WORTH NOTING
A MONTHLY NOTE ON THE LOWER MIDDLE MARKET
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The barbell market - *and where valuations really are*

If you read only the headlines this year, you'd conclude that M&A is booming. Global deal value is on pace for roughly $4 trillion in 2026, the strongest showing since 2021. A $67 billion utility merger here, another AI-infrastructure land grab there, four technology giants committing something like $700 billion to data centers between them. The trade press is euphoric. The bankers are busy again.

And almost none of it has anything to do with the part of the economy we actually buy.

Look one layer beneath the headline number and a very different market comes into focus. According to PwC's mid-year read, deals larger than $5 billion now account for close to half of all global deal *value*. Strip those megadeals out and the picture inverts: value is down about 4%, and deal *volumes*, the actual number of transactions, are falling, not rising. What looks like a boom is really a handful of enormous transactions carrying an otherwise soft market on their backs. This is the “barbell”: capital piling into the very top and, separately, into small self-funded add-ons, while the broad middle stays thin. It's the single most important fact in our market right now, and it's the one the headline number hides.

So this month we want to do three things: describe the market that actually exists beneath the euphoria, show you where valuations really sit (as opposed to where the trophy deals print), and explain why, for a disciplined buyer of lower-middle-market companies, a quiet, top-heavy market is not a problem to wait out but a condition to take advantage of.

A Fed that won't move

Start with the backdrop, because everything downstream flows from it. The Federal Reserve held its benchmark rate at 3.50%–3.75% again this month, a fourth consecutive hold, and among the first meetings under new Chair Kevin Warsh, whose arrival some had read as a signal of faster cuts. The message was the opposite: patience. The Fed's own projections now point to perhaps a single cut across all of 2026.

It's worth remembering how far we've come. Rates peaked at 5.25%–5.50% and sat there for over a year; three cuts in late 2025 brought us down a full 1.75 points. Money is meaningfully cheaper than it was two years ago. But “cheaper” is not “cheap.” Inflation has proven stubborn, hovering near 3%, kept elevated by tariffs and, this spring, by the oil spike that accompanied the brief Iran conflict (now easing on a provisional peace). With price pressure lingering and the labor market only gradually softening, the Fed has every reason to stay where it is.

For dealmakers, “higher for longer” has stopped being a warning and become simply the weather. The buyers who structured their models around a return to near-zero rates have spent two years disappointed. The ones who never needed cheap debt to make a deal work have been fine. That distinction matters more than any single rate decision.

A deal market split in two

Now to the middle market itself, where the barbell is most visible. The encouraging news: Capstone Partners reports that closed middle-market deal volume rose 12.5% quarter-over-quarter in the first quarter of 2026, the best sequential gain in over a year. Total disclosed middle-market value was up sharply year-over-year. The thaw is real.

But it's uneven, and the unevenness is the story. The recovery is concentrated at the *upper* end of the middle market, deals in the $250-to-$500-million range, where volume grew dramatically year-over-year, while the *core* middle market, the smaller transactions, remains constrained. Most advisors expect the genuine reopening to be a second-half-2026 event, not a first-half one. And the longer view is humbling: the U.S. middle market closed roughly 1,289 deals in 2025, essentially flat against 2024, and still only about half of the 2,469 transactions at the 2021 peak. We are recovering from a deep, multi-year trough, and we are not yet close to the top.

Meanwhile, the capital keeps stacking up. Private-equity dry powder sits north of $1 trillion, near record highs, and the pressure on funds to put it to work, before their investment periods run out, is intense. Nearly three-quarters of deal advisors expect activity to increase this year. You have, in other words, a rising tide of impatient money pointed at a market that is only slowly reopening. That combination has a name, and the name is *competition*, the kind that drives entry prices past the point of sense.

Where valuations actually are

Which brings us to the number that matters, and the number that doesn't.

The number you'll see quoted: transactions above $250 million averaged **12.2x EV/EBITDA** in the first quarter, per Capstone. That's the figure that makes headlines and sets expectations, and it describes a world most business owners will never inhabit. Those are scale assets, sold in competitive auctions, to strategic and financial buyers with the balance sheets to pay up.

The number closer to reality for the rest of the market: the *typical* expected M&A multiple for 2026 is roughly **6.8x**, and two-thirds of advisors expect little to no change from last year. That gap, 12x for the trophies, closer to 6-to-7x for everyone else, is the entire game in the lower middle market. Confuse the two, as many first-time sellers do, and you'll either wait forever for a bid that never comes or hand your business to whoever waves the highest paddle.

Here's the part we find most telling. When advisors were asked what actually gets a deal *closed* in this environment, the top answer was not a hot sector, not cheap financing, not a strategic bidding war. It was **a realistic valuation.** In a patient market, the seller who prices honestly transacts; the seller who anchors on the trophy multiple sits. Reality, it turns out, is a competitive advantage.

Why this matters down here

Translate all of it to a real company, say, a $10-million-EBITDA manufacturer or distributor whose founder is ready to step back. For that owner and that business, the utility merger and the AI-capex arms race are noise. What matters is whether there exists a buyer who will pay a fair (not frothy) price, keep the team and the customers intact, and, not a small thing, actually get to the closing table.

The barbell market is, paradoxically, good news for that owner's *right* buyer. Because the money and the attention are pooled at the extremes, the middle is quieter than the dry-powder figures would suggest. A patient, disciplined buyer can have a real conversation, at a real price, without a banker running a twelve-party auction to squeeze out the last turn. The risk on the horizon is that the trillion dollars piled up at the top eventually rolls downhill, floods the middle, and compresses everyone's discipline. When that happens, and in past cycles it always eventually does, the buyers who kept their nerve while others chased will own the better book.

SIDEBAR · THE GREAT WEALTH TRANSFER

A deeper look at the demographic engine

Beneath the month-to-month noise runs a demographic current that will define our market for the next decade, and it's worth stepping back to size it properly.

Every day, roughly 10,000 Americans turn 65; by 2030, every Baby Boomer will have passed that mark. Boomers own close to half of America's privately held businesses. The headline estimates, that up to $10 trillion in business assets will change hands as this generation retires, sweep in millions of micro-businesses that will simply close. The number that matters to us is narrower and, frankly, more useful: McKinsey projects roughly 6 million small- and mid-sized business transitions by 2035, of which more than **1 million firms are genuinely viable for sale, representing up to $5 trillion in enterprise value.** Crucially, that viable-for-sale pool is concentrated in exactly the sectors we know: manufacturing, distribution, and industrial services.

Now the readiness gap. Survey after survey finds that fewer than a third of these owners have a formal succession plan, and by some counts over 70% have nothing in writing at all, even though an estimated three-quarters of their businesses are profitable. These are not, contrary to the lazy assumption, archaic companies limping toward the exit. Many are well-run, conservatively financed, cash-generating businesses whose owners were simply too busy running them to plan their own departure.

What separates a *highly regarded* target from the rest of that pool is specific and knowable: real, defensible margins; a customer base that isn't one relationship away from walking out the door; a management team that runs the place without the founder in the room; and clean, legible financials. And here is the part most buyers underrate, these owners consistently say they care as much about the continuity of their people and the survival of their name as about the final dollar of price. That is why the best of these businesses are so often sold quietly, to a trusted buyer, before they ever reach a marketplace. Which is precisely the transaction we are built to be on the other side of.

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None of this is a prediction that the middle market is about to boom. It's the opposite: a case that in a slow, noisy, top-heavy market, the advantage belongs to the buyer who can be patient, selective, and disciplined, and who doesn't have to chase.

That's the whole of our approach, and this market is a good argument for each piece of it. **Entry price is the one thing we fully control**, so when capital is abundant and impatient, we would rather lose a deal than pay the number that only makes sense if everything goes right. **We don't compete in the auctions** setting those 12x prints; we buy directly from owners, which is a conversation about legacy and trust, not just price, and which is where the Great Wealth Transfer will actually happen. And **permanent capital removes the clock**: we are never forced to buy high because a fund needs to deploy, or to sell low because a fund needs to return. That freedom is worth the most precisely when everyone else feels rushed.

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