AIRFINANCE GLOBAL

Lessor outlook 2026: Cruising altitude reached

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09/12/2025

Morningstar views the 2026 outlook for the global aircraft leasing industry as positive, citing stable but slowing global economic growth, sustained air travel demand, and a notable shortage of airworthy aircraft and engines as primary factors.

However, lessors will face substantial financing requirements, including the purchase of new assets and the refinancing of maturing obligations.

As such, Morningstar anticipates in a newly released analysis that lessors will be active issuers in the unsecured and asset-backed securities (ABS) markets next year, with $19.3 billion in debt to be refinanced and additional funding required for new aircraft deliveries.

Improving lease yields, robust portfolio utilisation rates, and lower funding costs have contributed to enhanced financial results for the lessors tracked by Morningstar through the most recent financial reporting period.

It expects these dynamics to persist in 2026, with lessors seeing lease extension rates that exceed historical trends, reducing the frequency of aircraft transitions between airlines and lowering transition costs.

Travel demand

Despite ongoing economic uncertainties, Morningstar observes that global passenger travel volume growth is stabilising at a more normalised rate following the robust expansion in 2023 and 2024 during the post-Covid recovery.

It expects global passenger travel volume growth to remain solid in 2026 at a mid-single-digit level despite ongoing trade disputes and slowing economic growth in key aviation markets.

It also expects airline profitability to remain robust, supported by sustained demand for leisure travel, improved corporate travel volumes, lower fuel costs, generally declining interest rates, and a weakening US dollar.

Reflecting this positive operating environment, the International Air Transport Association (IATA) projects a net profit of $36.4 billion in 2025, up from $32.7 billion in 2024. All regions are expected to generate net profit; however, Africa and Latin America are not anticipated to achieve positive year-on-year growth.

While bankruptcies were manageable in 2025, a slightly higher incidence of troubled credits among lessors is anticipated in the coming year, primarily due to start-up and ultra-low-cost carriers in emerging markets facing elevated operating costs and intense competition. Nevertheless, these challenges are expected to "remain manageable".

Better yields

Strong passenger growth and new aircraft deliveries from original equipment manufacturers (OEMs), which remain below target production rates, have led to higher lease yields for lessors in 2025 across both narrowbody and widebody segments. Due to the expected continuation of these trends, Morningstar expects further improvements in lease yields.

Impairments for the nine months of 2025 across the Morningstar universe of lessors totalled $139.1 million, more than double the year-earlier levels, and 4% of adjusted pre-tax and pre-impairment income (IBPT) generation.

Adjusted IBPT generation, excluding recoveries on Russian stranded aircraft from insurance settlements, amounted to $3.5 billion in the most recent reporting periods.

"With lease yields remaining healthy, sound gains on asset disposals, and operating costs well controlled, we expect IBPT generation to remain healthy," Morningstar indicates.

Given the favourable aircraft supply-and-demand imbalance, lease yields are projected to improve, and margins from secondary-market sales are expected to remain consistent with historical averages. Additionally, potential impairments to aircraft values are anticipated to remain modest, as aircraft values are expected to remain firm.

ABS market

In 2025, activity in asset-backed securities (ABS) markets remained strong, and Morningstar anticipates this momentum will persist into next year as lessors diversify their funding sources, secure more affordable financing, and better manage their airline exposures.

It anticipates that the large lessors will maintain their unsecured, debt-oriented funding profiles and remain active issuers in the capital markets, while maintaining similar leverage levels.

Lessors, as tracked by Morningstar, issued $14.4 billion of senior unsecured debt so far this year, a 29% year-on-year decline from the record $20.2 billion in 2024.

As of 30 September, lessors had $19.3 billion of senior corporate debt due for refinancing in 2026, or roughly 18% of their total senior unsecured debt, which is significantly higher than the $11.2 billion of senior unsecured debt scheduled to mature entering 2025.

"While we expect interest rates to moderate further in 2026, we anticipate that aircraft lessors we follow that new issue debt will be at rates or coupons higher than the cost of maturing debt. Nonetheless, we anticipate that the aforementioned strengthening lease yields will partially mitigate this headwind to 2026 earnings," Morningstar indicates.

It notes that balance sheet leverage across lessors "remains steady," providing a cushion against any unforeseen volatility in the operating environment and supporting the investment-grade credit profiles of the large lessors.

"We expect the lessors will remain disciplined in their deployment of leverage in 2026, with debt issuance activity balanced by sound earnings generation and reasonable capital payouts," Morningstar adds.

Leverage (debt-to-equity) as of the most recent reporting date stood at 3.2x, aligning with year-end 2024 and representing the lowest level in the past 10 years.

