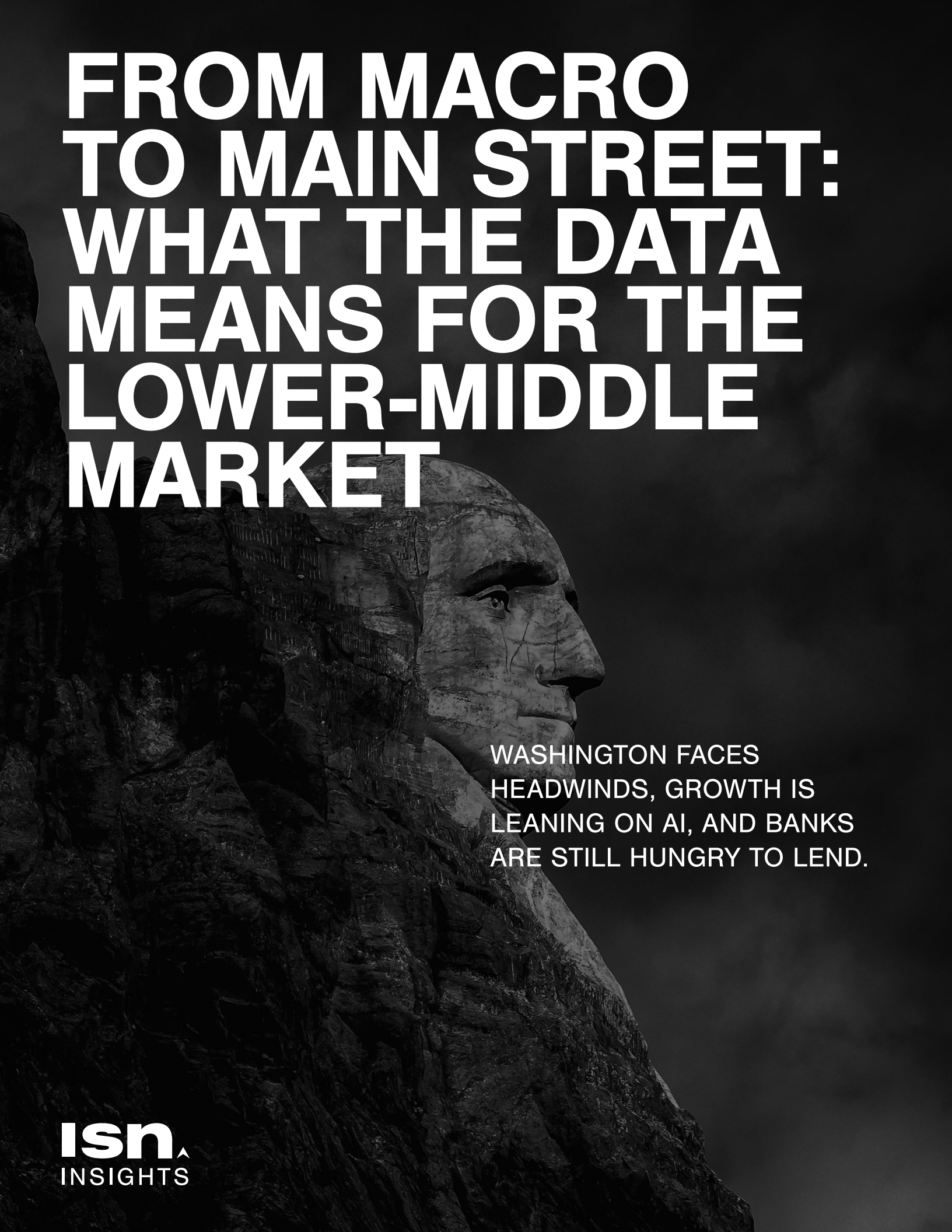
FROM MACRO TO MAIN STREET: WHAT THE DATA MEANS FOR THE LOWER-MIDDLE MARKET



WASHINGTON FACES HEADWINDS, GROWTH IS LEANING ON AI, AND BANKS ARE STILL HUNGRY TO LEND.

ISN INSIGHTS

EXECUTIVE SUMMARY

During the week of the midterm U.S. elections, ISN was in the room for a closed-door panel hosted by a private equity firm that put a leading Political Journalist, a Senior Economist at a global bank, and the Founder of a private markets investment firm side by side.

Three readings emerged:

1. Washington is entering two years in which little legislation is likely to move, with tariffs the clearest exception.
2. The national economy is growing on a narrow base led by AI investment, while inflation holds above target and the Federal Reserve has returned to raising rates.
3. At the company level, the GP Investor described portfolios adding earnings and headcount, and banks competing to lend. A subset of the lower-middle market perhaps, but momentum nonetheless.

The sharpest exchange came on credit. The Economist pointed to Federal Reserve survey data showing banks tightening standards for small firms. The GP Investor, who works with roughly 100 bank investors, described lenders actively chasing commercial loans.



WASHINGTON HEADS INTO TWO UNCERTAIN YEARS

The Political Journalist opened with history. The second half of any presidential term is the least productive stretch for legislation, and this Congress starts from a low base. Pew Research Center counted 121 public laws enacted by the 119th Congress as of October 14, 2026, the second-lowest total at that point of any Congress in four decades.

The midterms add a divided government to that pattern. Democrats won control of both chambers, which the Political Journalist read primarily as a rejection of the party in power. His expectation for policy was modest across taxes, immigration, and regulation.

Tariffs were the exception. He expects the incoming Democratic majorities to bring legislation to unwind parts of the current tariff regime, and noted that a number of Republicans who had kept their reservations quiet may now join them. Overriding a Presidential veto takes two-thirds of both chambers, a threshold he described as within reach on this issue.

STRONG IN AGGREGATE, NARROW UNDERNEATH

The Economist described an economy that has absorbed tariffs, a conflict in the Middle East, and broad policy shifts while still growing. The resilience shows up at the aggregate level, and most of it is coming from investment tied to AI.

Data center construction and AI-related spending are performing strongly, residential investment and traditional structures outside of data centers remain weak. In her view, the longer-run growth rate of the U.S. economy now leans heavily on how widely AI is adopted and whether it lifts productivity beyond the companies building it.

INFLATION HAS MORE THAN ONE SOURCE

Inflation has run above the Fed's 2% target for close to six years, and the Fed raised rates by 25 basis points on September 16, 2026, its first increase since 2023, to a target range of 3.75% to 4.00%.

The Economist traced current pressure to several sources at once. Energy prices tied to the Middle East conflict are pushing headline inflation higher, though core inflation in the U.S. tends to be less sensitive to energy. Tariffs have lifted goods prices. The AI buildout is running hot enough to raise prices in some consumer categories. The U.S. position as a net energy exporter has softened the blow of the oil shock compared with past episodes, and consumers were supported this year by a large tax refund season. That support does not repeat in 2027.

WHAT NATIONAL DATA MISSES

Aggregate statistics say little about smaller companies, so the Economist turned to small business surveys. Three concerns recur: inflation, interest rates, and the quality of available labor. Small businesses can find workers. Finding workers with the right skills is the constraint.

On financing, she pointed to the Federal Reserve's October 2026 Senior Loan Officer Opinion Survey, which reported that banks tightened standards on commercial and industrial loans to small firms, those with annual sales under $50 million, while standards for larger firms were basically unchanged.

The GP Investor offered a different view from the ground. After the collapse of Silicon Valley Bank in March 2023, he said, regulators pressed banks to shift from real estate toward commercial and industrial lending, and banks have followed. The bank investors he speaks with are eager for quality C&I loans, and he sees some lending to small businesses as too aggressive. His portfolio, he said, is growing earnings and creating jobs.

The two readings measure different things. The survey captures the terms banks are setting at the margin. The GP Investor described appetite for borrowers banks already want.

AI IS MOVING DEMAND ACROSS SERVICES

Asked about AI and employment, the Economist described herself as cautiously optimistic. The outcome depends on how much AI substitutes for workers and how much it complements them, and on how quickly people move into roles that do not yet exist. The U.S. labor market sees constant churn, and she called it the most flexible labor market in the world. Higher unemployment is possible during the transition. She does not expect it to be structural.

The GP Investor offered a case. Three years ago, when his firm was diligencing a teleradiology business, the prevailing view held that AI would put radiologists out of work. The company has since grown EBITDA from $4M to $22M, and its constraint now is hiring enough radiologists. Faster reads expanded the market for reads. Much of the rest of his portfolio, including HVAC and other field services, still depends on people on site.

WHERE THE PANEL LANDED

01

Policy: Little legislation is expected before 2029, and tariff rollback is the open question.

02

Growth: National strength is concentrated in AI-linked investment, with housing and traditional construction lagging.

03

Credit: Survey data shows tighter standards for small firms, while lenders describe strong appetite for quality commercial borrowers.

04

Labor: AI is shifting demand within services, and in at least one specialty it has raised it.

The national figures were the starting point for this panel. Most of the conversation went to what sits underneath them: who can borrow and on what terms, which sectors are carrying growth, and where AI is adding demand for skilled work.

Pew Research Center, So far, the 119th Congress is among the least productive of the past 40 years (October 15, 2026).
Board of Governors of the Federal Reserve System, Senior Loan Officer Opinion Survey on Bank Lending Practices, October 2026.
Central Banking, Federal Reserve delivers first rate hike since 2023 (September 2026).
WDBO and Associated Press, 2026 midterm election results (November 4, 2026).
Panel remarks, November 2026.

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