

Growth Frontiers Global: Round-Up

The conference provided valuable insights into the current state of the global aviation industry. The key message was one of resilient growth tempered by structural supply constraints. Air travel demand remains robust, whilst production challenges and engine supply issues for original equipment manufacturers (**OEMs**) continue to constrain aircraft availability. For lessors, this environment presents significant opportunities for investment-grade participants with strong orderbooks.

Market Overview

Macroeconomic Environment: Global GDP growth is forecast at approximately 3.1% for 2026, with growth in emerging markets of around 4.0% compared to 1.6% in developed economies. The aviation industry has also demonstrated remarkable resilience. IATA forecasts global airline profits of USD 41 billion for 2026, albeit with a tight net margin of 4.9%. The economic backdrop remains supportive, though presenters noted wealth disparity is driving divergent consumer behaviours.

Passenger Demand: Air travel demand remains strongest in developing markets. Traffic is expected to grow 5.8% (RPKs) versus 2024, with more than 60% of growth originating in Asia Pacific. India, UAE, and Saudi Arabia are expected to lead industry growth, with almost 1,000 aircraft to be delivered in the next three years. Global passenger numbers are projected to exceed 6 billion by 2030, with global jet aircraft fleet forecast to surpass 31,000 aircraft.

Manufacturers and Supply Constraints

Aircraft supply and demand dynamics remain fundamentally out of equilibrium. Presenters emphasised that OEM production volumes have still not recovered to peak production 2018 levels. Supply chain disruptions cost the airline industry an estimated USD 11 billion in 2025.

Airbus and Boeing: Both manufacturers face ongoing production constraints. Airbus delivered approximately 790 aircraft in 2025 but has pushed its A320 production target to 65/month by mid-2026, while A350 output remains inconsistent; Boeing, operating under regulatory oversight, recently increased 737 MAX production to 42/month and aims for 787 production to reach 8/month by late 2026, though supply chain issues persist.

Development cycles for new aircraft are significantly extended. Presenters suggested it is difficult to see an all new airplane entering airline service until 2038-2039 at the earliest, as focus remains on resolving production stability and quality issues rather than developing new products.

Engine Manufacturers and Supply

Engine issues have required airlines to source spare aircraft and engines to compensate, with reports of nearly new Airbus A321neos being cannibalised for their engines and components. Swiss has grounded its Airbus A220-100 fleet amid ongoing Pratt & Whitney engine issues.

Engine Manufacturer Performance: Engine manufacturer share performance has led the aviation sector. Rolls-Royce's share price has increased over 1,000% in three years. GE and RTX are also "powering ahead" of Airbus and Boeing. Equity value is accruing to service-oriented business models with locked-in customer bases. The trade-off between fuel efficiency and maintenance cost is driving growth in the spare engine market. Engine improvement packages continue to take much longer than expected.

Lessor Market Trends

Industry Position: The aircraft leasing industry continues to grow its market share, with lessors now owning 51.2% of the global commercial fleet. Over USD 100 billion of aircraft deliveries will require financing each year through 2030, with approximately 50% expected to come from lessors. There are now 12 airlines with investment grade status, and investment grade lessors achieved rating upgrades in 2025.

Orderbook Concentration: Approximately 200 airlines and lessors had orderbook positions at the end of the last decade. The top 10 airlines now hold over half of the orderbook, and the top 3 lessors hold over half of the lessor orderbook. Limited availability of new aircraft makes lessor slots highly valuable to under-ordered airlines. OEM data suggests 98% of 2026 single-aisle deliveries, 82% of 2027 deliveries, and 16% of 2028 deliveries are already placed.

Lease Rates and Values: Aircraft values and lease rates are at record highs for both single-aisle and twin-aisle aircraft. Widebody lease rate factors expanded in 2025, with scope for further growth in 2026. Market-to-base value ratios are at record highs. Elevated interest rates and OEMs' inability to deliver aircraft have pushed and kept lease rates high. Widebody deliveries have a clear structural under supply, running at half the rate of 2014-2018.

Trading and Consolidation: Strong trading activity is unlocking significant gains above book value, with robust demand from Japan, the US, and the Middle East. The lack of OEM deliveries requires lessors to expand through trading and M&A, with further consolidation, relevance and size are increasingly important. Avolon forecasted A330neo lease rates will increase by more than 15% in 2026, and Airbus and Boeing narrowbody jets over 150 seats will be sold out to 2035.

Aircraft Finance and Banking

Overall Debt Markets: An expected USD 125 billion of aircraft deliveries in 2026 will require diverse funding sources. Over USD 600 billion in financing is needed through 2030, with approximately 50% expected to come from lessors. The aviation industry's funding mix has evolved, with bank debt, capital markets, export credit, and lessor financing playing critical roles.

Investment-grade status remains critical for large lessors. There was a strong start to 2026 for unsecured issuances, and investment-grade lessors achieved upgrades in 2025. The re-rating of airlines and lessors is underway, with 12 airlines now holding investment-grade status alongside the investment-grade lessors.

Bank and Alternative Lenders: The bank market continues to play a core role in aviation financing. Alternative lenders are supplementing the market, a notable development that signals depth and diversity in available capital. Presenters also highlighted the emergence of new regional aviation banks in Asia and the Middle East, reflecting the shift in aviation growth.

Large lessors are attracting new types of capital into the sector, including insurance capital and infrastructure funds. The robustness of the aircraft leasing model makes aviation an increasingly attractive investment class for institutional investors seeking stable returns.

Broader Debt Capital Markets: The conference took place against a backdrop of robust global debt financing markets. Corporate treasurers have adeptly navigated geopolitical risk, trade wars and economic uncertainty in 2025, accelerating debt issuance to take advantage of strong investor demand and favourable financing costs. USD investment-grade issuance is expected to see a 16% increase in 2026, high yield issuance also saw significant growth, reaching USD 323 billion in 2025.

Global monetary policy is expected to remain accommodative in 2026, with several large central banks either easing further or keeping rates on hold. Interest rates are projected to steadily increase over the next 24 months.

Export Credit and Supported Finance: Export Credit Agencies (ECAs) supported financing is generally treated by lenders as sovereign risk, and margins tend to be relatively low. However, transactions are subject to government processes and timing constraints.

Private sector supported financing platforms have emerged, including the Aircraft Finance Insurance Consortium (AFIC) and Balthazar Finance. These platforms are not bound by OECD Arrangement and ASU rules, making their financing terms and conditions more flexible, though loans tend to have higher margins than those supported by ECAs. Insurance backed platforms can be structured to support transferability of the underlying loan, a key advantage for secondary trading.

ABS Market Update

2025 saw US\$10 billion in aviation ABS issuances. 2026 could be a record year for aviation ABS, including potentially a primary E-note issuance. Avolon included an aviation ABS E-note issuance as one of its “fearless forecasts” for 2026. ABS remains important to the mid-life and non-investment-grade market. Investment-grade status remains critical for large lessors, it is hard to achieve and upgrades are slow, but there was a strong start to 2026 for unsecured issuances.

Other Key Themes

Airline Restructurings: The LCC model in the US is under pressure, and Spirit Airlines’ dual Chapter 11 filings were a key discussion point. The airline filed for a second bankruptcy in August 2025 after emerging from its first in March 2025. Constrained supply does allow aircraft to be redeployed quickly.

MRO Capacity and Maintenance: Higher numbers of older aircraft requiring heavier maintenance, whilst newer engines require more frequent visits. Limited maintenance, repair and overhaul services (“MRO”) capacity makes fleet planning and AOG time challenging. As next generation aircraft leases near completions and maintenance event costs continue to rise, Airline Economics can expect to face significant cash costs.

Financing and Structuring Opportunities

The current market presents significant opportunities for Cayman Islands’ structures in aircraft finance:

1. **Orderbook Value:** With OEM slots largely sold out through the early 2030s and lessor orderbooks concentrated, secondary trading of aircraft and portfolio transactions will intensify. This creates demand for efficient holding structures and cross-border financing arrangements where Cayman Islands vehicles remain an excellent structuring solution choice.
2. **ABS Renaissance:** The anticipated record year for aviation ABS in 2026, potentially including primary E-note issuances which signals renewed capital markets appetite. Cayman Islands remain the preferred issuer SPV jurisdiction for aviation ABS transactions. The evolution of ABS structures demonstrates the market’s ability to adapt and improve credit structuring.
3. **Investment-Grade Migration:** The re-rating of lessors to investment grade is opening access to deeper pools of unsecured capital. Investment-grade lessors demonstrated their ability to access the deepest pools of capital in 2025, with significant secondary market activity. This may shift some financing away from secured structures, but the mid-market continues to rely on asset-backed financing where offshore structures provide tax efficiency and creditor protection.

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