

MACRO REALITY FOR INDEPENDENT SPONSORS: HOW MARKET CONDITIONS ARE CHANGING DEAL BEHAVIOR

NAVIGATING HIGHER
RATES, TIGHTER CAPITAL,
AND SHIFTING EXIT
TIMELINES

EXECUTIVE SUMMARY

The macro environment is no longer just “the backdrop.” It is actively reshaping how deals get sourced, priced, financed, and closed.

Across private equity, 2025 saw a real rebound in activity, but the recovery has been uneven and more selective than it looks in headline numbers. McKinsey reports private equity deal value increased 19% in 2025 to \$2.6 trillion, while deal count declined 5% and larger deals drove a disproportionate share of total value. KPMG similarly notes global PE investment reached \$2.1 trillion in 2025 even as deal volume fell to a five-year low, reinforcing that capital is flowing, but not broadly.

For independent sponsors, the impact is specific: processes are speeding up, underwriting discipline is rising, and “good deals” are increasingly defined by financing certainty and clear paths to value creation, not just purchase multiple.

This insight outlines what is changing in deal behavior right now, and what independent sponsors should do about it.



INTEREST RATES ARE STILL DICTATING BEHAVIOR

Even with improving sentiment, financing remains the governor on activity.

The Federal Reserve's target range is currently 3.50% to 3.75% (latest update January 29, 2026), keeping borrowing costs elevated versus the last cycle. Higher rates are not just a pricing input. They are changing what sellers will accept, how lenders structure terms, and how buyers underwrite downside.

Practical outcome: more buyers are walking away earlier when financing terms soften returns, and more sellers are pushing for structures that protect their price expectations.

VALUATION GAPS ARE NARROWING, BUT THE TRADE-OFF HAS CHANGED



The market has moved past the 2023-2024 stalemate. But the “meeting in the middle” is not always through price cuts.

KPMG highlights renewed alignment on valuations and improved financing conditions as drivers behind stronger 2025 activity. The way buyers and sellers bridge gaps now is increasingly through structure: earnouts, seller notes, deferred consideration, rollover equity, and tighter working capital mechanisms.

For independent sponsors, this favors teams that can move quickly and negotiate clearly. Sellers still want confidence. The sponsor who can offer certainty of close often wins even without being the highest headline price.

THE EXIT ENVIRONMENT IS IMPROVING, BUT LIQUIDITY IS STILL THE CONSTRAINT



One of the most important macro realities is not macro at all. It is distributions.

McKinsey notes that liquidity pressures are reshaping the industry, and that LPs are placing greater emphasis on distributions, with DPI becoming one of the most important allocation metrics.

PitchBook also points to slower exit pacing for assets nearing maturity, and highlights that newer deal cohorts are exiting more slowly than prior ones.

The behavioral impact on deals is immediate:

- buyers demand clearer exit routes and more conservative base-case underwriting
- sellers lean harder on process and certainty to protect pricing
- add-on strategies and longer holds become more common defaults, not exceptions

Independent sponsors should assume that “time-to-liquidity” remains a major LP sensitivity even if deal activity headlines look stronger.


PLATFORM DEALS AND ADD-ONS ARE BECOMING MORE INTENTIONAL

Macro conditions are influencing what kind of deals sponsors pursue.

PitchBook expects platform LBOs to increase to 25% or more of total PE deal activity in 2026. That matters because platform deals are harder to win without speed, credibility, and a real plan. At the same time, add-ons remain attractive because they can be financed and integrated with more control, and often with less competitive heat than full platforms.

For independent sponsors, this shows up as a split strategy:

- platform acquisitions when you have a clear angle, specific sector expertise, and financing certainty
- add-ons when you have a strong thesis but want to reduce entry multiple pressure and build value through integration



PRIVATE CREDIT IS STILL A KEY PLAYER, BUT TERMS AND SCRUTINY MATTER MORE

As rates stay elevated and banks remain selective, private credit remains central to deal execution, but the market is tightening around quality and structure.

Morgan Stanley's 2026 private credit outlook frames a "higher for longer" backdrop as supportive for private credit's role in M&A financing. At the same time, there is more scrutiny on credit quality and how lenders are structuring risk, which affects leverage availability, covenants, and pricing across the lower middle market.

Independent sponsors benefit when they can:

- engage lenders early, not after LOI
- underwrite to realistic leverage and covenant scenarios
- present an operational plan that supports lender confidence, not just returns math

WHAT ACTUALLY MATTERS NOW

The macro environment is changing deal behavior in consistent ways. Independent sponsors should respond with equally consistent discipline.

01

Underwrite financing first, not last, and treat certainty of close as a differentiator.

02

Expect valuation gaps to be bridged through structure, not just price, and come prepared with options.

03

Build deal theses that assume longer holds and delayed liquidity, with operational value creation carrying more weight.

04

Focus on high-quality businesses where lenders, sellers, and LPs will support the trade even in a more selective environment.

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