WORTH NOTING
A MONTHLY NOTE ON THE LOWER MIDDLE MARKET
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An oil shock, and the case for owning boring

There was no Federal Reserve meeting this month, which was just as well, because May's defining event was one no central banker could have scripted. A flare-up of conflict involving Iran sent oil prices spiking, rattled equity markets, and reintroduced a word the economy had been trying to forget: shock. By month's end a provisional peace had taken the edge off, but the episode left a mark — on inflation expectations, on an already-cautious Fed, and on the nerves of anyone in the middle of a deal.

When the macro reminds you it's unknowable

The lesson of a month like this is not that oil is going higher or lower; we have no special insight there, and neither does anyone claiming to. The lesson is epistemic. Every acquisition model rests on assumptions — about demand, input costs, and the cost of capital — and every so often the world reaches in and rearranges those assumptions overnight. A business that only works if energy stays cheap, or if rates fall on schedule, or if the consumer stays confident, is not a resilient business. It's a leveraged bet on a forecast wearing the costume of an investment.

This is why, when we evaluate a company, we spend less time on the upside case than most buyers and far more on the downside. What does the worst realistic year look like? What breaks first if input costs jump 20% or a key customer walks? Can this business service its obligations and keep its people through a genuinely bad stretch? An oil shock is a live, unwelcome stress test of exactly those questions — and the businesses that shrug it off are the ones we want to own.

What "boring" actually means

It is worth being precise about the kind of company that shrugs off a month like this, because "boring" is doing a lot of work. We mean businesses whose demand is non-discretionary — products and services that customers need rather than merely want, and keep needing whether the headlines are good or bad. A distributor of replacement components that keep industrial equipment running does not see orders evaporate because oil spiked for three weeks; the equipment still has to run. A manufacturer of a specified part that goes into a product with years of installed base has revenue that is booked long before any given month's volatility. These companies rarely make anyone's list of exciting investments. They also rarely surprise their owners on the downside, which over a full cycle is worth far more than excitement.

The second ingredient is pricing power — the ability to pass rising costs through to customers rather than absorb them. The past year of tariff- and energy-driven cost pressure has been a merciless test of exactly this. Businesses with genuine pricing power protected their margins; those without it discovered that what they'd assumed was a moat was really just a habit. A shock month is when you find out which you own.

The deal market holds its breath

Volatility of this kind does what it always does to M&A: it widens the gap between what buyers will pay and what sellers will accept, and it pushes marginal processes to pause. We saw some of that in May — a handful of sale processes slowed while participants waited to see whether the spike was the start of something or a passing scare. But the underlying market kept moving. Quality assets with durable demand still cleared, because the buyers of those assets are not underwriting next quarter's oil price; they're underwriting a decade.

There is even an argument that volatility is a disciplined buyer's friend. When fear is in the air, the impatient and the over-leveraged step back, competition thins, and the buyer who can keep his nerve — because he isn't managing redemptions or a financing window — occasionally finds a fair deal that a calmer month would have turned into an auction. We don't wish for shocks. But we're built to keep working through them.

SIDEBAR · HOW CAPITAL IS CHANGING

The allocators moved first

Step back from the month's turbulence and a longer shift comes into view — one reshaping who owns private companies since roughly the year Worth was founded. In 2009, "alternatives" for most portfolios meant a modest hedge-fund sleeve and a token private-equity commitment. Today, large family offices routinely hold 40–50% of their assets in alternatives, and a growing share is *direct* ownership and co-investment rather than blind-pool funds — these families increasingly want to own the business, not merely a limited-partner interest in someone else's.

The same current runs through the rest of the sophisticated-capital world. Independent RIAs, long shut out of private markets, now reach them through dedicated platforms, and increasingly prefer *evergreen* and interval structures to the ten-year fund clock. Pensions keep grinding their private allocations higher as public equities deliver less reliably. The through-line is unmistakable: the most experienced allocators have spent fifteen years migrating toward longer horizons, direct ownership, and permanence — the exact structure a permanent-capital holding company was built to offer. We didn't so much anticipate a trend as get built for one already underway. When the capital that has thought hardest about this problem keeps moving in one direction, it's worth asking why — and worth noting which way it's headed.

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Months like this one are why we are structured the way we are. Permanent capital doesn't panic, because it has no redemption window to manage and no financing clock ticking in the background. When a shock freezes the public markets, we can keep having the private, owner-to-owner conversations that don't run on the news cycle — and we can keep our nerve on price when others are losing theirs. Owning boring, essential businesses bought at disciplined prices is not an exciting strategy. It is, however, the one that lets you sleep the week oil spikes 15%.

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