WORTH NOTING
A MONTHLY NOTE ON THE LOWER MIDDLE MARKET

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After the vote

The ballots are counted, the Fed has paused, and private equity has started selling again. What clarity does for dealmaking, what it leaves alone, and why an owner should never sell on someone else's calendar.

For most of the fall, the deal market sat in a waiting room. Sponsors planned for it months ago. In Citizens' annual M&A survey, published in January, the large majority of private equity firms said they intended to start deals in the first half of the year, with the second quarter as the favorite window, specifically to get ahead of midterm uncertainty. Then the Federal Reserve raised rates in September and, on October 28, held still to see what came next.

Both waits are now over, or at least clearer. The election produced a divided government, with Democrats projected to control Congress beginning in January and a Republican in the White House. We will leave the politics to others. Our interest is narrower: what clarity does to dealmaking, what the cost of money is doing to the buyers who depend on it, and why the reopening of the exit window matters to owners who have never had a fund to answer to.

What clarity does to deals

Uncertainty suppresses deals, and an election is a scheduled dose of it. Mergermarket looked at the six midterm cycles since 2002 and found that US M&A volume in the year after the vote averaged roughly 9% higher than in the election year itself. Activity rebounded after the 2002, 2010, 2014 and 2018 contests. The rebound often started right away: across all six cycles, first-quarter volume after a midterm rose 8% on average from the quarter before, and in 2019 it jumped 43%.

The exceptions matter more than the average. The two years that broke the pattern were 2007, when the financial crisis began, and 2023, after the most aggressive rate hikes in four decades. Both were years when money got scarce or expensive. Mergermarket also found that activity typically softened in the second half of the year after a midterm. Its conclusion, which we share: political clarity can lift near-term dealmaking, but the economy and the cost of financing drive the market.

The waiting room was not empty, either. PitchBook's first look at the third quarter counted 2,466 US private equity deals, up 5.8% from the second quarter, with deal value up 20% to $230.4 billion. Much of that value came from a few very large transactions, and smaller add-ons and growth deals carried the count. Dealmakers interviewed by Mergermarket said the election was shaping deal terms more than deal timing: how long a buyer must pursue approvals, and what it pays if a deal is blocked.

The other pause

On October 28 the Fed held its target range at 3.75% to 4.00%, after raising it a quarter point in September. The vote was 10 to 2, and both dissenters wanted another increase. Futures markets now price roughly an 80% chance of a hike at the December 9 meeting. Treasury yields eased after the election, but analysts at Morgan Stanley point out that shrinking the federal deficit would take broad tax and spending changes, which are hard to pass under divided government. Heavy borrowing tends to keep long-term rates firm.

Here is what that means for a deal. Last month we used a buyer paying 8.5 times EBITDA and borrowing 5 times EBITDA at about 9%, which sends roughly 45% of the company's EBITDA to interest. At that leverage, every quarter point on the rate costs another 1.25% of EBITDA. A December hike would take the example to about 46%. That is not dramatic on its own. It is one more step in the wrong direction for any buyer whose price depends on borrowed money, and the election did nothing to reverse it.

The exit window reopens

The other quiet story of the fall is that private equity started selling again. PitchBook's first look at the third quarter counted 405 US exits, up 11% from the second quarter, with exit value up 51% to $165.1 billion. A few very large sales did much of the lifting, so the count tells the truer story: both measures are back near where they stood at the start of the year, when more companies were being brought to market.

At the same time, sponsors are finding ways not to sell. Lazard estimates the secondary market transacted about $124 billion in the first half of 2026 and a record $260 billion over the trailing twelve months, including continuation funds, where a sponsor moves a company it already owns into a new vehicle in order to hold it longer. Goldman Sachs and Evercore are reportedly exploring continuation funds built to hold companies for 10 to 15 years or more.

Both trends reach the lower middle market, and this part is our read. When sponsors sell, more professionally prepared companies come to market, and an owner selling for the first time competes with them for buyers' attention and diligence time. And when some of the largest firms in private equity engineer ways to hold good companies longer, they are making the case for patience in their own terms.

What the vote does not change

Divided government tends to pass fewer big laws, and fewer surprises can steady confidence. But the levers that matter most to manufacturers and distributors sit outside Congress. After the Supreme Court struck down the emergency-powers tariffs in February, the administration rebuilt its tariff policy on trade statutes that do not depend on Congress, first a temporary global tariff and then new Section 301 investigations. As owners of a copper and brass distributor and a metal fabricator in Ontario, we plan around that every month. Merger review also stays with agencies the White House controls, and so does the Labor Department's proposed rule on alternative assets in 401(k) plans, a regulation rather than a law, which the department has signaled it aims to finalize by year-end. What changes is the volume: new committee chairs gain subpoena power, and dealmakers expect more hearings that touch private equity roll-ups. For the lower middle market, we read that as headline risk more than enforcement risk.

Why this matters down here

Take a founder who owns a $10 million EBITDA manufacturer and has been thinking about what comes next. What changed this week is that a group of buyers who were waiting may come back in the first quarter with more confidence, and the history above suggests early 2027 could be busier than this fall. What did not change is the cost of debt, the tariff picture, or how ready the business is for an owner transition.

That last one is the owner's to control, and most have not started. In the same Citizens survey, 51% of middle market companies said they had no transition plan at all, and only 19% said their plan includes a sale. With more sponsor-owned companies coming to market, preparation is what lets a first-time seller stand next to them: monthly financials a buyer can trust, a second layer of management, and customer relationships that belong to the company rather than the founder. The political calendar runs in two-year cycles. A succession plan runs on the owner's own timeline, and it should.

The same logic applies to buyers. Since dealmakers say political and regulatory risk now shows up in deal terms more than in price, an owner should read the provisions on timing, approvals and certainty of close as carefully as the number. And it is fair to ask every buyer one plain question: is there a date by which you need to sell my company? An owner should not have to sell on Washington's calendar, and should not have to sell on a fund's calendar either.

SIDEBAR · HOW CAPITAL IS CHANGING

Where patient money is going

Family offices are recalibrating, not retreating. UBS's 2026 Global Family Office Report, covering 307 family offices in more than 30 markets, found private equity at 17% of the average portfolio at the end of 2025, down from a 22% peak in 2023. Alternatives as a whole still made up 42% of allocations. A record 60% of offices said they planned to change their strategic allocation over the next twelve months, and UBS describes them as refining how much private exposure they take and how it is structured, with more attention to liquidity and valuation, rather than stepping back.

Direct and fund investing have converged. In 2021 family offices put more into direct private equity than into funds, 13% against 8% by UBS's tracking. By the end of 2025 the split was 8% direct and 9% in funds.

Evergreen structures keep growing. PitchBook data put private-market evergreen fund assets at $534 billion in 2025, double the 2022 level, and private equity evergreen assets doubled again between the end of 2024 and mid-2026. Morningstar projects evergreen private-asset funds could reach $1.1 trillion by 2029.

Liquidity is the test. Evergreen funds offer periodic liquidity, not daily liquidity. PitchBook notes that redemption limits and gating are now testing the model, which is why the mechanics of how and when investors can exit matter as much as the strategy.

For general educational context only. Figures are drawn from third-party research and have not been independently verified. Nothing here is a recommendation of any fund or structure.

THE WORTH LENS

An election is a date on a calendar. So is a Fed meeting, and so is the end of a fund's life. This fall the market waited on all three, while some of the largest firms in private equity built new structures to hold good companies for a decade or more. Holding for the long term has been our structure since 2009.

Entry price is the one thing we fully control, and it matters more when every rate decision moves a leveraged buyer's math. **We buy directly from owners**, which means the timing is set by a family's readiness, not a news cycle. And **permanent capital means we answer to no outside clock**: we did not need the election to go a certain way or the Fed to cut, and we have never needed a continuation vehicle to keep a company we believe in. Washington will likely be louder for the next two years. That does not change what makes a business worth owning.

The team at Worth Investment Group

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