



CALABASAS  
CAPITAL

## 2026 M&A Market Outlook

### About Us

Calabasas Capital is a boutique investment banking firm focused on serving lower middle-market privately held companies, including family-held businesses, emerging growth companies, and woman-owned businesses. We specialize in sell-side and buy-side mergers, sales and acquisitions and we raise private equity and debt capital.

### Key Factors Impacting Market Outlook

Today's market uncertainty is largely driven by the following factors:

- **Tariffs:** M&A activity was growing before tariffs were introduced but activity fell post tariffs, highlighting the direct impact on the U.S. M&A market and deal flow.
- **Fed rate cuts:** Markets have long been anticipating them, and historically there is a lag between a Fed rate cut and its effect on M&A deal activity. Notably, when policy rates fall below 2%, CEO confidence has tended to jump significantly, a pattern that has coincided with some of the strongest U.S. deal-making environments, including the 2021 boom.
- **CEO and consumer confidence:** Recent numbers show some improvement with an uptick in numbers, which is critical for unlocking new deal processes, sale mandates, and buy-side M&A strategies.

### Market Commentary & Survey Data

According to the Deloitte 2026 M&A Trends Survey (which included responses from more than 1,500 corporate and private equity (PE) dealmakers):

- 90% of PE and 80% of corporate respondents expect an increase in deal numbers.
- 87% of PE and 81% of corporate respondents anticipate higher aggregate deal values.
- Optimism is more measured than last year; fewer expect a "significant" increase, with more expecting a "somewhat" increase.

Further support for PE confidence stems from their sitting on over \$1 trillion in assets they want and need to sell but have not been able to do so because of tariffs and interest rates.

In addition, recent public comments by investment banking leaders in the past couple of months have been very positive:

- Goldman Sachs CEO, David Solomon: “The current environment for large mergers and acquisitions is quite constructive for 2026 and 2027, particularly in the U.S. with a tremendous backlog of significant consolidating situations. We have seen a massive pick-up in activity.”
- Morgan Stanley Co-Head of Investment Banking, Mo Assomull: “M&A pipelines are broadly healthy across sectors, with technology, healthcare, industrials and financials being particularly active. The economic backdrop for deals is also supportive.”
- J.P. Morgan Global Head of Capital Markets, Kevin Foley: “There’s a lot of demand for acquisition financing based on the amount of inbound requests JPMorgan is getting. Overall, M&A activity has been showing signs of an upward trajectory. Animal spirits in the market have been more active, inbound inquiries have been growing, so all signs point to increased deal activity.”

## Large Cap vs. Middle Market M&A

So far in 2025, large cap M&A (over \$1 billion) has outperformed middle market M&A (\$25 to \$1 billion) especially in deals involving PE. The numbers so far in 2025 demonstrate this, with M&A value way up but the number of deals flat. The aggregate value of deals in the U.S. increased significantly in the third quarter of 2025, reaching US\$598 billion, the highest in nearly four years and a 56% jump from the second quarter. At the same time, the total number of U.S. M&A transactions has remained relatively flat during most of 2025.

Further, over the first three quarters of 2025, PE firms realized \$78 billion in middle market exits, accounting for only 29% of the total PE exit value over that period, the lowest share ever recorded. The long-awaited recovery in PE exits was derailed earlier this year by a series of macroeconomic shocks, most notably tariffs, which placed greater pressure on smaller businesses than their larger counterparts.

Large cap M&A has also benefited from strong public equity valuations and an abundance of private credit. The bright spot in the middle market remains the very low end of middle market (under \$100MM), which remains a prime source of add-on acquisitions for large PE platforms and opportunistic public companies. We believe M&A activity in the middle market will catch up in 2026, especially as lower rates flow through the system and valuation bid-ask spreads continue to narrow.

## Sector-Specific Outlooks

The outlook for M&A activity in 2026 varies by sector (courtesy of Pitchbook and Forvis Mazars):

- **Service Industries:** Buyer appetite is strongest in service-based sectors (Industrial, Business and Essential), as these are seen as resilient during uncertainty.
- **Manufacturing:** Executives are highly optimistic, with 98% expecting sales growth in 2026. This optimism is driven by:
  - Legislative changes (e.g., permanent bonus depreciation, immediate expensing of R&D, interest deductibility, and pass-through entity deductions).
  - Strategic focus on supply chain management, pricing power, efficiency, and M&A as a tool for growth and scale.
  - Despite optimism, manufacturers are still navigating supply chain disruptions and tariff impacts.
- **Food & Beverage CPG:** Growth is seen in healthy snacks, functional drinks, and smaller ready-to-eat meals, while sectors like nonalcoholic and RTD cocktails appear crowded and over-valued. AI-driven forecasting can help producers cut waste and recover margins.
- **Aerospace & Defense:** Buyers are likely to find the best opportunities in commercial aircraft parts and defense electronics. Demand for aircraft components keeps rising as airlines stretch the life of older fleets. Growing defense budgets favor suppliers of advanced defense electronics, including communications, electronic jamming, avionics, and others.
- **Software:** Enterprise systems that run payroll, finance, customer support, and supply chains remain the safest bets. They have sticky customers and plenty of room to improve efficiency with AI. In contrast, marketing and analytics platforms are saturated and face pricing pressure from larger cloud providers that bundle similar tools for free.
- **Transportation & Logistics:** Investors are looking for recovery in trucking and warehousing after a difficult stretch. Autonomous trucking has the potential to reshape the sector, while freight forwarding and third-party logistics will stay busy as companies rebuild supply chains around tariff and trade changes.
- **Consumer Retail & Services:** Investors are leaning toward health, wellness, and premium brands that can hold pricing power. Sports and outdoor brands should recover as participation rebounds, and the pet and veterinary space still has room for consolidation. The middle market remains tough, with consumers either trading down or going upscale.

- **Construction & Engineering:** Electrical contractors and HVAC companies are positioned to benefit from the surge in datacenter construction, grid upgrades, and reshoring of manufacturing.
- **Healthcare services:** Outpatient models such as physician practice groups, ambulatory surgery centers, and multispecialty clinics are gaining share as care continues moving out of hospitals. AI tools that automate paperwork and improve workflows will help these businesses boost margins while hospitals remain under reimbursement pressure.

## Conclusion: M&A Market Outlook

Overall, the U.S. M&A outlook for 2026 is cautiously optimistic.

- While uncertainty remains due to macroeconomic factors, legislative changes, and sector-specific strengths (especially in services and manufacturing) are fostering a gradual recovery.
- Most dealmakers expect increased activity, but with more measured expectations than in previous years.
- Accommodating Fed policy and investment incentives from the new tax bill are expected to facilitate increased transaction activity.

### **Sources:**

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- Private Equity & Debt Capital Raising
- Acquisition Financing
- Financial Restructuring

Our industries of expertise include:

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- Business Services
- Industrial Manufacturing & Distribution
- Software & Technology
- Aerospace & Defense & Government Services
- Packaging
- Consumer Products & Services
- Healthcare

Our focus is on businesses with:

- \$10 million+ in Revenue, and
- \$2 million+ in EBITDA

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