

# State of the T&L Market: An Interview with a Long-Time Sector Expert

After over two years of turbulent headlines and macroeconomic uncertainty, the transportation and logistics industry is slowly seeing a recovery. To find out more, Gaurang Shastri, Managing Director in Lincoln International's Business Services Group, recently interviewed [Lee A. Clair](#), Managing Partner of [Transportation and Logistics Advisors, LLC](#) (TandLA). Their conversation is condensed below.

### *Gaurang: How does this freight cycle compare to prior down cycles?*

**Lee:** In my career, there has never been anything like the current "freight recession." A typical freight recession tends to last 8 to 15 months—this one is going on three years. Additionally, in prior recessions, the recovery has been reasonably strong. The prior recoveries came back to where the freight volumes / demand exceeded the levels prior to the recession and then went on to grow with the overall economy or population. If you look at the current freight demand, depending on the measure, we are still about 5% below 2019 levels, while since that time, the U.S. population grew 3.6%.

### ***Gaurang: So where are we in this cycle? Are we beginning to recover?***

**Lee:** Unlike prior recessions where high and low water floated and sunk all boats, this one has been very uneven, sinking most but not all. Unfortunately, most of the economic sectors that have been strong do not generate a lot of transport demand, such as technology, healthcare or financial services.

At this point, I would say that overall, we are past the bottom and starting a slow recovery. Some of the more intensive transportation sectors would be construction, energy and agriculture. So far, energy and agriculture are showing early-cycle strength, while construction is still in a slump.

### ***Gaurang: How are the various transport modal sectors recovering?***

**Lee:** The most interesting sector has been rail. After decades of losing share and / or flat out shrinking, so far this year, rail is up—small percentages, but up. So, YTD (first 40 weeks) total rail carloads are up about 2%. For the last several decades, the only thing that typically grew was intermodal. But this year, the growth has been broad-based, and that even includes a lot of bulk commodities like grain, coal and chemicals. And while the press has been “Chicken Little-ing” how the sky will be falling for imports due to tariffs, intermodal, driven by imports, is up 2% YTD and 5% in the quarter. This Year-over-Year strength is slowing, not from rail being weak but rather from stronger comps from the end of last year.

Less than truckload (LTL) carriers have done better than most other transport service providers, but that is as much a factor of the Yellow bankruptcy removing capacity as it is demand strength.

For truckload, demand has relatively leveled off, albeit only around 2019 levels. However, the problem for truckload is that supply is controlled by the number of drivers, not the number of trucking companies or the number of trucks. And the number of drivers has climbed significantly. Over the last five years, the number of truck drivers has kept climbing—up roughly 2% per year—even though the amount of freight being moved hasn’t really grown. So, the problem in truckload is much more from an oversupply of drivers than from soft demand... not to say an increase in demand wouldn’t be welcome!

### ***Gaurang: What about brokerage?***

**Lee:** Brokerage has seen tough times. It’s a high beta business. When demand slips, many customers take care of their “core” asset-based carriers first, and the brokers take the brunt of the decline. When growth comes, the core carriers run out of capacity quickly, and brokerage takes an outsized portion of the growth. Luckily, brokerage is a high-variable cost, low fixed cost business. So as long as the owners did not load up the debt, they can rise and fall with the market and maintain cash flow. In this freight recession, many brokers also flipped the model from “selling high and buying low” to one of transportation management. In this model, they take a fixed markup with full transparency, creating value through their technology and business processes. This has dampened the downside of this recession for many brokers.

### ***Gaurang: What about small parcel?***

**Lee:** In the past, parcel was the most stable part of the transport ecosystem. It grew slightly faster than most other segments and with pricing that held up. It was a three-player game domestically: FDX, UPS and USPS. They knew how to compete with each other and not upset the apple cart.

Regional players emerged and grew, but due to their small size and overall parcel market growth, the balance continued. Amazon has now upset that balance. Additionally, de minimis changes have upset the parcel apple cart even more. A lot of international small shipments flowed into the parcel domestic network. With the changes occurring, many of these small shipments are starting to get consolidated and moved as freight into the U.S. Thus, they will have a higher freight component and a smaller parcel component.

### **Gaurang: What is happening with inflation?**

**Lee:** Not what the press has been telling us to expect on either the “favorable” aspects or the “negative.” On the favorable side, inflation from “goods” has been much milder than the press would have you expect, given the tariffs. Some of this is understandable as import goods are really a small percentage of the economy, and given that a significant part has been shielded from the tariffs due to prior treaties and agreements, it’s even smaller. Moreover, tariffs are not a tax; they are a charge on the value at the time the product enters the country. Typically, this is well under half the final retail price when the consumer goods are then sold to consumers. It is costly to run a retail operation. Additionally, foreign suppliers have also been cutting prices to offset the tariffs to maintain market share. Additionally, there are very large multi-national companies that “sell” from their foreign manufacturing company to their U.S. marketing company. Some have lowered their sale price or declared customs values. This lowers the tariff impact and shifts the profits from overseas to the U.S. but has no to minimal impact on consumer price. Also, when the tariffs were initially very high, a lot of product went into bonded warehouses and did not legally “enter the U.S.” at that time. Some of this product is just now “entering the country” by coming out of the warehouses with the negotiated moderate

tariffs. We are also seeing foreign governments stepping in and helping their manufacturers overcome the higher tariff costs. India, for example, is currently looking at a sizable relief measure. And of course, many U.S. companies have been shifting their sourcing to lower-cost countries when their traditional suppliers have had tariff shocks. This also dampens the tariff impacts. What I don’t fully understand is services inflation. Services have been driving the overall inflation number. I believe the biggest drivers of services inflation are shelter (e.g., home / apartment leases) and healthcare. For example, in September, the cost for hospitalization was up 5.8% over the prior year, while for goods-based inflation, the costs of apparel, pet food and toys were relatively unchanged from the prior year.

### **Looking Ahead With Lincoln**

**Gaurang: While we have been talking “facts to date,” lets shift gears and look forward. What do you think will change going forward?**

**Lee:** First of all, my company TandLA and I deal in facts, and everything from here forward in this interview has no facts behind it, just gut feel! But I am glad to make some guesses—just remember these are guesses, not facts. And no one should act on them!

**Gaurang: So, do you expect the tariffs to collapse the flow of import goods into the U.S. and replace them with domestic production?**

**Lee:** I think that is extremely unlikely. It is going to take a long time to build the capacity to make products here. Then, as capacity comes on, assuming the economy keeps growing, it is likely that domestic production will eat up the growth and imports will either slow or go flat. But that’s a long way off. We have a lot of capacity building to do first.

**Gaurang: So, are you saying that the drayage market will be flat?**

**Lee:** Remember I am not “saying” anything, just my gut feel. And my gut feel for drayage is that it is likely to remain relatively flat, but it could grow...a lot. Remember, the high tariffs were incentives for foreign countries to negotiate new balanced trade deals. Under the deals agreed to so far, the U.S. import tariffs have been reduced to a level well below the initial levels but higher than those in prior years. But in return for the reductions, the foreign countries have had to lower their tariffs and remove their embargos and non-tariff barriers on U.S. products. This should result in increased U.S. exports.

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**Gaurang: What do you think are going to be the export products?**

**Lee:** In the short-term, it has to be something we already have and can increase output of now. In general, most of the U.S. potential export commodities are a bar-bell: really high-value products and low-value commodities. But the high-value things we make are things that many foreign countries already want, like airplanes and computer chips. They are already exported and have been rarely blocked by foreign countries. But we also have a lot of low-value commodities, and many of these have been tariffed or flat out embargoed. So now that the tariffs and non-tariff barriers are being lowered on U.S. products, some of the products likely to have export growth in the short-term are things like grain, steam coal, met coal, chemicals, food products and other commodities.

**Gaurang: But I thought that soybean exports have been decimated by the tariffs, as China has cut off buying them from the U.S.?**

**Lee:** That is true, but also not the entire story. Soybean exports to China and everywhere else spiked way up in the end of 2024 to a level more than double prior monthly averages and to about 8 to 10 times higher than the April through August 2024 average monthly levels. In June, July and August this year, China did cut us off, and the export volumes plummeted, but the result is export levels are now roughly equal to those for the same months last year. I also expect that as the trade deals settle down, China’s soybean imports will level out and that they will either come back to the U.S. for beans or increase their buying from another country and open opportunities for U.S. beans to backfill elsewhere. Will it get back to where it was? Who knows, but the impact is likely to be dampened. At the same time, corn, wheat and some other grain exports are up. I expect as buying patterns and existing buy / sell relationships evolve, the grain export growth is likely to continue to grow. But given the big tariff-related changes and differences by country, minimal change overall does not mean that there are not catastrophes and windfalls at the detail level. For example, having growth in total grain exports is not helping the farmers who are sitting on a pile of soybeans right now.



**Gaurang: What other disruptions do you expect?**

**Lee:** While I expect the total volume of imports to remain minimally impacted in the short-term, that's not to say that there will be minimal change on the international transport legs. I expect that there will be significant changes in trade lanes as the origin countries shift. Likely the production shift out of China will continue or accelerate.

**Gaurang: So, what does this mean for shipping lines and forwarders?**

**Lee:** Let me be clear, while we do not expect significant inland changes in import freight in the short-term, on the international legs, we expect significant change, disruption and unpredictability. While the net impact of the negotiated tariffs will be relatively small from a consumer perspective, they are significant to producers. Moreover, the trade negotiations are resulting in large differences between countries. So, while the tariff has not significantly impacted consumers, they are making a tremendous shift in the competitiveness of different countries. The origins are shifting significantly now, and we expect to see this continue. For shipping lines, success will become a function of their ability to shift assets to the growing markets and out of the shrinking ones.

For forwarders, there are several factors that will drive success. Does the forwarder have significant sunk cost in the legacy market, as in warehouses, people and operations? Some large forwarders are in this spot. Do they have the footprint to serve competitively from the growth markets? Many of the smaller forwarders have this as a barrier. Is their business model centered around having very low-cost repetitive transaction processing, or is it structured to be flexible and supported by staff who can be "consultative" and help the customers in making their best choices for how to respond?

**Gaurang: Do you expect that a lot of the imports will shift to domestic production?**

**Lee:** Possibly in the long-term. But for now, and for most products, the production capacity doesn't exist in the U.S. and won't for a while—long enough to build the capacity and recruit and train the workers. For example, there has been talk of how much excess automobile manufacturing capacity there is in the U.S.. But who would buy a 2017 model? The plants will need to be re-tooled, and the workers recruited and trained. It will take time.

**Gaurang: So, are you saying that the total volume of international trade business will remain relatively constant?**

**Lee:** No. The trade negotiation has progressed by the U.S. putting up very high tariffs and then negotiating them down to a low level in return for the other country reducing their tariffs, non-tariff barriers and embargos against U.S. products. The objective is to achieve balanced trade by their barriers going away and opening up markets for U.S. exports. This is likely to significantly increase U.S. exports.

**Gaurang: Will this be an instant boom in U.S. exports? For example, will the EU embargo on U.S. food and agricultural products going away automatically result in Buy American?**

**Lee:** I could only wish. It is likely to start slow and build. The supply chain infrastructure to support these changes will need to be developed or enhanced, and the existing buy / sell relationships will have to be overcome, even when U.S. products are lower cost. But it should start slowly near-term and, over time, become significant. Also, in the interim, remember a lot of disruption is masking longer-term changes.

**Gaurang: Where are you seeing the most investor interest in transportation and logistics? And where is TandLA spending time these days?**

**Lee:** Healthcare logistics is at the top of the list for most investors given the unique combination of stability, specialization and long-term growth potential. Also on the shopping list are specialized players focusing on time-critical / high-value logistics, especially those serving aerospace, semiconductors and biotech, where reliability and chain-of-custody matter more than price. The same can be said for cold chain / temp controlled, omni-channel fulfillment and cross border / customs brokerage.

There has also been quite a bit of activity in final mile, driven by both the plethora of healthcare segments that use this service and e-commerce. While there has not been a lot of activity yet, we are beginning to see interest in data center and power generation construction, tech logistics and other asset-heavy infrastructure development.

**Gaurang: Thank you for your time, Lee! I hope our discussion provides valuable directional insights for industry participants, and I look forward to staying connected as the market continues to evolve.**

**Lee:** It was great to talk with you! The issues that shaped transportation and logistics in 2025 will continue affecting our sector in 2026 and beyond, and nuanced conversations like ours are crucial for business leaders planning their business's strategic positioning. I look forward to staying connected and seeing how the market continues to evolve.

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