WORTH NOTING
A MONTHLY NOTE ON THE LOWER MIDDLE MARKET
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Optimism, with an asterisk

There is no Fed meeting in February, which makes it a natural month to lift our eyes from the immediate data and take stock of the year taking shape. The mood among deal-makers entering 2026 is genuinely more optimistic than it has been in three years: a clear majority of advisors — nearly three-quarters, by one widely-cited survey — expect deal flow to rise this year. But it is an optimism worth reading closely, because the fine print matters as much as the headline.

What the optimism is, and isn't

The bullish case is real and grounded. Financing is meaningfully cheaper than it was a year ago, after three rate cuts in late 2025 brought the benchmark down to 3.50%–3.75%. The multi-year backlog of businesses that owners have wanted to sell — but held back while valuations were depressed and buyers were scarce — is still there, waiting to come to market. And private-equity firms are sitting on more than a trillion dollars of committed capital they are under real pressure to deploy. Put those three together — cheaper debt, pent-up supply, and impatient demand — and you have the ingredients for a genuinely busier market.

But notice what the same advisors are *not* predicting. Most expect only modest movement in valuations this year — no great re-rating, no return to the frothy multiples of 2021. The typical expected multiple remains around 6.8x. And the Fed is signaling patience, not a rapid easing cycle; the base case is perhaps a single cut across the whole year. So the optimism is about *volume*, not *price*: more deals getting done, at valuations that remain disciplined. For a buyer like us, that is close to an ideal configuration — a reopening market that has not lost its pricing sense. A flood of activity at sane prices is exactly the water we're built to swim in.

Presence compounds

A gradually reopening market rewards a specific kind of buyer, and it is not the one who shows up when the headlines turn positive. It is the one who was already there — who kept sourcing, kept talking to owners, and kept building relationships through the frozen years, so that when an owner is finally ready to move, the conversation is already underway rather than beginning cold.

This is easy to say and hard to fake, because relationships with business owners are built over years, not quarters. The firm that spent 2024 and 2025 quietly cultivating a hundred owner relationships — checking in without an agenda, being useful before there was a deal to be had — enters 2026 with a pipeline the newcomer simply cannot manufacture on demand. When the market thaws, the newcomer starts dialing; we pick up conversations we've been having for two years. In a business where trust is the actual product, presence compounds like capital.

The asterisk in the calendar

There is also a note of caution written into the year itself. 2026 is a midterm election year, and election cycles have a well-documented habit of freezing deal-making as they approach. Uncertainty about tax rates, regulatory posture, and the broader policy environment makes both buyers and sellers want to wait until the picture clears — and the closer the vote, the stronger the instinct. If the year has a genuine window of activity, there is a reasonable case it is a first-half window, before the politics fully takes over the headlines in the autumn. That argues for readiness now, not later — another reason presence beats punctuality.

SIDEBAR · THE DEMOCRATIZATION OF PRIVATE MARKETS

The 401(k) rule comes due

The most consequential development in private-market access hit a milestone this month — and, characteristically for Washington, a delay. President Trump's August 2025 executive order, "Democratizing Access to Alternative Assets for 401(k) Investors," directed the Department of Labor to rewrite, within 180 days, its guidance on offering alternative assets — private equity, private credit, real estate — inside 401(k) and other defined-contribution plans. That 180-day clock expired on February 3, with the proposed rule still under review at the White House budget office. When it emerges, it opens a public-comment period, after which a final rule is possible later in 2026, with implementation as early as 2027. (The DOL had already, back in August 2025, rescinded the Biden-era statement that had discouraged private equity in these plans.)

The scale is what makes this worth tracking: more than 90 million Americans hold defined-contribution accounts, and today virtually none can reach private markets through them. Closing that gap would be a genuine structural shift in how private assets are funded — though a carefully contested one, given the legitimate questions critics raise about fees, liquidity, and fiduciary duty. It will not happen overnight, and it should not. But the direction of travel is now set, and the eventual arrival of even a modest slice of retirement capital into private markets would be one of the largest changes to the demand side of our world in a generation.

THE WORTH LENS

Whether the reopening proves brisk or gradual, and whether retirement capital reaches private markets in 2027 or later, our job in 2026 is unchanged: be present, be selective, be disciplined on price. The optimism in the market is a welcome tailwind, but we don't build a thesis on a mood — moods reverse, and the buyers who bought them tend to be the ones holding the overpriced assets when they do. We build instead on a good business, bought directly, at a number that leaves us room to be wrong. That has worked in frozen markets and thawing ones alike, which is rather the point of it.

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