August 2026

M&A in 2026: Midyear Update
A View from the Ferris Wheel

Six months into 2026, the U.S. M&A market has unfolded very differently than many anticipated entering the year.

Record-setting deals, a more selective middle-market, evolving financing conditions, and the growing influence of artificial intelligence have widened the gap between market headlines and the experience of most privately held businesses.

From a higher vantage point, emerging patterns begin to take shape, offering important context for business owners preparing for future transition opportunities.

1H 2026: The Quick Ride

The momentum that emerged during the second half of 2025 carried into 2026, but the first half underscored an increasingly bifurcated M&A market. U.S. M&A activity reached approximately $2 trillion during the first half of the year, a 204% increase from the same period in 2025, even as overall transaction volume declined 17% to roughly 6,900 announced deals.[1] Rather than signaling a broad-based expansion in activity, these results reflected a market defined by fewer, significantly larger transactions.

The contrast between rising deal value and declining deal volume became the defining characteristic of the first half. Large strategic acquisitions drove headline momentum, while much of the middle market continued to navigate a more measured environment. The result was an M&A market shaped by two distinct dynamics: large strategic buyers pursuing long-term priorities and middle-market businesses operating in an environment influenced by financing costs, valuation expectations, and disciplined buyer behavior.

For business owners, the takeaway is not that opportunity has diminished, but that it has become increasingly differentiated. High-quality companies with compelling strategic positioning continue to attract meaningful buyer interest, while average businesses face a more challenging landscape. As buyers place greater emphasis on quality and strategic fit, middle-market businesses that are well-prepared and strategically positioned will command stronger influence on transaction outcomes than broader market conditions alone.

Key Themes in 1H 2026

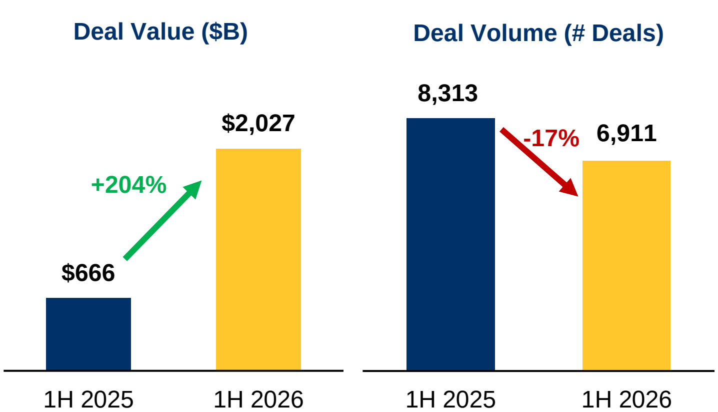
1. The Slingshot: Mega-Deals

The divergence in transaction size that has characterized the post-pandemic M&A market reached a new high during the first half of 2026. A record 261 mega-deals (>$1 billion) were announced, representing a 72% increase over the same period in 2025, while 74 transactions exceeded $5 billion, already surpassing the full-year total from 2025.[1] Rather than reflecting a broad-based surge in transaction activity, these headline results were driven by a relatively small number of transformational acquisitions that disproportionately influenced overall deal value.

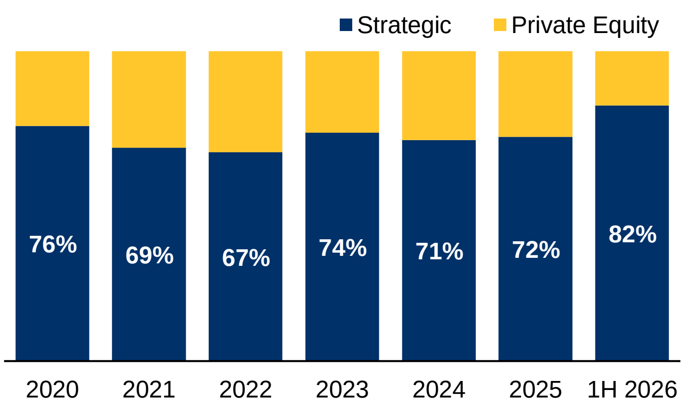
What distinguishes this cycle is not simply the size of these transactions, but also the conviction behind them. Unlike prior periods fueled by abundant liquidity and inexpensive financing, today's largest acquisitions are being driven by long-term strategic priorities. Corporate buyers increasingly view artificial intelligence, digital infrastructure, scale, and energy capacity as competitive necessities rather than discretionary investments. Although elevated borrowing costs have influenced transaction structures, prompting greater use of equity and alternative financing, they have done little to diminish buyers' willingness to pursue acquisitions viewed as strategically essential.

Strategic acquirers, rather than financial sponsors, have led this resurgence, accounting for approximately 80% of second-quarter announced deal value,[1] while private equity buyout activity remained comparatively subdued.

1H 2026 Deal Activity Recap



U.S. M&A Activity: Private Equity vs. Strategic (% of Deal Value)[1]

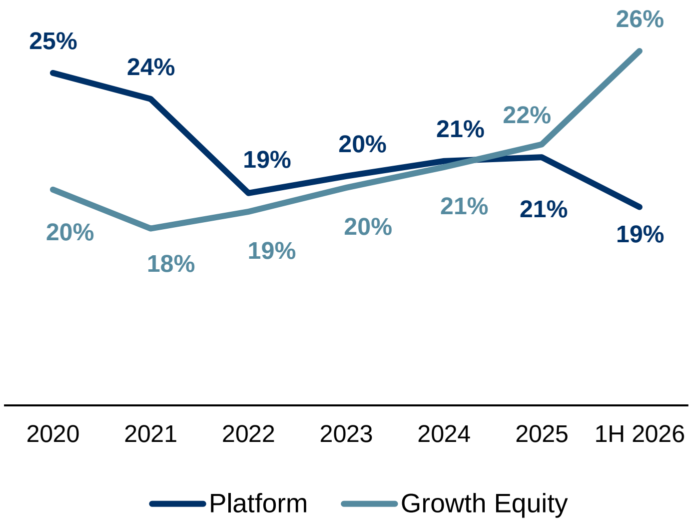


Source: Pitchbook. Data as of 7.3.2026.

The largest transactions announced during the first half of 2026 reflect a broader emphasis on long-term corporate transformation, with buyers pursuing acquisitions designed to strengthen competitive positioning rather than capitalize on favorable financing conditions.

For business owners, the mega-deal wave represents far more than headline activity. Large strategic acquisitions reshape competitive landscapes, establish valuation benchmarks, and often create downstream opportunities as acquirers integrate businesses, divest non-core assets, and refine long-term strategic priorities. They also provide valuable insight into the industries, business models, and capabilities that buyers increasingly view as sources of long-term competitive advantage. Businesses operating in sectors experiencing consolidation, or possessing complementary products, services, or technologies, may ultimately benefit as acquisition activity extends beyond the largest transactions and further into the middle-market.

U.S. Private Equity Activity (% of Deal Volume)[2]



Source: Pitchbook – 2026 US Private Equity Outlook: Midyear Update, page 11. Data as of 5.30.2026

2. The Carousel: The Middle-Market

While mega-deals dominated the headlines, the middle-market continued to move at a more measured pace. Middle-market deal value increased 29% year-over-year, even as overall transaction volume declined 19%,[1] reflecting a market supported by a smaller number of larger, higher-quality transactions rather than a broad-based recovery. Although buyer demand remained healthy for well-positioned businesses, transaction activity continued to reflect greater discipline around valuation, business quality, and long-term growth prospects.

Private equity remained a central influence on the middle-market landscape. Platform buyout activity fell to its lowest share of overall M&A activity in more than a decade as sponsors continued to favor add-on acquisitions over new platform investments.[2] Elevated holding periods, particularly among businesses acquired during the peak valuation environment of 2021 and 2022, have made exits more challenging, slowing capital recycling and contributing to a growing inventory of portfolio companies awaiting liquidity events. Until realization activity accelerates, many sponsors are expected to remain disciplined in deploying capital toward new platform investments.

At the same time, improving confidence in the broader M&A market has prompted many privately held business owners to revisit transition planning after several years of deferred decisions. While many continue to evaluate the timing of a potential transaction, an increasing number are taking proactive steps to prepare their businesses for future liquidity events, recognizing that readiness often creates greater flexibility than waiting for ideal market conditions. As more owners begin positioning their businesses for transition, the pipeline of future middle-market opportunities is expected to continue expanding.

Although overall middle-market activity has yet to fully recover, high-quality businesses continue to attract meaningful interest from both strategic and financial buyers. As buyers remain disciplined in evaluating acquisition opportunities, business quality, strategic positioning, and advanced planning continue to exert a greater influence on transaction outcomes than broader market conditions alone.

Sector Spotlight: Where Momentum Is Building

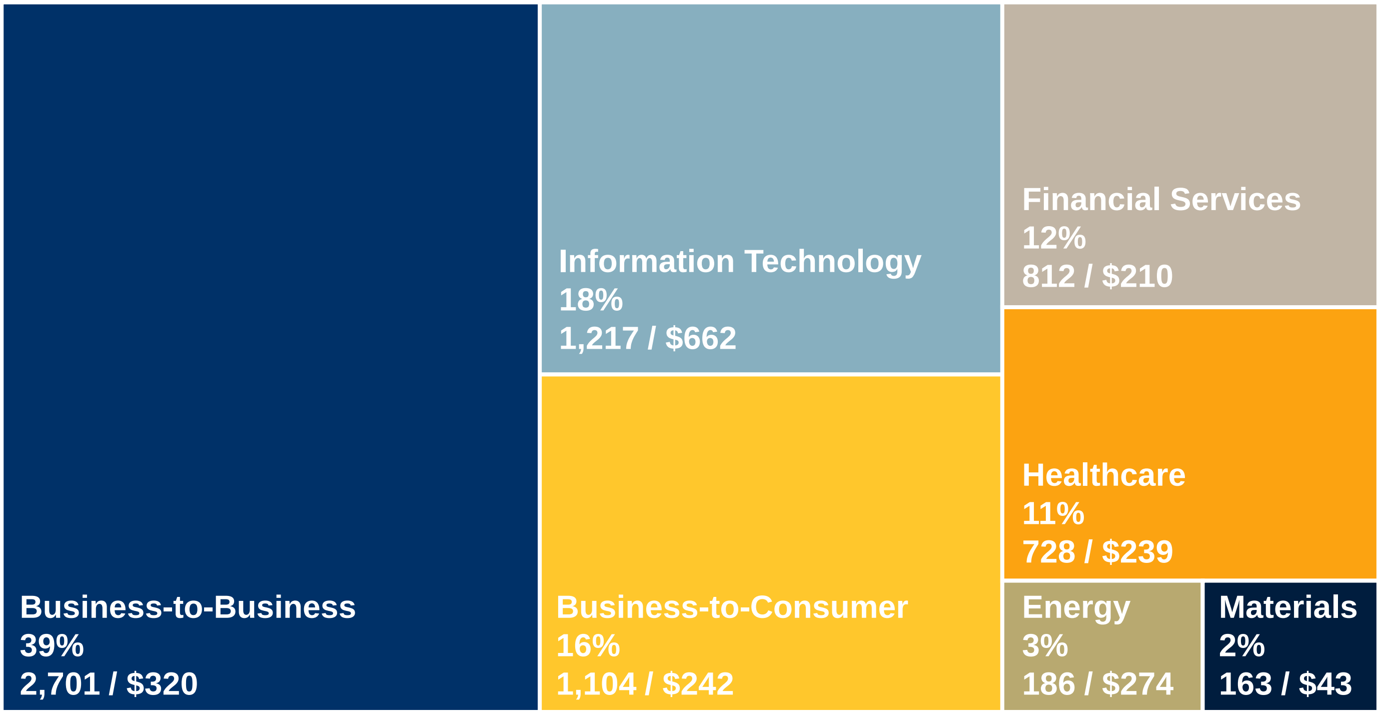
Healthcare and Life Sciences.
Consolidation is lowering the cost of care and expanding into behavioral and home health, while thinner pharmaceutical pipelines are refilled through targeted bets as AI accelerates discovery. Demographics, margin pressure, and AI-enabled research are converging at once.

Utilities and Energy.
Powering data centers and hardening the grid has turned the re-industrialization of the economy into an energy story. Surging electricity demand from AI has recast legacy utilities as growth assets and drawn acquirers accordingly.

Aerospace and Defense.
Space has become a frontier for vertical integration across rocket, launch, and satellite technologies, while drones and hypersonic systems attract capital as geopolitics rewrites defense priorities and global budgets climb.

Sector Breakdown: 1H 2026 M&A Activity (% of Total Deal Count)[1]

#Deals / $Billions



Source: Pitchbook. Data as of 7.3.2026.

Perspectives for 2H 2026

1. The Control Booth: Policy, Rates, and Regulation

While strategic conviction has continued to support transaction activity at the upper end of the market, the broader M&A environment remains heavily influenced by factors outside the control of buyers and sellers. Throughout the second half of 2026, the direction of monetary policy, financing markets, and the evolving regulatory landscape will continue to shape transaction timing, valuation expectations, and overall market sentiment.

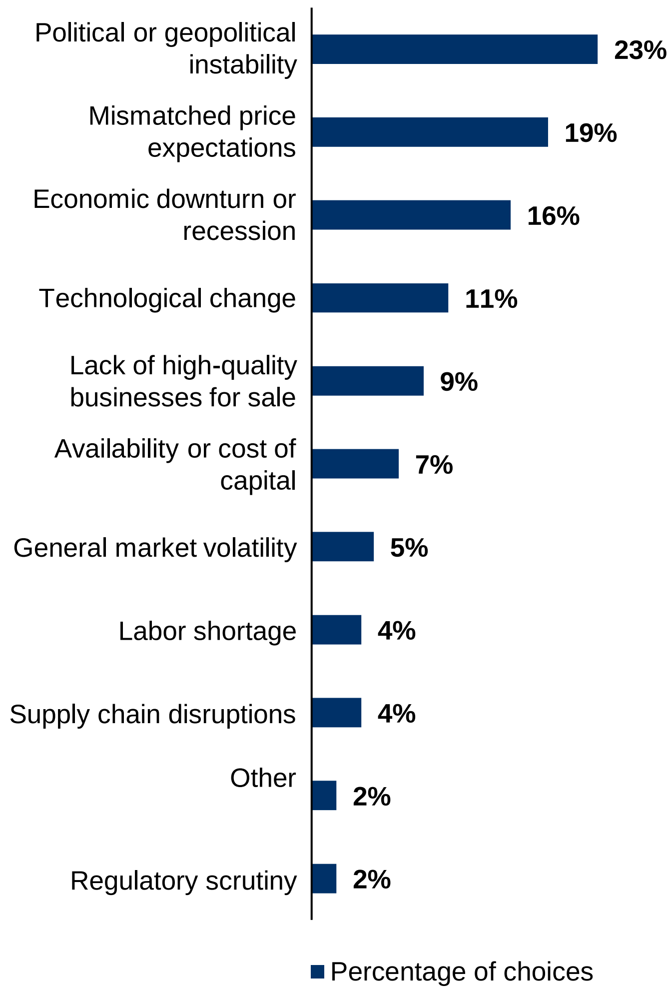
At its July meeting, the Federal Reserve once again held the federal funds rate at 3.50%–3.75%, though an unusually divided committee underscored the growing uncertainty surrounding the path forward.[3] Earlier expectations for multiple rate cuts during 2026 have largely given way to a "higher-for-longer" outlook as policymakers continue to balance persistent inflationary pressures against moderating economic growth. While modest reductions remain possible, the range of potential outcomes has widened considerably, increasing uncertainty for borrowers, lenders, and transaction participants alike.

Financing costs remain particularly important for the middle-market, where leverage continues to play a central role in transaction economics. Elevated interest rates have reduced debt capacity, increased financing costs, and reinforced buyer selectivity. At the same time, lenders continue to support businesses demonstrating resilient cash flows, experienced management teams, and attractive long-term growth prospects, underscoring that capital remains available for high-quality opportunities despite a more disciplined lending environment.

Policy considerations extend beyond interest rates. A more accommodating antitrust environment has helped facilitate many of the transformational strategic acquisitions announced during the first half of 2026, while the upcoming midterm elections introduce additional uncertainty surrounding tax policy, regulation, and sector-specific legislation. Although election cycles rarely determine M&A activity on their own, shifting policy expectations can influence business confidence, financing markets, and transaction timing, particularly in highly regulated industries such as healthcare, energy, and defense.

For business owners, these developments reinforce an important distinction. While monetary policy, financing costs, and political outcomes remain largely outside an owner's control, transaction readiness is not. Businesses that continue strengthening operational performance, enhancing strategic positioning, and preparing well in advance of a transition are generally better positioned to capitalize on opportunities regardless of how the broader policy environment evolves.

Q3 Dealmaker Sentiment: What do you expect to be the greatest risk(s) to middle-market M&A activity over the next six months?[4]



Source: ACG Middle-Market Growth – Q3 2026 Market Pulse Survey. Data as of 7.15.2026. Respondents could choose up to 3 answers.

2. The Next Attraction: AI as a Middle-Market Catalyst

Artificial intelligence (AI) has quickly evolved from a disruptive technology into a strategic differentiator, with implications extending well beyond the technology sector itself. While much of the recent attention has centered on the largest corporate acquisitions, AI is increasingly influencing how buyers evaluate businesses across the broader middle-market. Companies that successfully leverage AI to improve operational efficiency, strengthen customer engagement, enhance decision-making, or create scalable competitive advantages are becoming increasingly attractive acquisition candidates.

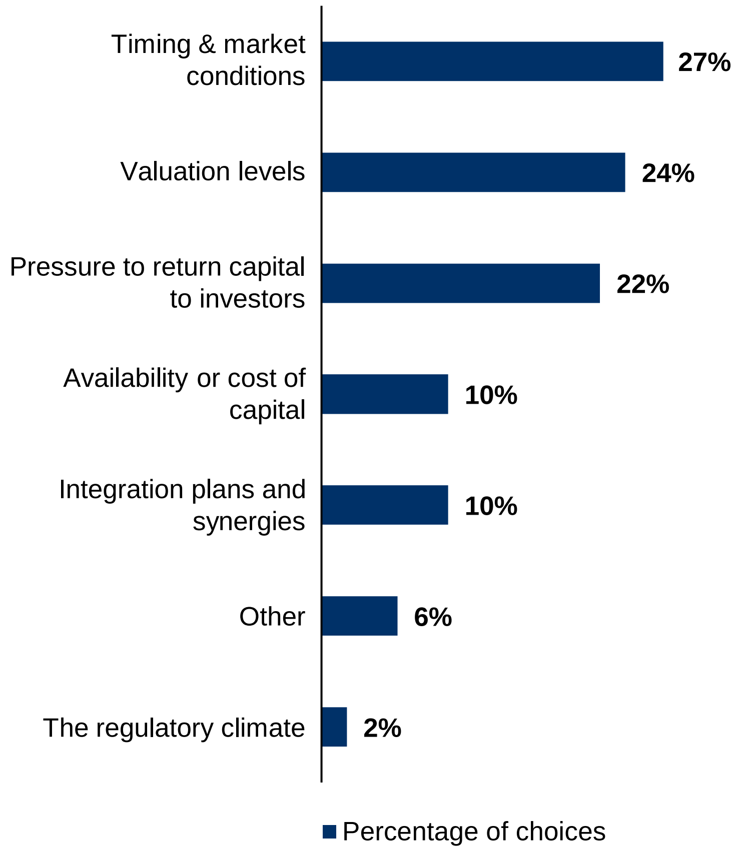
For private equity firms, AI also represents an evolution in the traditional value-creation playbook. Sponsors have historically relied on operational improvements, strategic acquisitions, and financial discipline to increase enterprise value over a three-to five-year investment horizon. Increasingly, firms are exploring AI as another lever to accelerate revenue growth, improve margins, and enhance portfolio company performance. As these capabilities become more measurable, AI adoption is likely to become an increasingly important consideration in both investment decisions and exit valuations.

As AI becomes increasingly embedded across industries, the competitive advantage will likely shift from simply adopting the technology to implementing it effectively. Middle-market businesses that successfully integrate AI to improve operations, strengthen customer relationships, and enhance decision-making may be better positioned to create strategic value and distinguish themselves in an increasingly competitive acquisition market.

The broader opportunity extends beyond technology adoption alone. Buyers are increasingly placing greater emphasis on businesses that demonstrate scalable operations, differentiated data assets, and the ability to sustain long-term productivity improvements. As AI capabilities continue to mature, these characteristics are likely to become increasingly important drivers of enterprise value across a wide range of industries.

For business owners, the opportunity is not simply to adopt artificial intelligence, but to thoughtfully incorporate it into their long-term growth strategy. Companies that can demonstrate measurable operational improvements, stronger competitive positioning, and sustainable value creation through responsible AI implementation may ultimately command greater buyer interest and stronger valuations as the next phase of the M&A cycle unfolds.

Q3 Dealmaker Sentiment: What do you expect to be the greatest driver(s) to middle-market M&A activity over the next six months?[4]



Source: ACG Middle-Market Growth – Q3 2026 Market Pulse Survey. Data as of 7.15.2026. Respondents could choose up to 3 answers.

3. The Queue: Private Equity Supply and Demand

While overall M&A activity remained measured throughout the first half of 2026, the conditions supporting future transaction activity continue to build. Deferred exits, substantial undeployed capital, and improving market confidence have created a growing pipeline of both businesses expected to come to market and buyers positioned to pursue them as conditions continue to improve.

Private equity remains central to that dynamic. Although firms continue to hold significant undeployed capital, the pace at which existing portfolio companies can be successfully exited has become increasingly important. Realizations generate distributions to investors, support future fundraising, and replenish firms' capacity to pursue new platform investments. Until that cycle accelerates, many sponsors are expected to remain disciplined in balancing portfolio management with new investment activity.

A similar dynamic is developing among privately held business owners. Many postponed succession and transition decisions over the past several years as they navigated higher interest rates, economic uncertainty, and shifting valuation expectations. As confidence gradually improves, more owners are beginning to prepare for future liquidity events, steadily expanding the pipeline of businesses expected to enter the market over the coming years.

While the timing of the next acceleration remains uncertain, the underlying drivers supporting future M&A activity continue to strengthen. Business owners who use the current environment to strengthen enterprise value, preserve and expand optionality, and prepare for a future transition will likely be best positioned as buyer demand continues to broaden across the middle-market.

Business Owner Playbook

While market conditions, valuations, and deal activity will continue to fluctuate, one principle remains constant: business owners have far greater control over their level of preparedness than they do over the market itself. Regardless of where the M&A market stands in its cycle, the following principles can help business owners preserve optionality, strengthen enterprise value, and prepare for a successful business transition.

1. Preserve & Expand Optionality
Optionality is one of a business owner's most valuable assets, yet it is often diminished through inaction rather than market conditions. Planning early preserves the flexibility to pursue multiple transition paths, while delaying decisions can gradually limit available alternatives and reduce control over both timing and outcome.

2. Strengthen Business Value
Enterprise value is built long before a business goes to market. Investing in recurring revenue, operational efficiency, management depth, customer diversification, and sustainable competitive advantages strengthens buyer interest regardless of broader market conditions.

3. Know Your Exit Path
Every transition strategy offers different advantages depending on an owner's financial objectives, legacy goals, and desired level of continued involvement. Understanding the available alternatives before beginning a transaction expands flexibility and supports more informed decision-making.

4. Know Your Number
A successful transaction is measured by achieving personal and financial objectives, not enterprise value alone. Understanding the after-tax proceeds required to support your lifestyle, legacy, and long-term goals provides an essential framework for evaluating opportunities and negotiating with confidence.

5. Assemble Your Advisory Team
Business transitions affect both the company and the owner's personal financial future. Establishing an experienced team of business and personal advisors, including legal, tax, intermediaries, valuation, financial planning, and investment professionals, helps owners navigate their exit, evaluate opportunities objectively, and execute with confidence.

The Ride Ahead

The first half of 2026 reinforced that today's M&A market cannot be measured by headline activity alone. Large acquisitions drove overall transaction value to historic levels, while the middle-market continued to navigate an evolving environment. Across both segments of the market, one characteristic remained consistent: well-positioned businesses continued to attract meaningful buyer interest.

Looking ahead, the fundamental drivers supporting M&A activity remain firmly in place. Corporate balance sheets remain healthy, private equity firms continue to hold significant capital, and demographic forces continue to expand the pipeline of business owners contemplating succession and liquidity events. At the same time, advances in artificial intelligence, continued industry consolidation, and the ongoing need for growth are reshaping how buyers evaluate acquisition opportunities across virtually every sector of the economy.

While market conditions will continue to evolve, business owners can meaningfully influence transaction outcomes by focusing on the factors within their control. Strengthening enterprise value, preserving optionality, and preparing well before a transition creates greater flexibility to evaluate opportunities as they arise. Although no one can predict every turn in the market, business owners who prepare early are often best positioned to navigate whatever lies ahead.

Sources

[1] Pitchbook. Data as of 7.3.2026.
[2] Pitchbook – 2026 US Private Equity Outlook: Midyear Update, page 11. Data as of 5.30.2026.
[3] Federal Reserve, FOMC statement, July 29, 2026.
[4] ACG Middle-Market Growth – Q3 2026 Market Pulse Survey. Data as of 7.15.2026. Respondents could choose up to 3 answers.