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U.S. Middle-Market M&A in 2026

A Reset Phase Giving Way to Disciplined, Pent-Up Deal Momentum

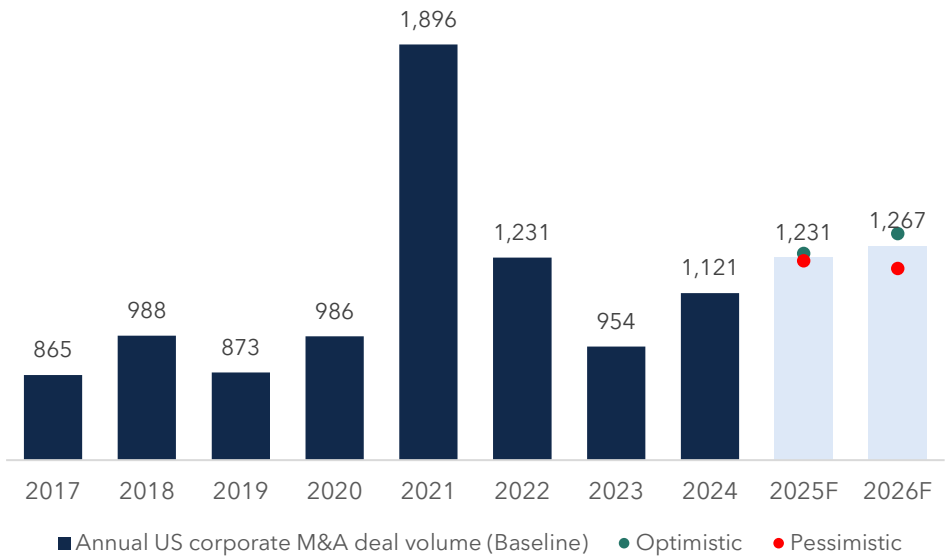


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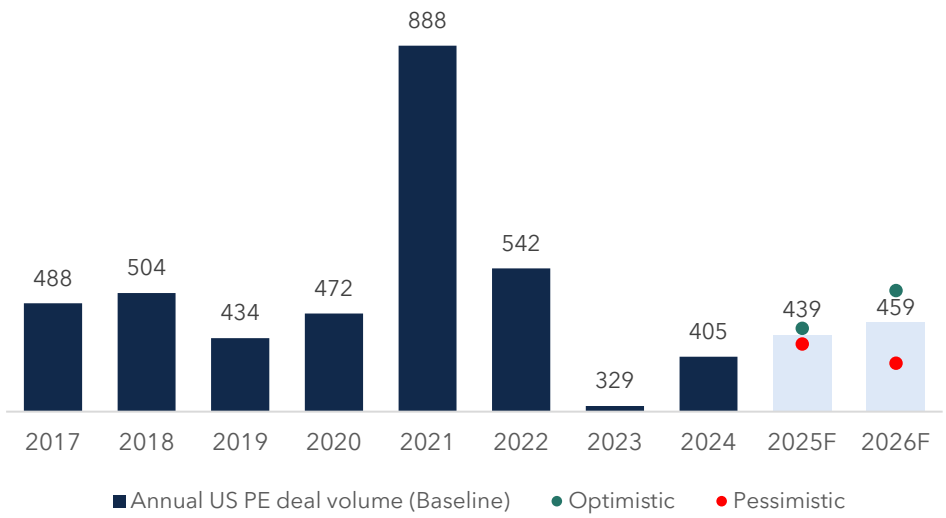


2025 was not a lost year for U.S. lower-middle and middle-market M&A; it was a reset. Following the extraordinary surge in 2021 and the pronounced pullback through 2023–24, the combination of higher interest rates, tariffs, and fiscal-policy volatility forced buyers, lenders, and sellers to adopt a more disciplined playbook. By late 2025, most market participants adjusted to the higher, yet steadier interest rate environment, real GDP growth of roughly 2%, and unemployment slightly above 4%[2]. Deal activity remained below the 2021 peak; however, both corporate and private equity volumes were tracking modestly higher than 2024 levels, with consensus forecasts, including the EY-Parthenon Deal Barometer, pointing to steady, incremental volume expansion into 2026 rather than another abrupt contraction. The result is a "reset-to-release" phase: more rigorous underwriting, elongated diligence timelines, and a clear, accumulated need to transact.

Annual U.S. Corporate M&A Deal Volume[1]



Annual US PE Deal Volume[1]



Sources: 1:Dealogic; EY-Parthenon; 2: EY M&A Outlook (2025–2026)

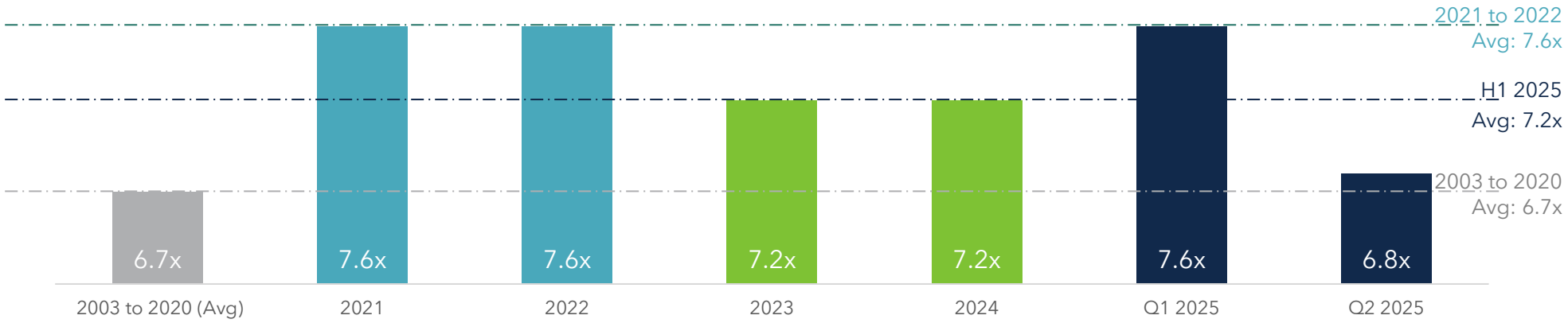
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Several structural positives continue to support the recovery. Global private capital sources still hold an estimated $2.5T of dry powder[5], much of it raised before the rate environment shifted and now facing aging investment periods. Private credit is now the reference lender for middle-market transactions, with AUM around $1.7T today and projected to approach the high-$2T range over the next several years[4]. Direct lenders continue to outcompete banks on speed, certainty, and structuring flexibility, particularly for sponsor-backed platforms and scaled founder-owned businesses.

At the same time, U.S. corporates head into 2026 with stronger balance sheets, better leverage metrics, and more disciplined capital allocation after a multi-year period of refinancing, cost rationalization, and selective divestitures. This "balance sheet reset" positions strategic buyers to re-engage in M&A both as a growth lever and as a tool to accelerate portfolio repositioning.

These tailwinds collide with a constrained supply of high-quality assets, particularly in advantaged sectors such as business services, healthcare, infrastructure-linked industrials, and software-enabled business models. Lower-middle-market data show that EBITDA multiples, while off 2021 highs, remain above long-term averages, with a persistent premium for resilient, recurring-revenue models.

Annual Average EBITDA Multiples for $10M–$500M LBOs[3]



The trend above shows how multiples have normalized from the 2021–22 spike yet remain structurally above pre-2020 levels—what might be called a "quality squeeze," where abundant capital continues to chase a limited pool of A-grade assets.

Sources: 3:GF Data®, CIBC Capital Markets, 4: Preqin, 2025 Global Report: Private Debt; 5:S&P Global Market Intelligence data

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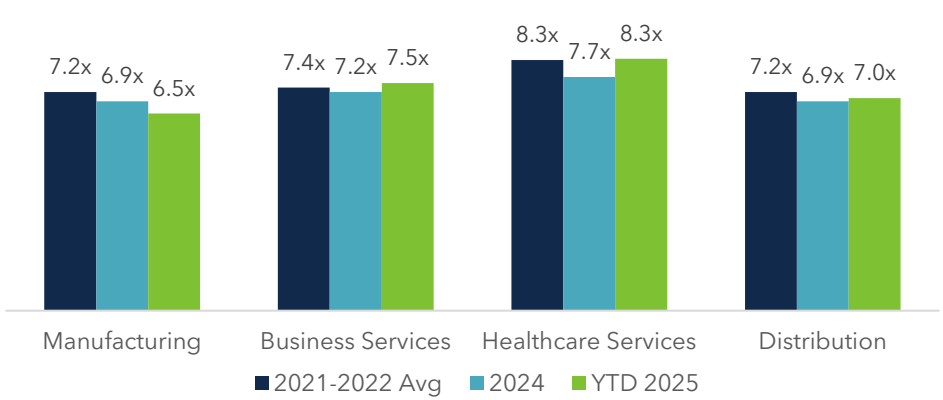
A Market Defined by Sector Premiums and Divergence

Sector valuation dispersion remains a defining feature. Business services have held firm, with GF Data indicating EBITDA multiples for $10–$250M LBOs rising to ~7.5x in 2025 (vs. ~7.2x in 2023–24), while top-tier assets continue to clear in the 8–9x range[7]. Tech-enabled, compliance-driven, and scalable platforms command premium pricing; labor-intensive or margin-constrained operators face longer processes, heavier diligence, and more structured capital solutions in their M&A events.

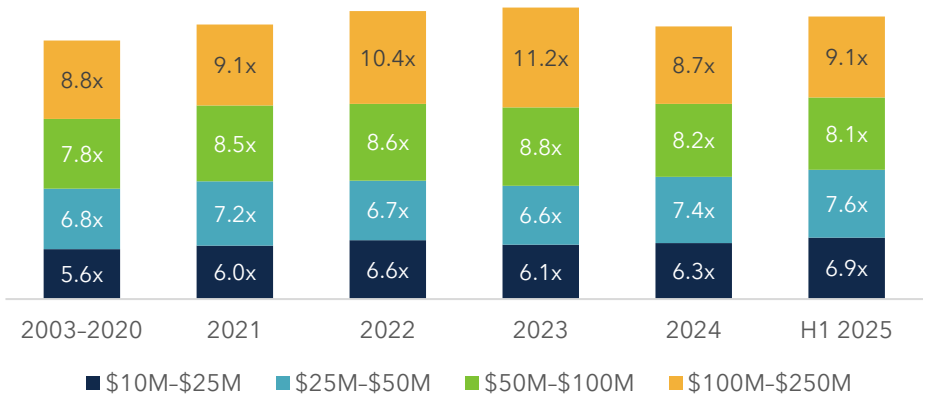
As shown in the sector comparison below, business services and healthcare continue to command a meaningful premium over more cyclical or asset-heavy categories such as manufacturing and distribution. This premium is even more pronounced for scalable, tech-enabled business services platforms, which clear at elevated valuations across size bands, a "policy- and cycle-resilient" cohort that sponsors and strategics increasingly underwrite as core holdings rather than trading assets.

On the sponsor side, exit dynamics are a central driver of the 2026 landscape. Median U.S. private equity hold periods climbed to ~7 years in 2023 and remain near ~6 years—well above pre-pandemic norms—as sponsors navigated constrained financing markets and valuation uncertainty. This aging inventory, combined with substantial dry powder, has created what might be called an "exit overhang": a backlog of mature companies that need to transact but whose owners are unwilling to accept 2020-style valuations.

Average TEV/EBITDA Multiples for $10–250M TEV Deals[6]



Average EBITDA Multiples for Business Services LBOs[7]



Sources: 6:GF Data®, Peapack Private; 7:GF Data®, CIBC Capital Markets

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The Rise and Impact of Secondary Markets and Continuation Vehicles

Secondary investors provide a way for a private equity firm to generate liquidity without selling the company to a new buyer. In a Continuation Vehicle, one of the firm's best-performing businesses is moved into a new ownership structure that can extend the hold period, allow some investors to cash out, and bring in fresh capital to fund the next phase of growth, often with the same sponsor and leadership team staying in place.

For middle-market companies, this trend effectively creates a "second act" ownership path. Instead of a binary choice between a full sale and simply holding longer, strong businesses can transition into a continuation vehicle where:

- The sponsor remains in place, preserving strategic continuity and institutional knowledge.
- Fresh capital is injected to fund acquisitions, product expansion, or capex.
- The time horizon extends, enabling value creation plans that require another five to seven years.

In practical terms, continuation-ready companies, typically those with resilient margins, recurring revenue, and credible runway to double EBITDA, can benefit from what amounts to a "second-bite premium." Pricing is often set via a competitive secondary process, with the GP signaling conviction by rolling a meaningful equity stake.
That combination of external price discovery and sponsor alignment can support higher headline valuations than would be achievable in a stressed, broad auction.

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How Continuation Vehicles are Reshaping Valuations

Continuation vehicles are changing the valuation playbook in two meaningful ways:

1. A higher floor for top-tier assets. For high-quality sponsor-owned businesses, secondary capital provides a credible alternative to a "sell now at a discount" outcome. If bids in a traditional process don't clear expectations, the owner can pursue a continuation-style transaction that still delivers liquidity, creating real option value and supporting a higher effective valuation floor for premium assets..

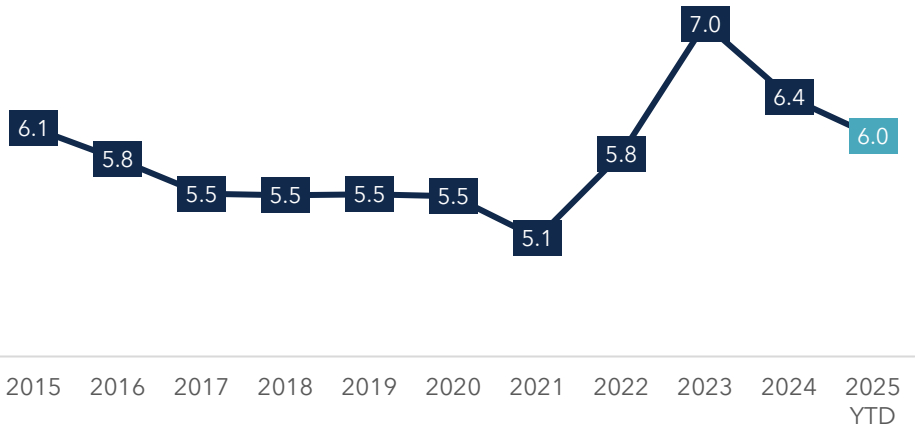
2. A two-speed exit market. "Continuation-grade" companies with durable earnings, resilient margins, and repeatable growth are increasingly retained inside sponsor ecosystems and financed by specialist secondary capital. More average businesses continue to flow through traditional M&A. The result is wider dispersion: premium multiples for the best assets, and more scrutiny, tighter leverage, and slower processes for everyone else.

What the market is signaling:

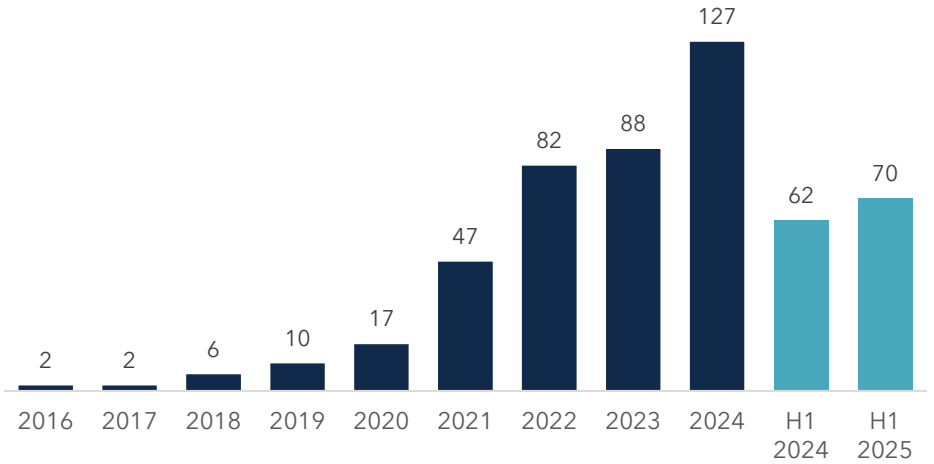
Holding periods remain elevated (median duration ~6 years), highlighting a backlog of assets waiting for the "right" exit window. Continuation vehicles have scaled rapidly from a niche tool pre-2020 to a core liquidity mechanism by 2023–25.

Set against these supports are several material uncertainties that will shape valuations, diligence, and timing in 2026. The One Big Beautiful Bill Act (H.R.1) materially reshapes tax, spending, and immigration frameworks. Immigration-related provisions and enhanced enforcement are already contributing to wage pressure in labor-intensive sectors such as construction, agriculture, and transportation.

Median U.S. Private Equity Hold Period (Years)[8]



US PE Continuation Fund Exits[9]



Sources: 8:PitchBook; 9:GF Data®, CIBC Capital Markets

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Separately, the Federal Reserve transition expected in May 2026 and a fractious election cycle add uncertainty around the pace and depth of rate cuts. Current market expectations (per CME FedWatch and Forbes analysis) point to the federal funds rate trending toward ~3% by year-end 2026, but the range of outcomes remains wide (roughly 2%–4% in more extreme scenarios).

These crosscurrents are changing how deals get done. Diligence is taking longer and going deeper, with heavier scenario work around tariffs, labor availability, operational resilience, and end-market demand. Competition remains intense for high-quality, scalable assets in advantaged sectors, while policy-sensitive or globally exposed businesses face tighter structures, lower leverage, and slower processes.

For lower-middle-market and middle-market owners, preparation is increasingly linked to valuation and certainty of close. Customer and supplier concentration, tariff and policy exposure, pricing power, and alignment with secular tailwinds (infrastructure, reshoring, AI-driven productivity) are now central to whether a business clears at a premium multiple—or is underwritten as "value-add" with conservative terms. The best sellers start 24–36 months ahead, using that runway to professionalize reporting, de-risk operations, and position the company as "A-quality" or "continuation-grade" to attract both strategics and top-tier sponsors.

In effect, 2025 clarified who can transact and on what terms. The 2026 market is set to reward businesses that have adapted to the new norm and treat M&A as a set of engineered options—traditional sales, minority recaps, and increasingly, continuation-style solutions.

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Sources:
Cascade Research, EY-Parthenon US Macroeconomics Deal Barometer (Nov 2025); EY M&A Outlook (2025–2026); EY M&A Activity Insights (Aug 2025); BDO 2025 Recap & 2026 Outlook; Deloitte 2026 Trends Survey; Forbes Interest-Rate Outlook (Nov 2025); Morgan Stanley Global Outlook; PwC US Deals 2025 Midyear; McKinsey Global Private Markets Report 2025; FRED, Federal Reserve data; GF Data / CIBC Middle Market Monitor; PitchBook; American Immigration Council; IRS and Congressional summaries of OBBBA