WORTH NOTING
A MONTHLY NOTE ON THE LOWER MIDDLE MARKET
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The board at the start of the year

Every January invites a forecast, and every forecast is wrong in interesting ways. So rather than predict where rates or deal volumes will finish 2026, we want to describe the board as it actually sits at the start of the year — because this year's setup is genuinely unusual, and it favors a particular kind of buyer.

Three things are true at once as the year opens. The Federal Reserve has just cut for the third time in as many months, bringing its benchmark to 3.50%–3.75%, the lowest since 2022. The middle-market deal recovery that stalled through most of 2025 is finally finding its footing. And in Washington, a series of decisions is quietly rewiring who is permitted to invest in private markets at all. Each thread matters to us; together, they set the year's tone.

Lower rates, higher standards

Start with money. Three cuts in the final months of 2025 brought the benchmark down a full 1.75 points from its peak, and financing is meaningfully easier than it was a year ago. But the Fed has been clear that this is not the start of a rapid easing cycle — inflation near 3% won't allow it — and its projections suggest perhaps a single further cut across all of 2026. "Lower, but not low" is the operative phrase, and it is a healthy one. Money that still costs something imposes a discipline on buyers that free money erodes.

Because cheaper debt is a tailwind, and it is also a temptation. The predictable mistake of every easing cycle is to treat falling rates as permission to pay higher prices — to let the improving cost of capital talk you into a worse entry multiple, on the theory that cheap financing will bail out the math. It rarely does. We intend to do the opposite: treat cheaper financing as a margin of safety to be banked, not a budget to be spent. The rate cut belongs to us as a cushion, not to the seller as a higher price.

A recovery that's real but top-heavy

The deal market enters 2026 genuinely healthier than it entered 2025, but the health is unevenly distributed. The U.S. middle market closed roughly 1,289 deals in 2025 — essentially flat against 2024, and still only about half the 2,469 of the 2021 peak. That is a market recovering from a deep, multi-year trough, not one running hot. And the recovery is concentrated: the megadeal and AI-infrastructure boom dominates the headline value figures — so much so that stripping out the largest transactions turns a "record" year into a down one — while the core middle market lags behind. Advisors are optimistic about more activity this year, but temper it with an expectation of only modest movement in valuations. A busier market, in other words, not a frothier one.

Beneath those cyclical figures runs a structural one that will outlast any single year: the supply of businesses coming to market as their founders retire. Roughly 10,000 Americans turn 65 every day, and Baby Boomers own close to half of the country's privately held businesses. That demographic wave — the subject of a fuller treatment in the months ahead — is the deepest reason we are confident about the *supply* of good companies to buy, in a strong year or a weak one. The cycle determines the mood; the demographics determine the opportunity.

The year discipline gets tested

Put the pieces together — cheaper money, a recovering market, a record trillion-plus of capital under pressure to deploy, and a growing supply of retiring owners — and you get a year in which the temptation to stretch on price will be constant. That makes 2026 less a test of sourcing than a test of discipline. The businesses will be there to buy; the question is whether buyers hold the line on what they'll pay for them. For a permanent-capital holder with no clock forcing its hand, that is a test we are structurally built to pass — not because we are more virtuous than the next firm, but because nothing in our structure punishes us for waiting.

SIDEBAR · SIGNALS

A year-ahead in capital formation

Three developments at the close of 2025 reset the backdrop for 2026, and they rhyme. First, a Presidential executive order last August set the Department of Labor on a path to open 401(k) plans to private-market investments; the proposed rule is now working through the regulatory pipeline, with a final version possible later this year. Second, the House passed the INVEST Act in December — a bundle of roughly twenty capital-formation measures that would bring low-cost collective investment trusts to 403(b) plans and modernize the aging "accredited investor" definition — now awaiting the Senate. Third, sophisticated allocators — family offices, RIAs, pensions — kept shifting toward private, permanent, and evergreen structures.

The through-line is a fifteen-year migration of capital toward private markets and longer horizons, now reaching further down the wealth spectrum than at any point in modern memory. Whether it ultimately serves savers well will depend, as it always does, on structure, cost, and discipline — not merely on access. But as a statement of direction, 2026 begins with the door to private markets opening wider than it has in a generation, and the firms built for permanence and discipline are the ones best positioned to walk through it responsibly.

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We begin 2026 the way we begin every year — with entry price, not the rate outlook or the regulatory headlines, as the first line of every underwrite. The macro will do what it does; the rules will change on their own schedule; the capital will keep stacking up. None of it alters the discipline. A good business, bought directly from the person who built it, at a price that survives a bad year, and held for the long term: that was the plan in 2009, and it is the plan for 2026. The board changes every January. The way we play it does not.

We'll be back next month. As always, if you advise accredited clients, or you're an owner thinking about what comes next, we're glad to talk.

— The team at Worth Investment Group