WORTH NOTING
A MONTHLY NOTE ON THE LOWER MIDDLE MARKET
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One year after the tariff shock

It has been exactly a year since sweeping tariffs sent markets into a sharp, disorienting selloff in April 2025 and briefly froze deal-making altogether. A year on is a useful vantage point, because it lets us ask a question that panic never can: what actually happened, once the shock wore off?

The answer is instructive. The economy absorbed the tariffs better than the darkest forecasts predicted — but not without cost. Growth cooled rather than collapsed. And inflation, rather than spiking and receding, settled into a stubborn plateau near 3%, elevated in no small part by the tariffs themselves. That plateau is the reason the Federal Reserve held again this month at 3.50%–3.75%, its third consecutive hold, and the reason the promised cavalry of rate cuts keeps failing to arrive on schedule.

The tariff that keeps on giving

The durable lesson of the past year is that a policy shock doesn't end when the headlines do; it works its way through the system for quarters afterward. Tariffs raised input costs, and those costs are still threading through supply chains and into prices a year later. For the businesses we care about — manufacturers and distributors whose economics turn on the cost of materials — this has been the defining operational story of the period: not a single catastrophic hit, but a persistent margin pressure that quietly separates the well-run from the merely lucky.

It has also functioned as a sorting mechanism. Consider two distributors of similar size in the same category. The first had spent years earning genuine trust with its customers — reliable delivery, technical service, hard-to-replace relationships — and when its costs rose, it raised prices and kept its customers, because those customers valued what it did beyond the invoice. The second competed largely on being the cheapest option, which felt like an advantage right up until its costs rose and it had nowhere to hide: raise prices and lose the business, hold prices and watch margins evaporate. Same tariff, opposite outcomes. Twelve months of cost pressure has been the most honest audit of pricing power the market has run in a decade — and pricing power, it turns out, is just another name for a real moat.

A market that works, if not one that soars

For M&A, the year-after picture is a functioning market rather than a booming one. First-quarter data showed the middle-market recovery continuing, led by the upper end, with closed volume up 12.5% quarter-over-quarter. Valuations for most businesses have held roughly steady: the typical expected multiple sits around 6.8x, a world away from the 12x-plus that scale assets fetch in competitive auctions above $250 million. That gap is the entire game in the lower middle market, and it continues to trip up first-time sellers who anchor on the headline number they read about someone else's trophy deal.

What we find most telling is what advisors now say actually closes a deal in this environment. Not a hot sector. Not cheap financing. Not a strategic bidding war. A *realistic valuation.* In a patient, choosy market, the seller who prices honestly transacts, and the one who holds out for the trophy multiple simply waits — often for years. Reality has quietly become a competitive advantage, which suits the way we have always done business. For the owner reading this and wondering what their company is "really" worth, the honest answer is: far closer to the 6.8x most businesses command than to the number in the merger headline — and pretending otherwise mostly costs time.

SIDEBAR · THE DEMOCRATIZATION OF PRIVATE MARKETS

The quiet part: CITs come to the 403(b)

While most attention on "private markets for everyone" has fixed on 401(k) plans, a quieter and arguably nearer-term change advanced this spring. Late in 2025 the House passed the INVEST Act — a bundle of roughly twenty capital-formation bills — by a decisive 302–123. Two of its provisions matter here. The first would finally permit 403(b) plans — the retirement accounts of teachers, nurses, and nonprofit employees, holding well over a trillion dollars — to invest in collective investment trusts, the low-cost pooled vehicles that ordinary 401(k) plans have used for decades. The second would modernize the long-static "accredited investor" definition that determines who may participate in private offerings at all.

Collective investment trusts matter to private markets because they are an efficient, ERISA-governed wrapper — frequently around half the cost of a comparable mutual fund — and increasingly the vehicle through which institutional strategies, including private assets, reach everyday retirement savers. The CIT provision now sits with the Senate, where a companion measure has bipartisan support but an uncertain timeline. We flag it not because any single plan will move markets, but because it is one more piece of evidence that the plumbing carrying long-term capital into private, durable assets keeps getting wider — steadily, and on a longer timeline than the headlines imply.

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A year of persistent margin pressure is exactly the environment in which entry-price discipline earns its keep. When every business faces the same cost headwind, the buyer who overpaid at the outset has no cushion, while the buyer who insisted on a disciplined entry has room to operate — to invest, to weather a bad quarter, to say no to a panicked customer's demand. We would rather pass on a good company at a stretched price than own it without that margin of safety, because it is precisely in years like the last one that the difference between the two shows up in full.

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

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