar and Abu Dhabi," he says. "These investors tend to have a longer-term, asset-backed perspective, which aligns well with aviation finance and complements our existing investor base."

Headquartered in Dubai, DAE is benefitting from the resurgence of interest in the aviation sector from local investors and banks. "Based in Dubai, we benefit from strong name recognition in the Middle East and access to a pool of regional liquidity that is truly unique," says Tarapore. "It comes in large size and at very attractive pricing. Over the past two years, surplus liquidity in the regional banking system – driven by high oil prices – has made Middle Eastern funding exceptionally competitive. Global markets, whether conventional or Sukuk, simply haven't been able to match that, and we've leaned into this advantage."

He adds that there has been a "step-change in how regional banks view aviation". Only three or four years ago, they would only lend to names they knew well such as typically local carriers like Etihad and Emirates, avoiding exposure to airlines overseas. "That has changed dramatically. Banks headquartered in Dubai have now built aviation lending desks and count some of the largest Dublin-based lessors among their prime clients."

In October 2025, DAE issued its first Sukuk in more than three years, attractive by narrowing spreads, something Tarapore would like to repeat: "Looking ahead, we want to repopulate our curve in both the conventional and Sukuk markets, and give our bank partners some breathing room. Banks will increasingly support our liquidity planning rather than being our primary source of funding."

AerCap chief executive Aengus Kelly agrees that the global aviation debt complex is expanding, and the Middle East is becoming an increasingly important part of that landscape. Sharia-compliant structures and regional funding pools provide alternative sources of capital that now sit alongside traditional markets like Japan and the US. Investors have increasingly viewed aircraft as safe, stable collateral with low valuation volatility, especially when managed by experienced global lessors. This recognition has supported the entry of Middle Eastern funding sources, insurance capital, and private credit,

says Kelly. "People have realised, particularly over the last 14 years, that aircraft are a very safe asset. The volatility of valuation is quite low."

ALTERNATIVES/REGIONAL CAPITAL

While traditional commercial banks still provide solid backing for secured, long-term debt, their participation remains noticeably limited. "Some banks are returning to the space, but it's nowhere near a level where they account for 20% of total financing," notes Andy Cronin, chief executive of Avolon. "In parallel, we're seeing alternative lenders and insurance capital step in — effectively engineering a rating pathway by taking private, unrated debt, collateralizing it, and turning it into rated paper suitable for the insurance market."

Alternative lenders and private credit investors have always been part of the aviation investment sphere but their influence has increased in recent years. They have been attracted to the stronger leasing market as demand for aircraft financing increased with deliveries, and importantly because the ABS market has remained closed for the past few years. "Alternative lenders have somewhat replaced the desperate requirement for those that wanted to use an ABS to fund some facilities," says Meyler.

"Over the past two years, surplus liquidity in the regional banking system – driven by high oil prices – has made Middle Eastern funding exceptionally competitive. Global markets, whether conventional or Sukuk, simply haven't been able to match that, and we've leaned into this advantage."

Firoz Tarapore, DAE

Many alternative lenders emerged post-pandemic in response to the funding gaps created when certain banks pulled back from the sector – companies like PKAirfinance, volofin, Ashland Place, Halo with GA Telesis, AV AirFinance, while Castlelake and Carlyle Aviation also set up lending platforms. They remain in demand even as the commercial banks return to strength. "They have been filling the gap that the exit of some of the smaller European lenders created, and I think they will be there to stay," says Srinivasan. "I wonder whether there's room for so many players in that space but some of the larger ones are always going to be fine, and some have differentiated strategies. There is a desire now for almost everyone to start a lending platform but I wonder about whether at some point there's not enough room."

Streeter comments that some of the larger alternative lenders are now more mainstream, pointing to Ashland Place, backed by Davidson Kempner, as a prime example. He also notes that there are many private equity sponsored alternative lending platforms that are continuing to grow tapping into the burgeoning aviation CLO market. "Aviation loan ABS issuance continues to grow, which plays right into the hands of the alternative lenders. They are not going away. Their share of industry funding, certainly in dollar terms, is going to continue to grow, as that funding need continues to grow on a percentage basis."

For borrowers, this alternative source of capital is praised for its speed, flexibility, stability, and capital availability when traditional banking sources may be constrained by regulatory rules of exposure limits. As aircraft deliveries continue to normalise and with the industry's pace of growth, demand for aviation financing will only continue to increase and alternative lenders are able to move faster to capitalise on that demand than more traditional players.

Volofin was one of the earliest alternative finance providers. Since setting up in 2019, the company has executed approximately $2.3bn worth of transactions in 50 deals, financing close to 400 assets. Bob Peart, chief executive and co-founder of volofin, explains that the company finances assets in the midlife-to-end-of-life segment: "Our traditional customer base has been sponsor-led financings to platforms that are tapping institutional money – insurance companies, pension funds or their own funds – which made up the majority of the business, but over the years, and even more recently, we have started to tap the airlines directly," says Peart. "We did a very large transaction for Virgin Atlantic – it was a highly-structured refinancing of an existing inventory transaction that was rated. We will see more and more of that going as that's where the demand is at the moment."

Peart further explains that financing aircraft assets at the moment is an easy task: "The good news is we don't have to sell very hard because there's a lot of interest in the institutional market around aviation on both the financing side and the asset investment side.... Aviation type transactions – whether they are asset investments or lending – offers strong risk-adjusted returns and are very attractive."

Castlelake launched its new aviation lending entity Merit AirFinance in August 2025, which provides debt capital to airlines and lessors for new and used aviation assets.

In an exclusive interview, Merit's newly appointed president Patrick Mahoney and Castlelake head of capital markets Armin Rothauser spoke with *Airline Economics* in September about the newly launched entity.

Merit will build on Castlelake's aviation lending activity, having deployed over $5bn to airlines and lessors since 2020.

Rothauser said that he believes Castlelake has built a solid reputation in aviation, gaining differentiated and more efficient access to capital as a result.

"In our view, the right thing to do is use that access to capital to provide more value to and add solutions for airlines and leasing companies," Rothauser explained. "The challenge that we faced is that we have a leasing company internally that competes for leasing deals. The solution is to create a separate entity and team that can use that unique access to deliver capital to other leasing companies."

Mahoney, president of Merit AirFinance said he believes this access to efficient capital, coupled with its ability to deliver it to other leasing companies, will add "real value" to leasing companies and for the industry overall.

The business intends to have its own separate office space along with a dedicated origination team. Mahoney said he believes that keeping Merit's business separate will further facilitate confidence among other leasing companies.

Merit launched with the ability to deploy over $1.8bn of committed capital via separately managed accounts.

Most of the activity, Mahoney explained, is expected to be senior secured. He added: "Because we have a more flexible capital mandate, and because the Merit team deeply understands aircraft investing, we believe we can underwrite more opportunities than a typical bank lender would."

Mahoney said Merit will be opportunity driven, with diversification through airline exposure – either directly or via leasing companies - being key to mitigating risk factors.

Crestone Air Partners, the mid-to-end-of-life aircraft and engine lessor, which is backed by private credit, has tapped into some of these alternative funds to great success. "We have used some of the alternative lenders out there that are backed by private credit and they've been great for us," says Kevin Milligan, chief executive of Crestone. "It depends what you're trying to achieve. If you want to go into spicier credits or jurisdictions, they are good partners. Yet, as we have grown, we have started to pivot more towards the banks, which have very compelling margin propositions and have been flexible on structure."

Although alternative lenders have been useful for Crestone, Milligan says it is not the way to scale. "The availability of capital is strong; there are so many options and different debt products today – it's a unique time in our industry as aviation has become more mainstream."

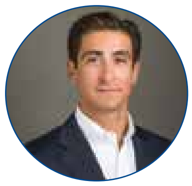
That funding need is only continuing to grow, as Steven Townend calculates: "You only need to look at the total dollar value of aircraft delivering over the next few years," he says. "In 2025, the industry delivered about $100 billion of aircraft. Historically, that is below the level the industry funded in 2017-1 – we still haven't recovered to those levels. When you fly that forward with the ramp up that the manufacturers have got in place, then funding total rising from about $100 billion in 2025 to about $120 billion in 2026 and then close to $140 billion the following year. That clearly needs to be funded. As much as we all love the airline sector as a whole, it's not an investment grade industry, and so it needs those new sources of capital, or those historic sources of capital, to come back in to fund that growth."

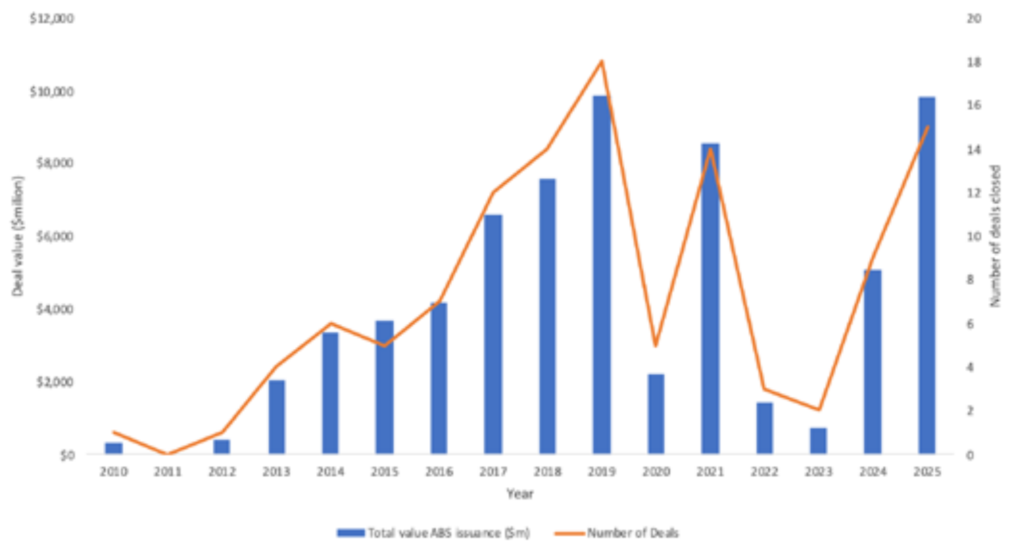
Peart estimates that the alternative lending segment could access at least $10bn annual volume. " We have developed a model that looks at historical deliveries and when those deliveries ultimately become secondary market trades," he says. "Using some base case values for aircraft that are trading, we believe that there's a $12bn to $15bn annual financing market across the secondary market, which is midlife-to-end-of-life assets. Some of that is going to be done by the Castlelakes, Apollos or Carlyles of the world, but there's a pretty decent volume – anywhere from $7bn to $10bn that is customer-driven demand for us. A handful of traditional lenders can thrive with that $10bn of annual volume, which only continues to increase."

McConnell also sees this lending segment only continuing to grow: "It's going to be a growing market for everybody. Banks will remain very active and the alternative lenders are going to remain active and frankly there isn't a tonne of competition

"We have used some of the alternative lenders out there that are backed by private credit and they've been great for us. It depends what you're trying to achieve. If you want to go into spicier credits or jurisdictions, they are good partners. Yet, as we have grown, we have started to pivot more towards the banks, which have very compelling margin propositions and have been flexible on structure."

Kevin Milligan, Crestone Air Partners





Source: Airline Economics Research

FIG. 25: AVIATION ABS DEAL VOLUME AND VALUE 2010-2025

between the two. You would be surprised at how differentiated the two markets are. There is overlap, but a lot of what the alternative lenders do is different than what the banks do, particularly given the new regulations that have been applied to banks. Banks are really focused more so on short-term warehouse-to-ABS fee-generating business, whereas the alternative lenders are focused more on long duration investments in providing capital to borrowers that potentially need more advanced, more flexibility, more risk taking than a bank could offer. Banks and all lenders can both be successful here long term."

Commercial banks and investment banks, as lessor CEOs have indicated in the series of Aviation Leaders interviews, are fighting back and offering much more flexibility in structures and pricing to help tap back into that share.

ABS RETURNS

The aviation ABS market opened in full force in 2025, with issuances reaching $10bn. Repeat issuers flooded back to the market, with three aviation loan ABS deals or CLOs closed in 2025 (see APL 2025-1).

Castlelake was one of the first to issue an ABS in February 2025, with Castlelake Aircraft Structured Trust (CAST) 2025-1. The $819.75 million aircraft ABS issuance, comprising A, B, and C notes, marked Castlelake's return to the ABS market for the first time since 2021.

"The ABS market is back," says McConnell. "We are back to pre-pandemic levels in terms of debt structure, in terms of pricing, and in terms of advance. Over the last few years, this asset class has proven itself. Considering the downturn that aviation industry went through, and you look at the ABS performance, it is remarkable how resilient the asset class has been, and how resilient the ABS structures have been. Investors can underwrite the product to six standard deviations of performance and still get my principal and interest back." He adds though that investors are much more focused on who the servicer is and the equity owner to make sure that there is real alignment between the two. But the ABS resurgence is here to stay and will only grow in scale.

Kalash Pandey, managing director at Goldman Sachs, agrees that the ABS market will only continue to expand given the active trading market. "With between 700 to 1000 aircraft that are trading annually, which are mostly used aircraft, the ABS market is by far the most constructive funding market for those assets. Spreads are constructive, and the market is very healthy. The lessors that tap into the ABS market are achieving attractive all-in rates. The pipeline for 2026 ABS deals is strong."

For McConnell, the resurgence of the ABS market comes from experience, scale, and the depth of data that the market has accumulated, with a better understanding of how to manage aviation assets and structures through periods of volatility. "More importantly," he says, "the past few years have been a period of genuine support-building for the aviation asset class within the ABS market, and that's fundamentally why ABS structures are back."

Although the debt side of the ABS transaction has returned in force, the equity portion has been slow to return, with some debating the reasons for that delay.

McConnell expects the equity side of the ABS market to reopen over the next few years. In 2025, Castlelake completed three ABS transactions, and McConnell is expecting this year to follow a similar pattern. "ABS remains a critical financing tool for investors, offering a structure that's now better understood, better tested, and well aligned with the long-term performance of aviation assets," he says.

Pandey notes that there has been some secondary E note trades but he says demand is returning for new issuance: "We have sold legacy ABS vehicles, pre Covid, E notes from one financial sponsor to the other, and to leasing companies. We are also seeing significant demand from financial investors, insurance asset managers, for that E note product, even in primary form. I would expect that to happen in 2026."

Srinivasan agrees: "You will see E note issuances. There have been E notes done in container and equipment leasing so the investor base is there for aviation. Everybody gravitated to senior debt when the rates went up in 2022. Now, that's all been exhausted so investors are looking for length in terms of tenor as well as yield in products such as subordinate debt or equity. It's just a matter of time before you see an E note sale but it is likely to be a single buyer rather than a tradable equity type."

One of the most significant developments in the ABS market in 2025 was the advancement in the use of a Master Trust structure in aviation asset transactions.

In a Master Trust structure, all series of notes share a common legal trust, integrated servicing and cross-collateralized cash flow support. Essentially the Master Trust structure facilitates an expandable ABS platform – allowing for the issuance of multiple securities under a single trust over time. Subsequent issuances require the assets to meet similar criteria. The structure allows for flexibility and cost efficiency, while providing the ability to issue additional pari passu debt to purchase additional aircraft.

Carlyle Aviation Partners introduced a novel Master Trust structure in 2024 with the issuance of AASET 2024-1, which was enhanced in AASET 2025-1, -2 and -3. Those structures retained caveats in the composition of the pool. "Our ABS approach is distinguished by innovation in structure," says Javier Meireles, chief executive of Carlyle Aviation Partners. "We pioneered a master-trust structure, first utilised in our AASET 2024-1 transaction and expanded during 2025 with AASET 2025-1, AASET 2025-2 and AASET 2025-3. This approach allows us to finance previously identified aircraft at our option, offering larger asset pools with more diversification. In our experience, ABS structures

AASET 2025-1

Carlyle Aviation Partners employed the "biggest structural nuance and change" in an aviation ABS deal with a novel master trust structure in its AASET 2025-1 deal.

The deal marked Carlyle's 17th aviation ABS deal and the first in 2025.

The $518 million issuance has both A and B tranches. The $464.45 million A notes priced with a coupon of 5.943% and a spread of US Treasuries plus 170 basis points (bps). The notes have a loan-to-value (LTV) ratio of 69%. The $53.85 million B notes priced with a coupon of 6.576% and a spread of 235bps. The B notes have an LTV of 77%. Both tranches were well oversubscribed.

Compared to its issuances in 2024, Carlyle's AASET 2025-1 attracted more investors, some of whom were first time investors in the asset shelf and the asset class overall, signalling a strengthening demand for the paper.

The issuance was further bolstered by its employment of a Master Trust structure, which Carlyle first introduced in June 2024 with its AASET 2024-1 issuance. In that transaction, the company had a pre-identified pool of eight aircraft, which the company completed with a subsequent notes issuance.

"The Master Trust structure in AASET 2025-1 is a bit broader," said CEO Javier Meireles at the time the deal closed. "The issuance is for 23 aircraft, and we have the ability to issue further issuances from a pre-identified pool of more than 50 aircraft. There can be an additional one, two, or three issuances off of the back of this AASET 2025-1 deal."

Meireles said this Master Trust structure was "probably the biggest structural nuance and change". He continued: "It really is a differentiator of our issuance compared with some of the other issuances that the market has seen thus far – the master trust structure is not something that has historically been used in aviation ABS transactions".

A Master Trust allows ABS issuers to issue more debt pari passu with the initial debt, which can be used to purchase more aircraft.

He added: "These deals are typically somewhere between 20 to 35 airplanes. With the master trust issuance, you could potentially get up to 40, 50, or 60 aircraft, which would be unique in our sector."

The 23 aircraft portfolio consists of 21 narrowbodies and two widebodies, with 27% new technology aircraft, on lease to 17 lessees in 13 countries. It has a weighted average age of 8.8 years and a weighted average lease term of 5.3 years.

The significance of the Master Trust is its flexibility, since it allows for a greater combination of aircraft in subsequent issuances, so long as it meets certain criteria. This limits some of the costs associated with setting up a new vehicle and running a new vehicle going forward, while investors benefit from the enlarged portfolio.

The transaction implemented guardrails to provide structural protections. The portfolio quality and composition – such as weighted average age, weighted average remaining lease term, new-to-debt concentration, narrowbody concentration – need to stay within a certain band, setting the parameters for subsequent issuances, which would need to be completed within 18 to 24 months of the original issuance.

"The innovative Master Trust structure will benefit issuers and investors alike, offering larger asset pools with more diversification," said Carlyle Aviation chairman Bill Hoffman.

Meireles said the Master Trust structure had a "very positive reaction" from investors. "It speaks to our brand in the marketplace," he said. "We're always looking to innovate and come up with new ideas on how we can do things better."

Goldman Sachs was sole structuring agent, global coordinator, and joint lead bookrunner. Milbank was the issuer counsel and Phoenix American was the managing agent.

For more on the Master Trust structure in aviation ABS deals, refer to a whitepaper by Phoenix American, The Aviation ABS Master Trust, reproduced in Airline Economics, Issue 88, November-December 2025, pp50-56.

GGAM 2025-1

The $1.245bn GGAM 2025-1 transaction – structured by joint leads Mizuho and BoA – includes $1.12bn Class A notes rated A- by Fitch and subordinated $125 million Y notes, rated BB- by Fitch. Both tranches have a legal final maturity date of September 30, 2060 and are secured on an initial pool of 25 aircraft – 20 narrowbodies and five widebody aircraft

– with a weighted average age of 4.1 years and average remaining lease term of 8.7 years on lease to a well-diversified airline portfolio of top tier credits including British Airways and Air France.

The A tranche, which has a loan-to-value (LTV) ratio of 77.6% and a collateral LTV of 77.1%, has a 14-year mortgage-style amortisation profile.

The Y notes are yield notes – a new designation that pay a coupon but are not amortising. Instead, the Y tranche, which has an LTV of 86.3% and collateral LTV of 85.7%, have principal paid down only with excess cash flow. The Y note has an initial $3 million interest reserve that will replenish to cover interest shortfalls.

The logic here is for higher risk investors who like the underlying credit, the Y notes allow them to remain invested in the company for a much longer period and share in its growth. In effect, what Griffin has created is a quasi-corporate finance vehicle for midlife aircraft assets.

The central aim of the GGAM 2025-1 Master Trust vehicle is for it to be treated more like a company, with the flexibility to grow and add assets. Although this first transaction features a pool of 25 aircraft, the facility can grow with more planes. The vehicle has the ability to re-invest dispositions proceeds within a defined time frame, offering prepayment protection for the debt holders, and giving Griffin the flexibility to keep debt in place. The change here is that when the pool is changed, further issuances under this structure are subject to a Rating Agency Confirmation (RAC). "When more assets are added, everything is re-evaluated and re-rated," explains Ryan McKenna, chief executive of Griffin. "If actual depreciation and amortisation differ from forecasts, you adjust by issuing more or less debt to stay on schedule. All aircraft are cross-collateralised – there are no separate pools – so the entire fleet backs all issuances equally. Every bond, regardless of when issued, shares the same legal seniority and benefits from the full pool of assets. Existing terms remain fixed, but new issuances flex up or down to maintain alignment, extending maturities so no one is prepaid early. Essentially, this applies corporate finance principles to structured products: all bondholders have equal standing, though repayment schedules differ. For example, two five-year bonds are identical in seniority, but the first matures earlier."

The GGAM 2025-1 has a stellar asset portfolio of 25 young, in-demand midlife assets on lease to top tier credits. As an inaugural issuance, the quality of the portfolio was important but in essence the investor is taking corporate credit risk rather than asset risk in this new funding structure.

By issuing a single tranche of senior debt, Griffin is able to eliminate the problem created by subordinated classes in the waterfall and the capital stack becomes more like a single block of debt.

With this new structure, Griffin hopes to keep investors interested and reinvesting in the company via this new vehicle specifically for the midlife portion of the balance sheet.

Mizuho and BofA Securities acted as joint structuring agents and joint bookrunner on GGAM 2025-1. Citigroup, Goldman Sachs and Morgan Stanley acted as passive bookrunners, Barclays, BMO Capital Markets, Fifth Third Securities, MUFG, PNC Capital Markets, SMBC Niko, Societe Generale and Truist Securities acted as co-managers.

Hughes Hubbard & Reed acted as counsel to Griffin and the GGAM Master Trust, and Milbank acted as counsel to the Initial purchasers, the joint structuring agent and joint bookrunners, passive bookrunners and co-managers. KPMG Ireland acted as tax advisors to Griffin and GGAM Master Trust.

The full analysis of GGAM 2025-1 is examined in more detail in the feature, Masters of Aviation Trusts, in Airline Economics, Issue 88, November-December 2025, pp42-45.

APL 2025-1

Aviation loan ABS transactions are no longer considered novel, largely due to the market being shaped by the Ashland Place team – one of the pioneers in opening the space in 2023 with APL Finance 2023-1 (APL 2023-1). This was closed only shortly after the concept was first introduced in the aviation finance sector with SALT 2021-1 from Bellinger Asset Management and Stonepeak Partners. That first deal melded established aviation ABS methodology with collateralised loan obligation (CLO) technology to securitise the acquisition of the aviation loan book from National Australia Bank. Apollo used the same outlet to securitise its acquisition of the PK Airfinance loan book with its series of successful loan ABS transactions, PKAir 2024-1 & -2, PKAir 2025-1, -2, -3. However, with APL 2023-1, Ashland Place became the first aviation finance company to issue a loan ABS with a pristine portfolio of aviation asset loans solely originated by the company. And, true to her word, Villa became a repeat issuer in October 2025 with a second loan ABS, APL Finance 2025-1 (APL 2025-1).

The $295.9 million A tranche has an initial loan to value (LTV) ratio based on loan balance of 67.5%, as well as an LTV ratio based on collateral balance of 45.7%. The $56.1 million B tranche, rated A has a loan balance LTV of 80.3% and collateral balance LTV of 54.4%. The $32.3 million C tranche – rated BBB – has a loan balance LTV ratio of 87.6% and 59.4% collateral balance LTV. The tranche is rated BBB by KBRA. The final D tranche totalling $30.2 million and rated BB-, has a loan balance LTV of 94.5% and 64% collateral balance LTV.

The notes are backed by a static pool of loan facilities secured by 13 narrowbody aircraft, eight freighter aircraft, two widebody aircraft and three narrowbody aircraft engines on lease to 15 lessees located in 13 jurisdictions.

Proceeds from the notes, which were oversubscribed, will be used to acquire this portfolio of 11 loan facilities comprising 26 loans.

E195-E2s make up 26% of the portfolio by value, followed by the A320-200 at 19.8%, A330-900neo at 12.6%, and the A321-200 at 10.1%.

Other assets include 737-800 freighters (both SF and BCF variants), a 747-400 freighter, an A321-200 freighter, as well as an A330-200 and a 737-800 aircraft. In addition, the portfolio's engines include CFM56-7B and CFM56-5B assets.

All loans in the portfolio were originated under the Ashland Place platform and are limited recourse, first lien, senior secured loans.

The $414.4 million APL 2025-1 loan ABS transaction was substantially oversubscribed on all four tranches, with initial price talk (IPTs) on the A notes at 150 to 160 basis points (bps) tightening before pricing to 135-145 bps and closing at a record +125bps. The APL 2025-1 A notes – rated AA by KBRA – attracted very strong interest from repeat and new investors.

enhance risk mitigation and provide access to cost-efficient capital, and this approach to financing complements our acquisition strategy."

The structure was taken one step further by Griffin Global Asset Management (Griffin) in its inaugural ABS deal GGAM 2025-1, which closed in early November 2025 (see box for more detail).

Given the meaningful recovery in the ABS market in 2025, where issuance volumes reached the record levels last seen in 2019, Carlyle's Meireles is confident for the future of the product type. "The progress made in 2025 has been underpinned by the performance of pre-Covid and post-Covid issuances, higher lease rates, strong asset values, and a more constructive airline credit backdrop," he says, adding that all of which have helped to restore confidence across the market. "The expectation is that this recovery will continue, with forecasts pointing to even greater issuance volumes in 2026."

ABS is a core funding tool in the aviation sector, alongside bank and other capital markets solutions. Carlyle expects ABS transactions to remain a central pillar of its capital structure over the next 12 months. "As always, our emphasis will be on executing high quality transactions that are well aligned with the long-dated nature of the assets and reflect a disciplined approach to growth," says Meireles.

CONSOLIDATION FINANCE

As discussed in the Leasing Chapter, consolidation was a key trend for 2025, which is expected to continue into 2026 and beyond as scale becomes a fundamental factor in the competitive leasing market.

SMBC Aviation Capital's acquisition of Air Lease also introduced a novel form of equity financing. Peter Barrett says that the structure was chosen to ensure the company optimised its own capital. "This is a very large transaction; we brought in good partners and, after a lot of hard work and discussions, we came out with a structure we felt worked for us as a investor group and for the seller."

The proposed acquisition introduces new partners into the leasing sector with a new structured equity arrangement. The acquiring consortium is Gladiatora Designated Activity Company (DAC), a new holding company based in Dublin, Ireland, whose shares are held by Sumitomo Corporation, SMBC Aviation Capital, and investment vehicles affiliated with Apollo managed funds and Brookfield. Air Lease will be renamed Sumisho Air Lease and its orderbook will transfer to SMBC Aviation Capital as part of the transaction. SMBC Aviation Capital said it will act as a servicer to the substantial majority of Sumisho Air Lease's portfolio.

SMBC, Citi, and Goldman Sachs USA have provided $12.1bn of committed financing in connection with the transaction. An SEC filing detailed that the financing will be used to fund "all amounts required to pay the merger consideration and all related fees, costs and expenses" incurred by the holding company.

The equity portion of the transaction has gained attention for its novel structure. Under the deal, once SMBC Aviation Capital has paid cash for the orderbook portion, the remaining equity is being funded by four equity providers: Sumitomo will fund and hold 37.5% of the common equity of the new entity, Brookfield and Apollo affiliates will hold a further 37.5% of the common equity, with SMBC Aviation Capital holding the remaining 25%.

Under the structured equity arrangement, Brookfield and Apollo would be entitled to a reallocation of equity from Sumitomo should dividends from the investment not meet certain prearranged parameters, which are not public. The expectation is that Brookfield and Apollo will be paid back in full over seven years, which as equity is not guaranteed, but in this structure there are covenants that should the level of returns to Brookfield and Apollo be lower than expected then that reallocation caveat would trigger. This formula makes it very likely that the structured equity would be paid off. One industry expert described this structure as very similar to preferred equity, which offers investors priority over common equity in receiving distributions and liquidation proceeds, often with a fixed return, but without the full upside potential of common equity. This makes it a more secure investment than common stock but less secure than debt, providing downside protection while allowing for some equity risk. This structured equity

"The structure that was used on that transaction with Brookfield and Apollo providing the structured equity is Interesting. It is something that other funds have been trying to deploy in the sector. I think you'll see that used as a distinct financing tool in certain large ticket opportunities."

Vinodh Srinivansan, Mizuho

arrangement appears to go one step beyond that to allow for even more security of a full payout.

"The Aviation Capital-Air Lease transaction is an excellent example of these new pockets of new equity – insurance capital, infrastructure capital, private equity capital – are coming into our space," observes Tom Baker, chief executive of Aviation Capital Group (ACG).

"The structure that was used on that transaction with Brookfield and Apollo providing the structured equity is interesting," comments Srinivasan. "It's something that other funds have been trying to deploy in the sector. I think you'll see that used as a distinct financing tool in certain large ticket opportunities."

Meyler expects the use of structured equity to play a useful and meaningful part in future M&A deals. "Once the cost of the structured equity is lower than the businesses planned ROE over the post M&A period, then the use of such structured equity will always be accretive to a transaction. It will also provide the flexibility and short-term liquidity required when the value of the assets held by the top ten leasing companies will all exceed US$15 billion in the near future."

Not everyone is a fan of structured equity. An industry veteran noted: "Rating agencies should not give any equity credit for the kind of structured equity used in the ALC acquisition," they said. "Since the return on the structured equity is fixed and guaranteed, it is nothing more than expensive debt that the buyer is using to hide the excessive leverage in the transaction. For example, if the structured equity component was 50% of the total equity, the implied transaction leverage is actually 7x (non-IG) instead of 3x (IG). This enables buyers to be reckless with the price they can pay for fixed assets and is sowing the seeds today for asset valuation problems in the future."

Looking ahead to 2026, aviation finance enters the next phase with cautious confidence. Financing volumes are recovering toward pre-Covid levels of around $100 billion annually, with momentum building across capital markets, private credit, bank lending, and increasingly creative structures that draw in insurance and long-term institutional capital. Consolidation and M&A are set to remain defining features of the landscape, driven by the continued premium placed on scale, ratings strength, and diversified funding access. While 2025 tested the sector with geopolitical uncertainty, stubborn inflation, and elevated operating costs, those headwinds were largely offset by attractive financing conditions and supportive fundamentals. Risks remain – particularly around fuel prices, credit spreads, and geopolitical stability – but the industry enters 2026 with deeper capital pools, greater structural resilience, and a clear willingness to innovate. The result is an aviation finance market that is not only open for business, but increasingly well equipped to fund the next cycle of growth.

"Once the cost of the structured equity is lower than the businesses planned ROE over the post M&A period, then the use of such structured equity will always be accretive to a transaction. It will also provide the flexibility and short-term liquidity required when the value of the assets held by the top ten leasing companies will all exceed US$15 billion in the near future."

James Meyler, ORIX Aviation

KPMG

Outlook for 2026 and beyond

Aircraft supply remains the defining constraint for the aviation sector heading into 2026. While OEM production is showing the first signs of incremental improvement, meaningful relief is still some years away. This mismatch between demand and available delivery slots continues to shape every layer of the value chain.

Several leaders emphasised that the underlying fundamentals remain exceptionally strong precisely because OEM output cannot catch up quickly. As James Meyler notes: "Will we have enough aircraft to meet the forecasted growth? Only just... the fundamentals for a 20-year period are pretty unprecedented... the manufacturers are not able to increase production to a level that's going to oversupply the market."

Similarly, Greg Conlon forecasts that stability will come – but gradually: "As I look through the end of the decade, we get to a more balanced supply trajectory... I'm confident they're going to get to a place on cost of overhauls and LLPs that makes sense."

The consensus remains: supply constraints will ease, but not disappear, and the industry will continue to operate in a tight-capacity environment for several years.

With new aircraft restricted, the pressure cascades down the aircraft life cycle, keeping mid-life and mature assets in exceptionally high demand. Lift—not technology—remains the airline priority, though cost discipline is clearly returning.

Demand has driven elevated leasing values and a critical shortage of green time. As leaders consistently noted throughout the report, the scarcity of engines continues to be one of the toughest bottlenecks. The market's resilience and adaptability, proven across decades, continues to support strong values for in-service assets. Meyler reinforces this long-term stability: "Aircraft are mobile assets [that have been] proven in various cycles... from the early 1990s Gulf War, to 9/11, the financial crisis, and Covid... as a very resilient asset." This durability of demand across cycles is expected to persist through 2026.

Financing capacity remains deep, and increasingly creative. With traditional new-technology deliveries limited, competition for financing – particularly for mid-life and sale-leasebacks – has intensified. Yet several leaders highlighted a shift toward more discipline emerging as supply starts to rebuild.

Kalash Pandey captured the direction of travel: "There's going to be more financing, and more private and bank lending going into 2026… finding ways to attract new capital into the sector is something we look forward to."

Peter Barrett echoed this, emphasising the evolution of funding sources: "We're going to continue to see new pools of capital coming into the industry, new ways of financing… and our job is to find smart, innovative ways to bring that capital in."

While optimism for 2026 is strong, leaders are clear-eyed about the risks. Inflation, interest rates, operating costs, and the threat of sudden macro shocks remain the biggest variables.

Ted O'Byrne highlighted inflation's lingering unpredictability: "CPI doesn't seem to be coming down… the long end of the curve is not coming down… [which is] something to keep an eye on for 2026 and beyond."

The possibility of an AI-driven or market-led correction is top-of-mind for several. Meyler was explicit: "Barring a stock market correction or an AI bubble burst, it will be a pretty good year… but if there is… it's going to filter into the airline industry more than people expect."

Despite these watchpoints, none foresee a near-term structural downturn.

Despite near-term pressures, industry leaders remain overwhelmingly optimistic about aviation's long-term trajectory. Demand fundamentals remain robust, particularly in Asia-Pacific, where Jie Chen sees the strongest growth: "Passenger traffic growth is projected to be strongest in the Asia-Pacific region, supporting sustained demand for next-generation aircraft."

Conlon emphasises the absence of technological obsolescence risk: "There's no replacement for aviation… the obsolescence risk in our space is extremely low."

And Barrett provides a broader perspective on aviation's enduring role: "Aviation is a force for good… it expands horizons, gives economic opportunity, reunites families, and opens new perspectives."

As supply chains stabilise, inflation moderates, and new pools of capital deepen their participation, the industry enters 2026 with confidence – tempered, but unmistakably positive. Stability is returning, new technologies and financing structures are maturing, and aviation's long-proven resilience continues to underpin a sector poised for long-term growth.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