

COMMERCIAL

THE 2026 COMMERCIAL AND INDUSTRY OUTLOOK



An Economic and Trends Forecast



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Foreword

Welcome to Huntington Commercial Bank's **second annual Commercial and Industry Outlook report**. We are proud to continue this tradition of providing forward-looking insights that help business leaders prepare for what lies ahead. This report is designed to serve as a trusted resource bringing clarity to a marketplace defined by complexity and change.

As we enter 2026, organizations are navigating one of the most uncertain and volatile environments in recent memory. Global trade dynamics, shifting monetary policy, and evolving consumer behavior have created a landscape where yesterday's assumptions no longer guarantee tomorrow's outcomes. The turbulence we've seen, whether in interest rate expectations, commodity pricing, or labor market trends, underscores the need for agility and foresight.

Despite these challenges, there are clear signals of resilience. U.S. consumer spending remains a powerful engine for growth, even as it becomes increasingly concentrated among higher-income households. At the same time, structural shifts are reshaping cost structures and investment priorities across industries. Businesses are contending with divided demand patterns, geopolitical uncertainty, and persistent inflationary pressures, all while planning for a future that demands greater flexibility.

In this environment, Huntington Commercial Bank's commitment is unwavering: **to help our clients navigate complexity with clarity and confidence**. Our role is not only to provide capital, but also to deliver insights and strategies that empower decision-making amid uncertainty. Whether it's hedging interest rate risk, managing foreign exchange exposure, or structuring financing for growth, we aim to be the trusted partner that helps you turn volatility into opportunity.

Thank you for allowing us to be part of your journey. Together, we can navigate the uncertainty and chart a course toward sustainable growth.



A handwritten signature in black ink, appearing to read 'Scott'.

Scott Kleinman

President

Huntington Commercial Bank



MACROECONOMIC OUTLOOK

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**Huntington
Bank**

Macroeconomic Outlook

ALWAYS BET ON THE U.S. CONSUMER

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Key takeaways:

1. Healthy upper-end consumers help drive another year of solid economic growth in 2026.
2. Short-term rates are expected to fall. The main question is, how far and how fast?
3. A slowdown in immigration has wide-ranging impacts.

Welcome to Huntington's Commercial Economics Team's outlook for 2026. Last year was a year of trade volatility, a new administration shifting governing priorities, resilient consumer spending, and a job market that beat expectations. Looking back at our 2025 outlook, we got a lot right—the impact of trade wars, the resilient consumers, and solid economic growth. We did get one theme wrong: We thought the Federal budget deficit would have a bigger impact than it did.

So, what are the key themes we expect for 2026?

1. **Solid consumer spending** pushes the U.S. economy to another year of solid but unspectacular growth.
2. **Slowdown in immigration** will impact the job market and inflation.
3. **A narrow economy.** We expect wealthier consumers, larger companies, and a couple of industry sectors and construction segments to drive growth.

The U.S. consumer stays strong and powers growth in 2026. In 2025, upper-end U.S. consumers were both sometimes fickle in their spending (as when they pulled back in the spring) but also incredibly resilient (when their spending accelerated in the summer), and they have a great deal of spending power. We expect that this trend will continue in 2026.

Upper-end households will continue to receive raises and remain less exposed to the pain of cumulative inflation thanks to owning their homes, and we see no signs that these consumers will pull back. A stock market drop would put a crimp in their spending as their net worth powers their spending, while lower and middle-income spending is more closely tied to their earnings.

The economy grows 1.5% to 2.0%. We expect GDP growth to be driven by consumer spending supported by higher salaries and pent-up savings among upper income households. Consumer spending will be tempered by the slower job growth. In addition, we expect new tax incentives will drive equipment investment, offsetting softness in real estate investment. The federal government will shift from being a drag on spending to becoming a net positive.

Rates – Bah humbug or good tidings?

Is the Federal Reserve going to agree to more rate cuts or will it say, “bah humbug?” As we end the year, the Fed board is more openly divided than it has been in a long time. While those divisions make it harder to forecast the path of rate cuts, we do expect rate cuts this year with the pace and timing of those cuts being the main open questions.

Our key expectations for short-term rates include:

- **Rates fall -75 to -100 bps or -0.75% to -1.0%.** We expect a 25 bps cut is likely at the Fed's December 2025 or January 2026 meeting, and then there will be a pause. Over the course of the year, a sluggish labor market, a more dovish Fed board, and moderate inflation will lead to another 50 to 75 bps of cuts. This would put the fed funds rate at 2.88% to 3.13%.
- **How long does the pause last?** A pause is likely after the next 25 bps cut. When we discuss pauses, it starts to feel like déjà vu. In 2024 and 2025, we had pauses at the beginning of the year that lasted much longer than markets anticipated. The pauses lasted until September in both 2024 and 2025. We do not anticipate the pause will last that long into 2026, but the economic data may surprise us all. Plan for a range of possibilities, as the markets often get these calls wrong.
- **There is no likely path for rates to go higher.** While the Fed board may choose to pause after the next cut, we see no likely scenarios where rates could go up.
- **The Fed will be more aligned with the president.** With Chair Powell's term ending in May, President Donald Trump will have appointed 4 of the 7 members of the Fed's board of governors, and the chair has significant influence on the day-to-day operations of the Fed. While governors are appointed for terms that last beyond the current administration and often support policies that are not aligned with the president that appointed them, **we expect a more dovish Fed in the second half of 2026.**
- **Do long-term rates follow short-term rates down?** We do not expect a similar parallel decline in long-term rates.

What themes will be key in 2026?

Labor supply stops growing. In September, the number of new jobs needed to keep unemployment steady (the "break-even" jobs rate) fell to around 50,000 per month – a massive decline from 250,000 in 2023. This change is fueled

by the drop in net immigration as well as marginal native-born workers dropping out of a softening job market. Since April, the BLS estimates the labor force grew by less than 19,000 people per month, and industries with higher shares of foreign-born workers such as construction (29%) and transportation (21%) experienced negative labor growth¹. At the same time, weaker labor demand in the broader job market has caused more marginally attached younger and older workers to drop out of the job market.

These dual pressures have squeezed the share of adults currently working to below 60%, reversing post-COVID-19 gains. We expect a mixed labor market to develop with **stronger wage growth in sectors more dependent on immigrant labor.**

The construction industry will be impacted in a couple of ways by the shift. First, it is a sector heavily dependent on immigrant labor. Second, household formation will likely slow and delay the recovery in the apartment/multifamily market. Apartments are currently oversupplied, but strong growth in the number of households over the past couple of years has developers hopeful that occupancy will recover to more normal levels by 2027. **We expect this slower labor force growth to push back that date a bit.**

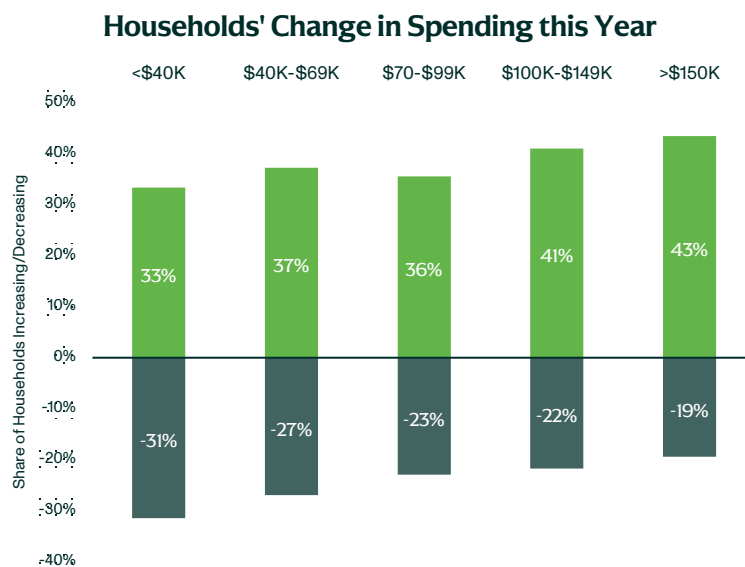


Fig. 1 - Source: Consumer Finance Institute, Federal Reserve Bank of Philadelphia

Divided consumer spending. Instead of moving in parallel, spending by the lowest- and highest-income households continues to diverge. Spending growth is increasingly driven by a small portion of consumers at the highest income levels, which is a reversal of the initial post-COVID-19 trend. A net +24% of households earning more than \$150,000 reported increased spending in Q3 25 compared to +10% of households earning \$40,000-\$69,000 and only net +2% of those earning less than \$40,000. Lopsided growth has been fueled by the “wealth effect” as stock market returns boost wealthier households’ net worth, which drives their spending. While overall consumption will keep pace, **we expect increased spending in high-end categories** such as recreation, restaurants, and international travel, **while low-cost dining and value retail lags.**

Construction is another area with a wide split between segments. We expect growth to be highly concentrated in power generation and data center related sectors. The office segment may finally become a net positive for the construction industry as tight Class A supply starts to drive a turnaround while, in contrast, we expect most other construction segments to be weak.

Federal government does more to boost the economy. The combination of tax cuts from the H.R.1 - One Big Beautiful Bill Act, a budget less focused on cutting spending, and more predictable trade policy with some more trade deals enacted will boost overall growth next year. This marks a contrast from 2025 when federal policy was less supportive. **Expect equipment investment supported by the tax bill to drive overall business investment activity** while investment in structures such as warehouse and factories remain weak.



Four ways your organization can lean into next year's trends

1. The rates outlook remains uncertain, but by pricing in future cuts to the overnight rate, fixed rates in the 1- to 7-year range are trading at a discount to floating rates. Consider fixed rate options.
2. Consider building a range of scenarios for short-run rates when modeling your financing costs. While your base case should be a cut of 0.75% to 1.0% below current rates, a range should include everything from no cuts to 1.5% in cuts.
3. Assume modest growth next year for the economy and average wage growth in the 3.5% to 4.0% range, which outpaces inflation and keeps consumer spending growing.
4. Develop a strategy that leans into the divided consumer market.

FOREIGN EXCHANGE OUTLOOK

Michael Stockdale

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Huntington

Foreign Exchange Outlook

BEND BUT DON'T BREAK**MICHAEL STOCKDALE**

Managing Director – Currency Risk Management
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Key takeaways:

1. The U.S. dollar had its worst first half in over 50 years but has stabilized of late.
2. Investors diversified away from U.S. assets given the inconsistent approach to tariffs and concerns over the fiscal backdrop.
3. Europe has filled some of the global void in trade demand, and structural changes have increased optimism for growth in the region.
4. Mexico has benefitted from its coordination with U.S. interests, while regional trade dynamics have promoted nearshoring trends.
5. De-dollarization fears may be overblown, and we could see a rebound in the dollar as the economy outperforms and continues to offer relative interest rates.

The dollar debate

At this time last year, markets were embracing expectations that tax cuts, deregulation, and protectionist trade policies would concentrate economic growth in the United States and strengthen the dollar relative to other major currencies. However, inconsistent tariff implementation and concerns regarding the fiscal outlook led investors to diversify away from U.S. assets. **Consequently, the dollar experienced its weakest first half in over five decades during 2025**, depreciating more than 10% against a basket of currencies and ending a 15-year bull cycle.

This significant depreciation also placed the current administration's currency strategy into focus. Traditionally, the government has maintained a commitment to a strong dollar to promote international demand for Treasury bonds. From a trade perspective, though, a weaker currency can enhance export competitiveness by making U.S. goods and services more affordable to foreign buyers.

What's more, the reduced demand for U.S. assets has furthered global calls for “de-dollarization.”

For several years, foreign governments and corporations have sought to decrease reliance on the dollar in international trade, payments, and central bank reserves. Some market participants are concerned that shifts in American financial priorities are accelerating this trend.

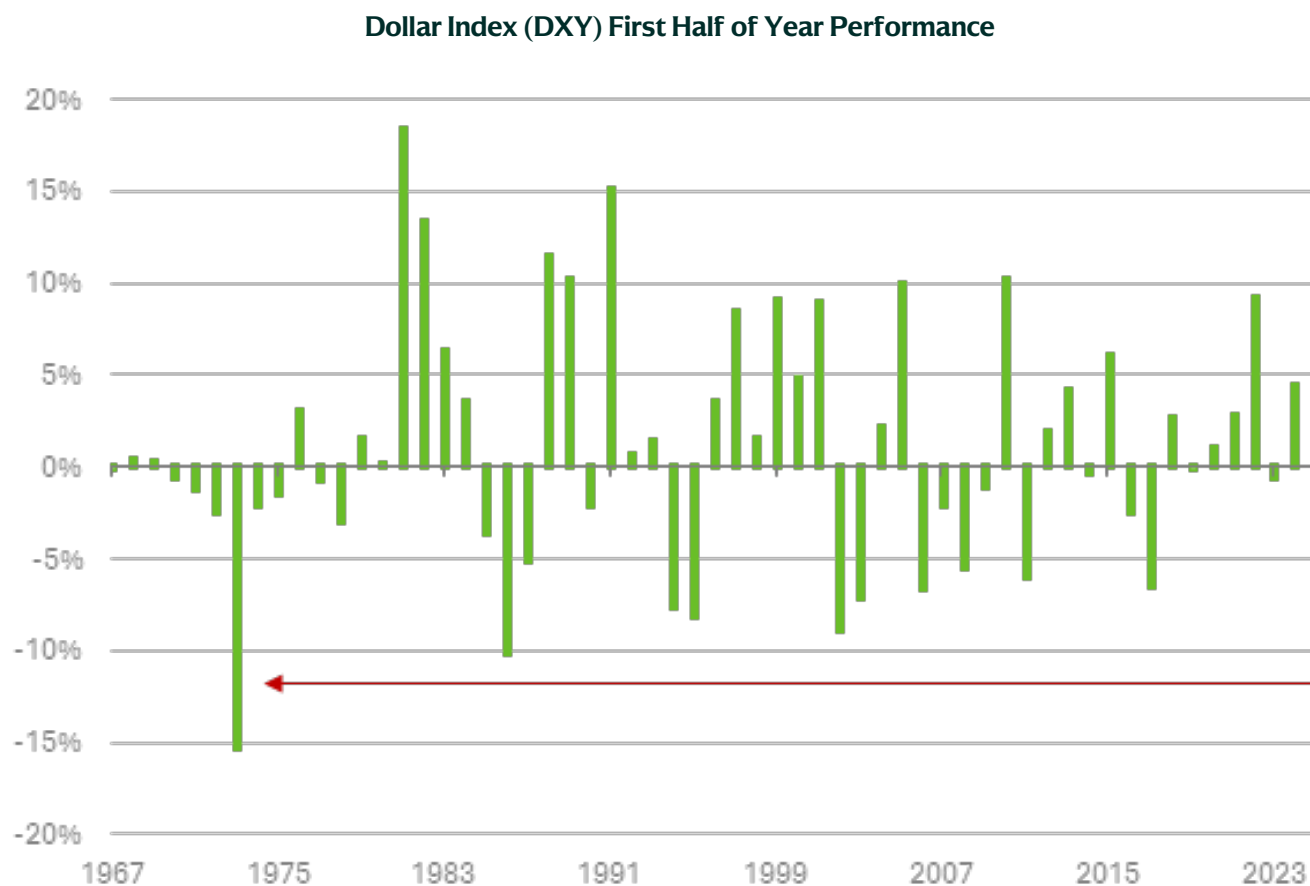


Fig. 2 – Source: Bloomberg, Accessed Nov. 19, 2025

Who has benefitted from the trade war?

European currencies have demonstrated the strongest performance this year, partly benefitting from global investors' diversification away from United States assets, with European markets offering a depth of liquidity as an alternative. Europe has also filled gaps in global trade demand created by reduced U.S. activity, as evident in a rise in Chinese imports.

The European Union responded proactively by securing a trade framework with the U.S. to mitigate potential business shocks, while also enhancing their prospects for future economic growth. Furthermore, the region is expected to benefit from strengthened fiscal and monetary policies over the coming years. As part of these measures, the EU has committed to raising its defense budget through the ReArm Europe Plan, proposing €800 billion in additional spending by 2030. Germany has further contributed by amending its fiscal rules and allocating infrastructure funds outside of its “debt brake,” enabling greater deficit spending. **These fiscal policy shifts are projected to boost Europe’s stagnant economy.**

Other trade partners that aligned with U.S. interests also realized currency gains relative to the dollar. For instance, Mexico has agreed to cooperate on migration and drug trafficking issues in response to requests from the current administration. Canada, in contrast, has been more defiant toward U.S. trade policy, implementing its own retaliatory tariffs. **As a result, Mexico has continued to benefit from the nearshoring of supply chains, contributing to economic stability.**

Canada experienced a GDP decline in the second quarter due to reduced exports and declining consumer confidence. **The Mexican peso has strengthened by nearly 14% against the dollar year-to-date, whereas the Canadian dollar has instead struggled.** The U.S. did exempt most USMCA-compliant goods from its tariffs, but the agreement’s sunset clause requires a joint review in 2026. Both Mexico and Canada will work to ensure that these goods continue to move freely cross-border and maintain, if not improve, relations with the U.S.

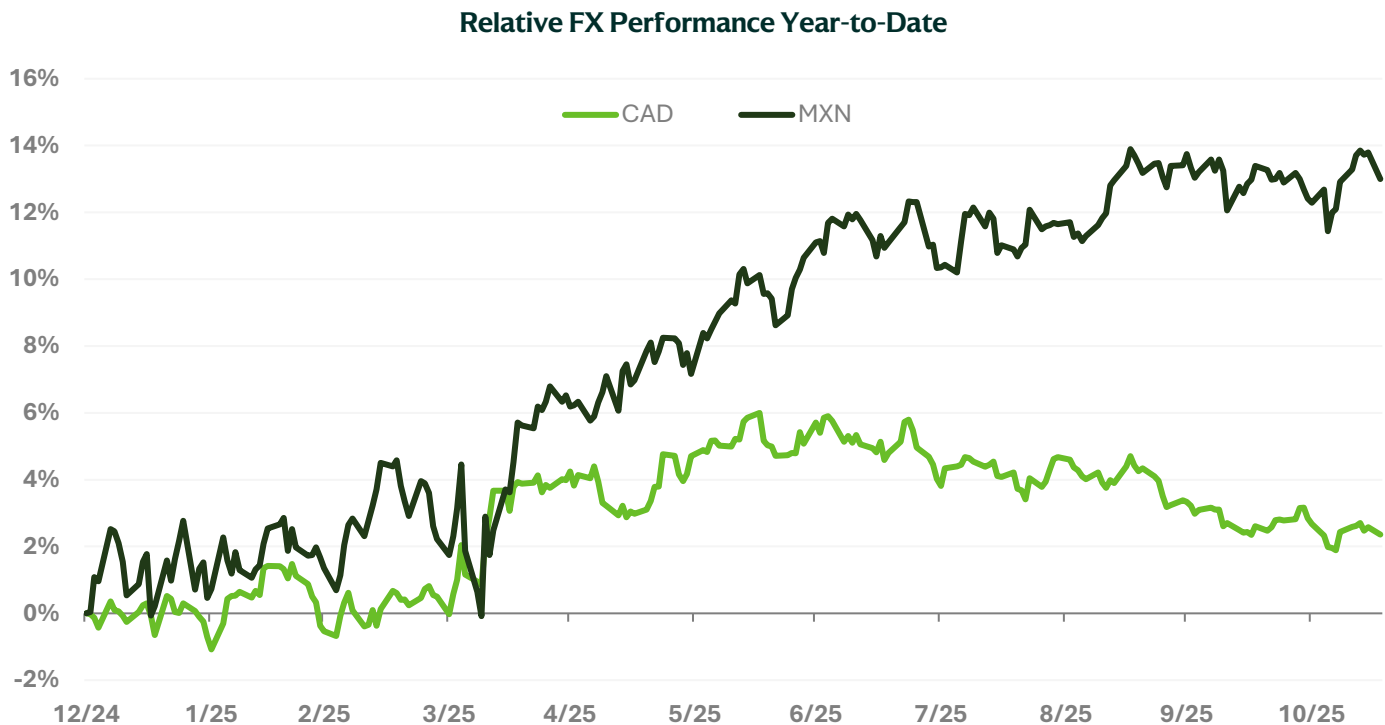


Fig. 3 – Source: Bloomberg, Accessed Nov. 19, 2025

Ongoing trade relations between the U.S. and China present significant challenges to the stability of the global economy. Recently, this relationship has exhibited conflict that is negatively influencing both consumer behavior and business activity within each country. After initially progressing on a framework for trade negotiations, new disputes continue to surface.

For example, China implemented further restrictions on rare earth mineral exports, prompting the U.S. to propose additional tariffs of 100% on all Chinese imports. As a result of these retaliatory actions, trade volumes between the two have decreased by nearly 30% year-over-year. **Meanwhile, China has strengthened its partnerships with regional partners and European markets to mitigate the decline in U.S. demand.** And while steps have been taken to ease tensions between leaders, market participants remain on edge for any deteriorating in U.S.-China relations that would further affect global markets.

China Exports YOY: Europe Filling the U.S. Void

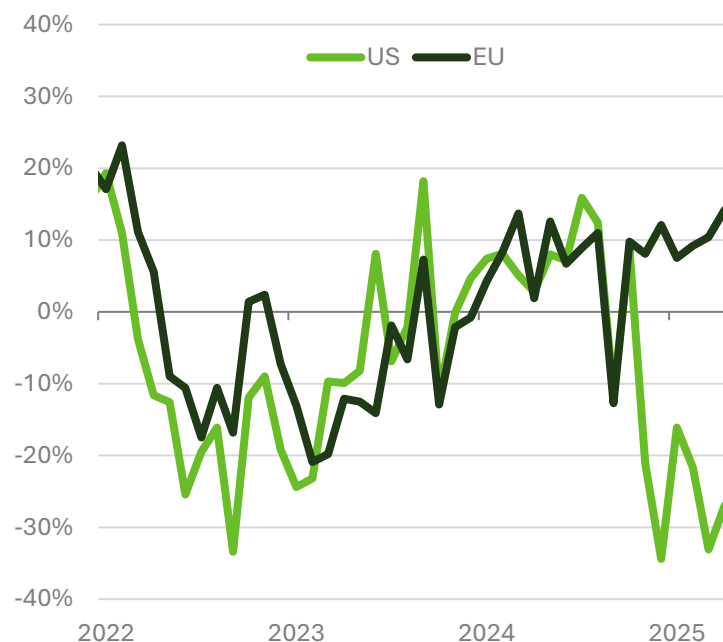


Fig. 4 – Source: Bloomberg, Accessed Nov. 19, 2025

Uncertain fiscal and monetary policy weighs on the dollar outlook

As the new year approaches, the U.S. dollar is experiencing increased stability. Trade agreement frameworks have been established with key economic partners, while economic growth continues to surpass that of other major economies. Interest rates remain comparatively attractive, even in light of recent monetary easing by the Federal Reserve.

During the second quarter, the U.S. economy rebounded at an annualized rate of 3.8%, and estimates indicate third-quarter growth likely exceeded 3%, too. In contrast, growth in Europe and the U.K. has hovered around half these rates. Furthermore, favorable interest rate differentials are likely to continue supporting the U.S. market.

Despite anticipated interest rate reductions in 2025, the Federal Reserve's target range of 3.75% to 4.0% remains considerably higher than the European Central Bank's 2% and the Bank of Canada's 2.25%. Meanwhile, the Bank of Japan maintains a benchmark rate of just 0.5%, and there is speculation that Switzerland may consider returning to *negative* interest rates.

Recent advances in artificial intelligence are expected to influence global capital allocation. Consequently, a return to "U.S. exceptionalism" may be possible with U.S. assets and markets potentially outperforming due to technological innovation, enhanced efficiencies, and increased investment inflows.

In this context, the dollar could once again become the currency of choice for international holdings.

Positioning in foreign exchange (FX) markets has started to reflect this preference, too. Relative demand for dollar call options (indicative of bullish sentiment) versus put options (indicative of bearish sentiment) reveals a positive shift of late. In fact, it is the most bullish the option market has been since before the April 2 “Liberation Day” tariff announcement.

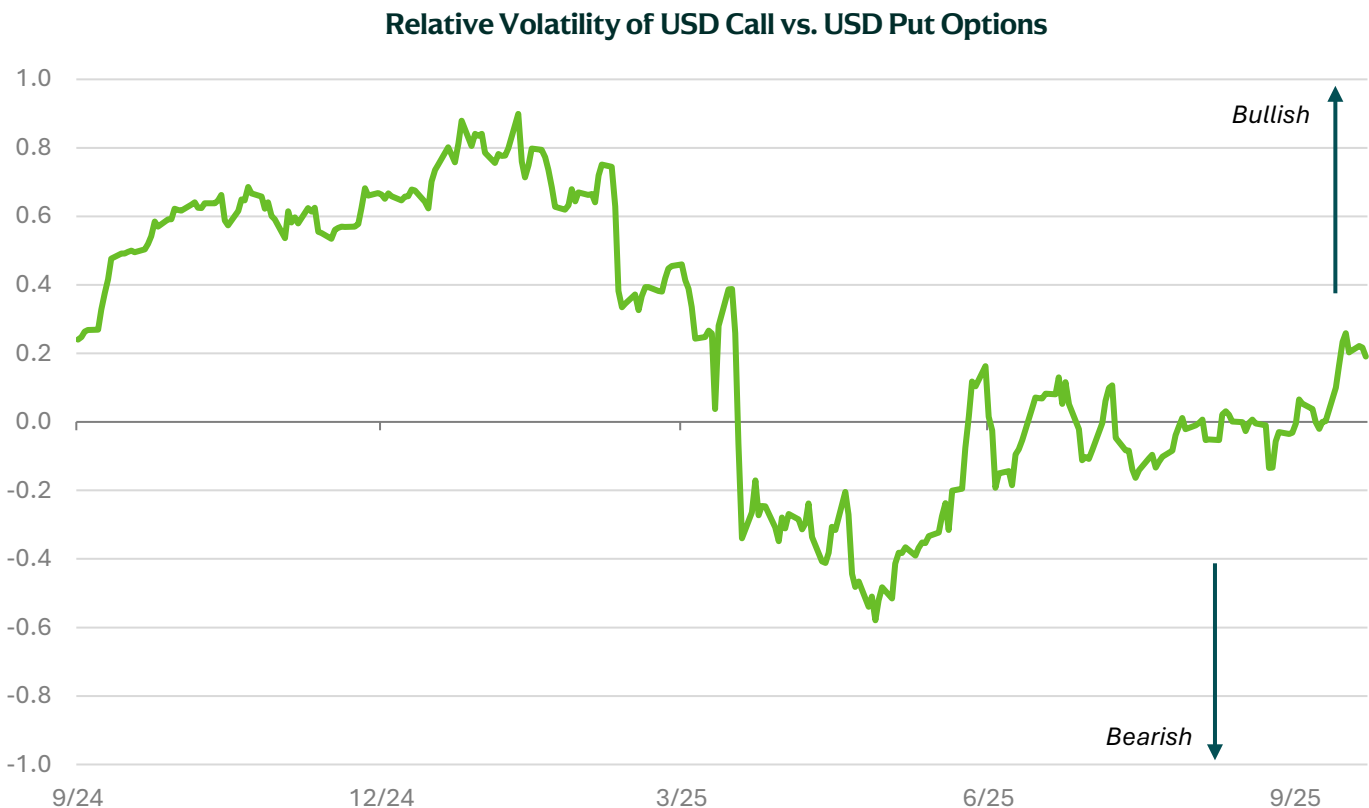


Fig. 5 – Source: Bloomberg, Accessed Nov. 19, 2025

The vulnerability of the U.S. economy represents a significant risk for the coming year, though. Recent data indicates that much of the economic strength seen during 2025 has been concentrated within select sectors, notably technology and high-end consumer markets. The broader system remains susceptible to challenges such as a softening labor market, financial pressures on lower-income consumers, and persistent stagnation in the manufacturing sector.

Additionally, inflation has stayed elevated with little signs of moderation, and the effects of tariff policies may not be fully realized until companies deplete a backlog of inventories.

Be aware: A weakening fiscal outlook has the potential to raise U.S. borrowing costs if foreign investors shy away from Treasury bonds.

Trade and monetary policy will shape the FX environment

Looking forward, we anticipate that global monetary policy divergence and shifting trade policies will contribute to volatility in currency markets. Federal Reserve policy remains at the forefront of our attention, as labor market conditions appear misaligned with inflation trends. The unemployment rate has reached its highest level since the onset of the pandemic, yet consumer prices continue to rise, creating uncertainty around the timing and extent of potential Fed easing next year.

While new trade agreements have been established, it is evident that tariffs and related measures will continue to play a role in U.S. trade policy. For instance, the use of expanded tariffs on India—linked to its imports of Russian oil—aims to discourage financial support for the Russia-Ukraine conflict.

Ultimately, the evolving landscape of global trade is expected to influence currency rates as capital flows adjust.

Corporations should monitor their currency hedging programs amid heightened market uncertainty and changes in global trade.

- Exporters, especially to Europe, can lock in favorable hedging rates to protect foreign revenues. Relatively high U.S. interest rates make forward point differentials attractive, too.
- Currency options are helpful for hedging uncertain or long-term exposures since they provide flexibility without obligation. Many companies use options alongside forward contracts to protect longer-dated or more uncertain exposures.
- Companies may also hedge translational risk by aligning debt with foreign assets through strategies like cross-currency swaps, which can also lower interest expenses in currencies such as the euro, Swiss franc, Japanese yen, or Canadian dollar.



Top currency risk strategies to consider heading into 2026

1. Assess FX risk from a portfolio view, understanding correlations across currency exposures to help minimize hedging costs.
2. Utilize an options overlay strategy to mitigate more uncertain, longer-tenor risks.
3. Incorporate FX in global asset-liability management. Consider low-interest-rate currencies to help lower overall borrowing costs.

INTEREST RATE HEDGING

Scott McGrath

Managing Director – Interest Rate Derivatives
Huntington Capital Markets



Interest Rate Hedging

UNCERTAINTY DOMINATES THE 2026 RATE OUTLOOK



SCOTT McGRATH

Managing Director – Interest Rate Derivatives
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Key takeaways:

1. Market expectations for Fed rate cuts may be misaligned with reality. Be cautious about relying on today's forecasts for longer-term decisions.
2. Economic and geopolitical variables, such as trade tensions and tax shifts, could disrupt the “lower rates” narrative.
3. Expanding U.S. deficits and rising debt service costs may push yields higher.

Many factors will influence the direction of interest rates in 2026. A significant degree of uncertainty creates an interest rate outlook that is very tough to predict. Current headlines and forecasts seem to be biased towards a lowering rate environment in 2026.

However, since the COVID-19 pandemic, it is important to note that markets have consistently underestimated the number of Fed hikes and overestimated the number of Fed cuts. In the rear view, this mispricing led to higher-than-expected short-term floating rates and lower-than-expected longer-term fixed rates.

Whether or not this trend continues into 2026 is anyone's guess.

Making longer-term decisions based on the expectations for a lower rate environment over the coming months can be a risky approach.

In the absence of a recession (which is not priced into the short-term outlook), the market is still implying more cuts into 2026. Given actual economic conditions, the Fed is potentially staying on hold, which could again result in market mispricing.

What follows is a quick summary of some themes in 2026 to put on your radar, which will drive the ultimate outcome in 2026.

The Federal Reserve

The makeup of decision-makers at the Federal Reserve will change in 2026, highlighted by the likely appointment of a new Fed chair. The Board of Governors is made up of seven members, with each voting in the Federal Open Market Committee (FOMC) monetary decisions. Five other Federal Reserve Bank presidents round out the 12 FOMC decision-makers. The FOMC meets 8 times each year (every 6-8 weeks) to make decisions on U.S. monetary policy, mainly by hiking or cutting overnight rates.

Current Fed Chair Jerome Powell's term ends on May 15, 2026. President Trump is widely expected to nominate a replacement among a whittled down list of candidates which will then need to be confirmed in the Senate. It is no secret that the current administration wants interest rates to be lower. It's presumed that the new nominee for Fed chair will share this view.

Current Fed governor Steven Miran's term will end on January 31, which can serve as the entry point date for the new Fed chair nominee. Still to be determined is whether Jerome Powell will stay on at the Fed once his chairmanship ends, or whether he will resign from the board all together. Historically, once a chair's term ends, the governor will resign from the board to avoid any future power dynamics with the new chair, but that is not a requirement. If Powell resigns, two spots would need to be filled by the current administration.

It is important to highlight that the Fed chair is just one of 12 voting members on the FOMC committee. While the chair leads discussions and attempts to gain majority support, each individual voter still expresses their views and opinions, with the voting majority deciding the FOMC's actions. Remember, the Fed is mandated by law to keep price stability (i.e. 2% inflation) and maximum employment. Economists will generally follow the data when making decisions, not political persuasion.

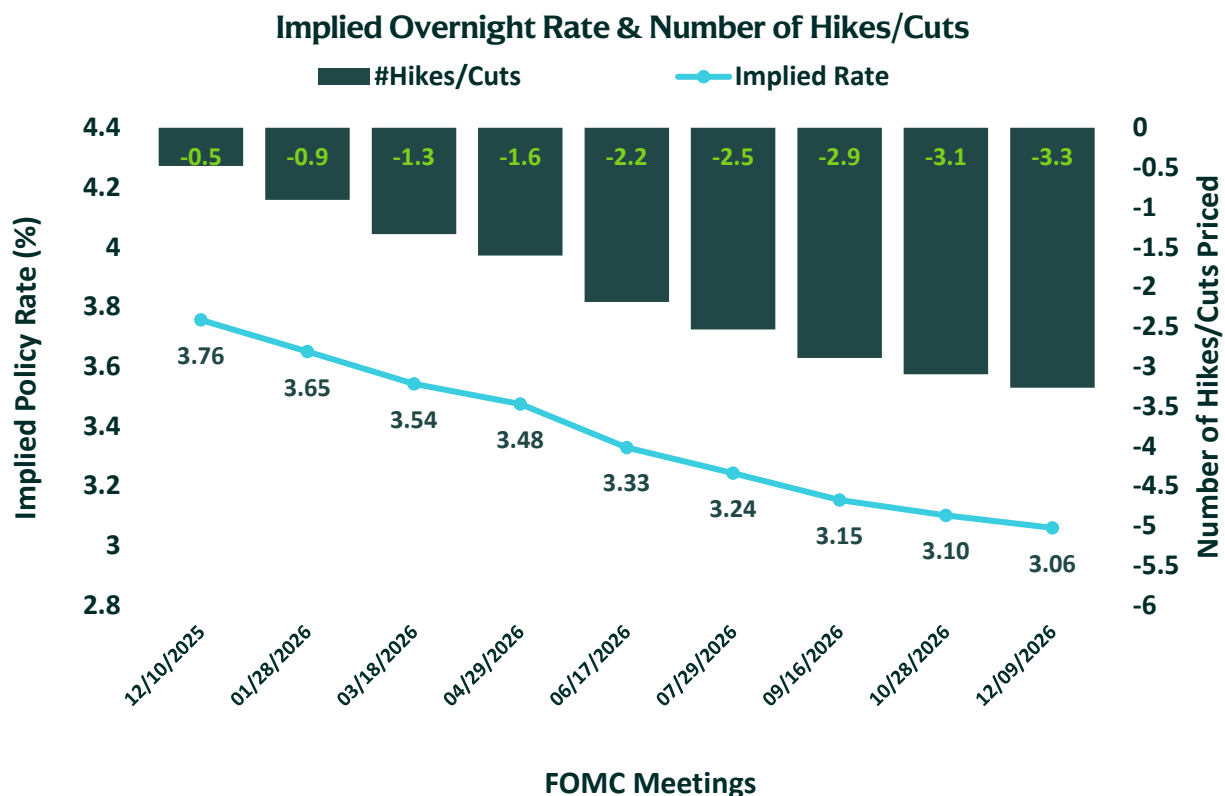


Fig. 6 – Source: Bloomberg, accessed December 2, 2025.

Assumptions about rate hikes or cuts will continue to fluctuate due to market volatility from, to name a few, trade/tariffs, inflation, employment, and economic performance.

While the members of the board of governors could look a little different into 2026, what remains the same is the Fed's dual mandate – maximum employment and a 2% inflation target. Since about Q3 2025, these two goals have been in conflict, creating a wide dispersion of opinions among the Fed's members.

The performance of inflation and the evolving employment environment is what will drive the Fed's interest rate decisions, not necessarily a voter's bias towards lower or higher rates. The uncertainty on how each performs in 2026 will make predicting the Fed, and interest rates in general, very difficult.

Remember, even if the Fed cuts rates, this does not mean long term (fixed) rates will decrease. Fixed rates take a longer-term perspective into account, so the actual hike or cut from the Fed does not matter as much as their comments and forecasts regarding the longer-run expectations. If their views or comments contradict the current market expectations, this is when markets adjust and reprice, with volatility ensuing.

5-Year Treasury Yields (Fixed Rates) vs. 1M SOFR (Floating Rates)

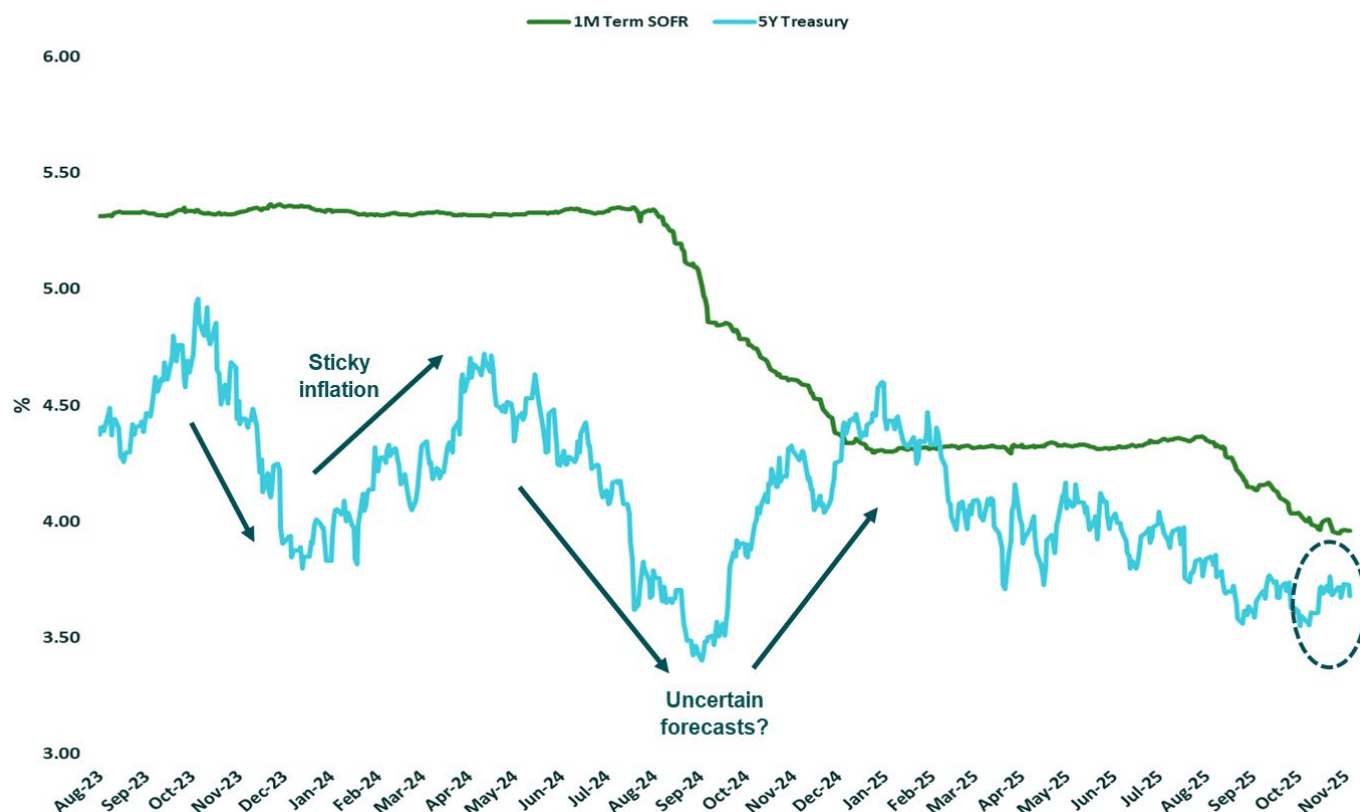


Fig. 7 – Source: Bloomberg, accessed December 2, 2025.

Inflation versus unemployment

The Fed has continued to commit to a 2% long run inflation target. In 2025, some pundits were calling for the Fed to adjust this goal to give them more flexibility, i.e. 2% to 3% inflation target. The Fed has rebuked this so far to date. Many readings of inflation are currently around 3%, which creates some angst with the Fed and markets. **Can the Fed continue to ease if current inflation readings are above their target?**

Meanwhile, readings on the labor market have shown a recent softening, raising concerns of a worsening trend in unemployment and job creation. Lowering interest rates would help stimulate employment activity. You can see the dilemma this creates. Lower rates may help employment but may also stoke inflation. Keeping rates at current levels could help drive down inflation but could sacrifice the health of the labor market. The dynamic between these two economic indicators will continue to drive volatility in the short-term forecasts and expectations. **Be careful relying on today's expectations for the short term to make longer term decisions – this relationship will continually evolve into 2026 in a rather unpredictable manner.**

Rate tailwinds from economic factors

The performance of interest rates in 2026 will no doubt come with twists and turns as the economy deviates from this base case. There are some noteworthy tailwinds as we head into 2026 that are worth considering:

1. Deregulation policies.
2. Consumer and small business tax benefits from the H.R. 1 - One Big Beautiful Bill Act, many of which are set to arrive in Q1 2026.
3. The great consumption wave from the 2026 World Cup, which will be hosted here in the U.S., and the planned celebrations of the U.S.'s 250th birthday.

Economic activity will be an important contributor to inflation and employment. A reaccelerating economy in 2026 could keep the Fed from delivering the expected rate cuts currently priced in. **Be aware of potential disruptions to the popular “rates will go lower” theory for 2026.**

Geopolitical developments

Conflicts and disputes continue across the globe. How these evolve in 2026 will impact U.S. interest rates. Worth considering are U.S. / China competition, U.S. trade / tariff ongoing negotiations, Russia / Ukraine, Middle East, Indo – Pacific (China / Taiwan).

As these situations improve or escalate, interest rates will react. Not to mention unexpected new additions to the list throughout the coming year.



Trade tensions, tariffs, and geopolitical conflicts can put upward pressure on interest rates. The primary risk stemming from these issues is persistently higher inflation.

We could also see supply chain fragmentations and added volatility as situations evolve. These developments are nearly impossible to predict, so the resulting impact on interest rates is unknown at this point.

Fiscal policy and debt burden

Financing the U.S. debt burden continues to be expensive given expanding budget deficits and a rising national debt. This is driven in part through the ongoing high levels of mandatory government spending and increased interest payments on the existing debt. As the percentage of the U.S. budget is allocated towards servicing this interest expense, less funding is available for remaining mandatory government obligations, such as Medicare, defense, and social security. This generally leads to budget deficits unless government revenues can fill the gap. The Congressional Budget Office (CBO) forecasts the budget deficit could reach 6% of GDP next year.

Pay attention to the U.S. Treasury's funding updates. As they look to issue more government bonds to replace maturing bonds and finance the growing debt burden, investor appetite will be paramount. Budget deficits and growing national debt increase the likelihood of investors demanding higher interest rates to purchase government bonds. From a more simplistic perspective, more bond issuance would lower bond prices which conversely results in increased bond yields.

What 2026's rate forecast means for businesses

In 2026, individuals and businesses should prepare for greater rate volatility, less predictable Fed policy (aka data dependency), and the potential for continued "higher for longer" messaging from the Fed.



We've highlighted a few variables that could significantly alter the baseline expectations for 2026:

1. If the Fed stays with a more data-dependent approach, this keeps interest rate volatility meeting to meeting and makes it harder to accurately forecast the longer run.
2. If the market cannot accurately predict Fed movements, then longer term (fixed) rates will have to adjust as each data point is analyzed, and each Fed meeting passes.
3. Hedging the risk associated with exposure to variable (floating) rate movements can be easily achieved through interest rate hedging contracts.

There are many solutions that can provide protection against floating rate fluctuations or at least mitigate the associated risks. These solutions can assign certainty to some or all of a respective debt portfolio, customized to fit within specific risk tolerances or target objectives.

COMMODITIES MARKETS

Ryan Azbell

Managing Director - Commodities
Huntington Capital Markets



Commodities Markets**VOLATILITY REIGNS IN ENERGY AND METALS****RYAN AZBELL**

Managing Director - Commodities
Huntington Capital Markets

Key takeaways:

1. U.S. aluminum and copper prices continue to trade at significant premiums to global benchmarks, as tariffs restrict import volumes and push costs higher for manufacturers and consumers. Inventory planning and tariff exposure remain primary concerns for metals hedgers heading into 2026.
2. Global metals indices have also rallied in 2025 amid supply disruptions, strong infrastructure-driven demand, and capacity restrictions in China. These global pressures are adding upward momentum to pricing.
3. Oil markets are navigating mixed fundamentals: rising supplies from OPEC and the U.S., stricter sanctions on Russian energy, and heightened geopolitical risk in the Middle East. Oil price volatility remains a central issue for customers budgeting fuel costs for 2026.
4. Natural gas prices remain elevated ahead of peak heating season, with storage levels sitting above average, LNG exports reaching new highs, and domestic production holding strong.

Looking forward to 2026, commodity markets are set to face uncertainty around U.S. tariffs, global supply disruptions, and renewed geopolitical risk. Both domestic and global metals pricing posted impressive rallies to cap off 2025 as tighter Chinese capacity combined with supply disruptions across Latin America and Asia.

Oil prices remain volatile as traders balance rapidly rising supplies out of the Middle East against stronger sanctions against Russian energy, while natural gas has swung on stronger export activity, above average storage levels, and stubborn domestic production.

The Aluminum Midwest Premium surges to record levels while LME aluminum strengthens to a 3-year high

The 50% Section 232 tariffs on aluminum imports continues to push the Platts U.S. Midwest Premium (MWP) index to new record highs as domestic stockpiles have dwindled and are being replaced by high- priced imports.

The MWP contract has surged around 311% year-over-year as roughly half of all aluminum used in the U.S. is imported, with the vast majority coming from Canada. At 3.2 million tons in 2023, Canadian imports were twice those of the next nine countries combined.



The biggest unknown for investors remains whether Canada will negotiate lower aluminum and steel tariffs in a trade deal and how quickly prices would collapse if a deal is completed.

Trade negotiations between the U.S. and Canada stalled out in late October 2025 due to disagreements between President Trump and Prime Minister Carney, which strengthened the MWP market further.

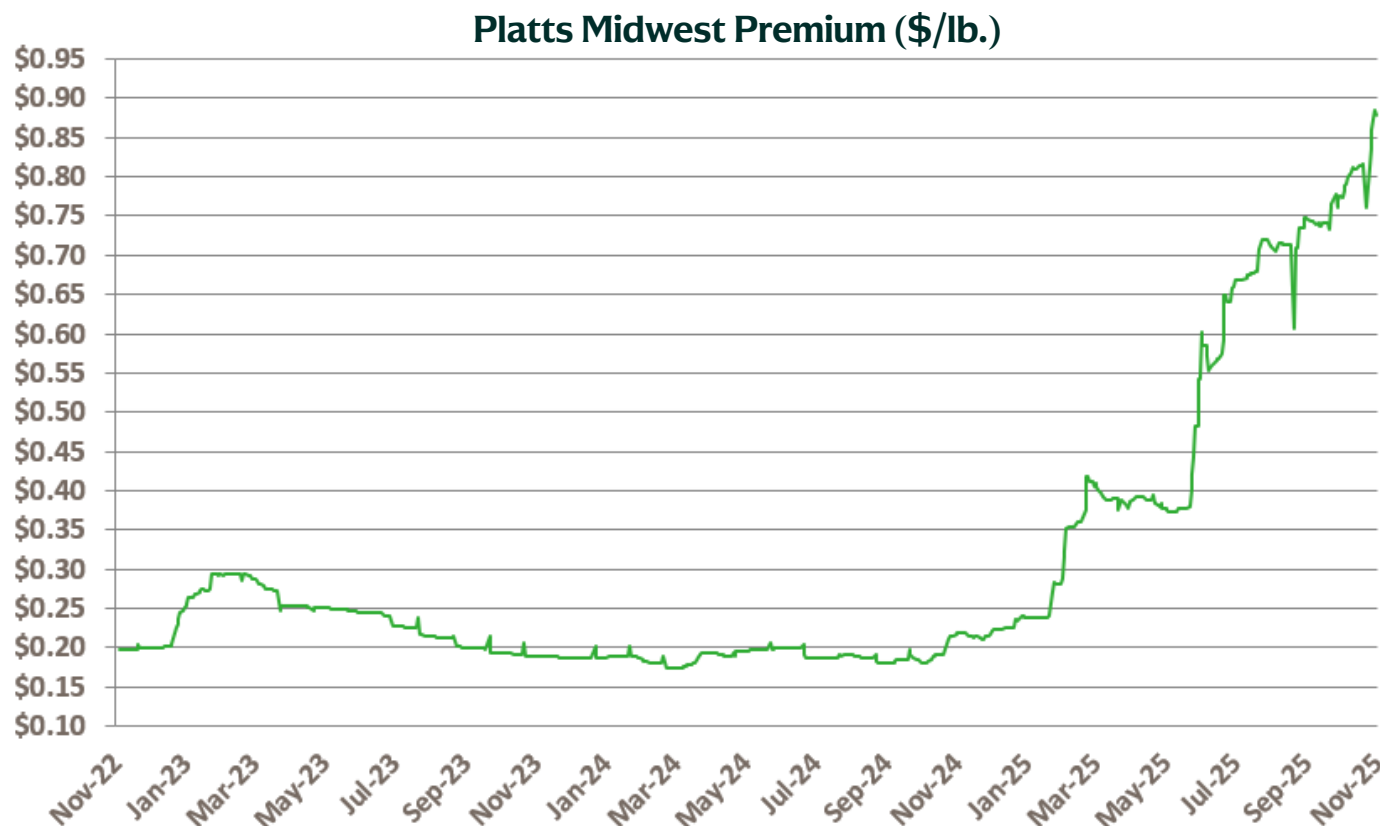


Fig. 8 – Source: S&P Global, Platts Midwest Premium Pricing. Accessed November 12, 2025.

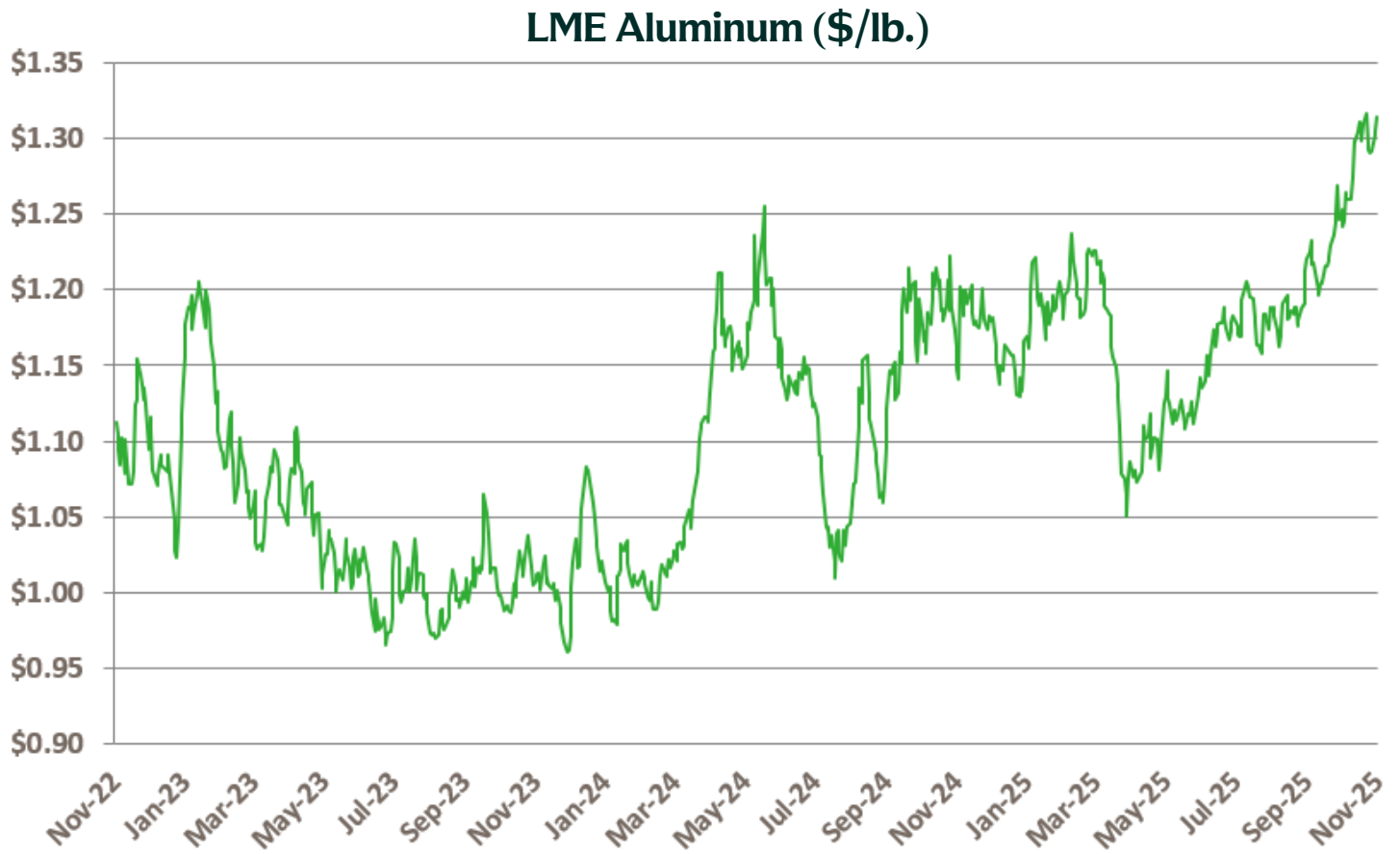


Fig. 9 – Source: Bloomberg, LME Aluminum pricing by pound. Accessed November 12, 2025.

LME aluminum, the more widely traded global index, was one of the best performing commodities in 2025 after China's government imposed a 45-million-ton cap on primary aluminum production. The nation is currently producing near full capacity which has added supply fears to the market.

Further complicating supplies here in the U.S., a Novelis plant that supplied Ford with 40% of their aluminum sheet shuttered operations late in 2025.

U.S. copper pricing premium is rising as traders reignite supply squeeze

Copper futures were roiled last year by unprecedented volatility from tariff speculation and supply squeezes. In July 2025, the U.S. COMEX copper contract surged to an all-time high due to the markets responding to a potential 50% import levy on copper products. Because the U.S. imports roughly half of its copper supply, the U.S. COMEX ballooned out to a record \$1.42/lb., a significant premium to the LME copper index.

The current administration shortly thereafter excluded refined (raw) copper from the tariffs, **resulting in the largest single day sell in history for the COMEX contract** and greatly reducing the premium paid above the LME index.

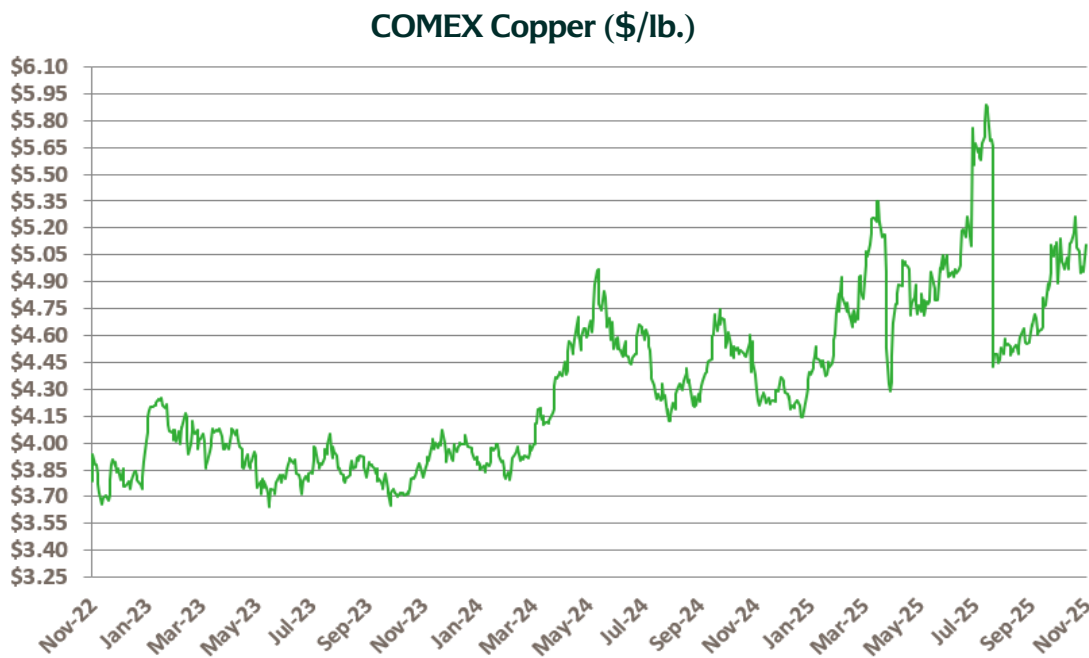


Fig. 10 – Source: Bloomberg, COMEX copper pricing. Accessed November 12, 2025.

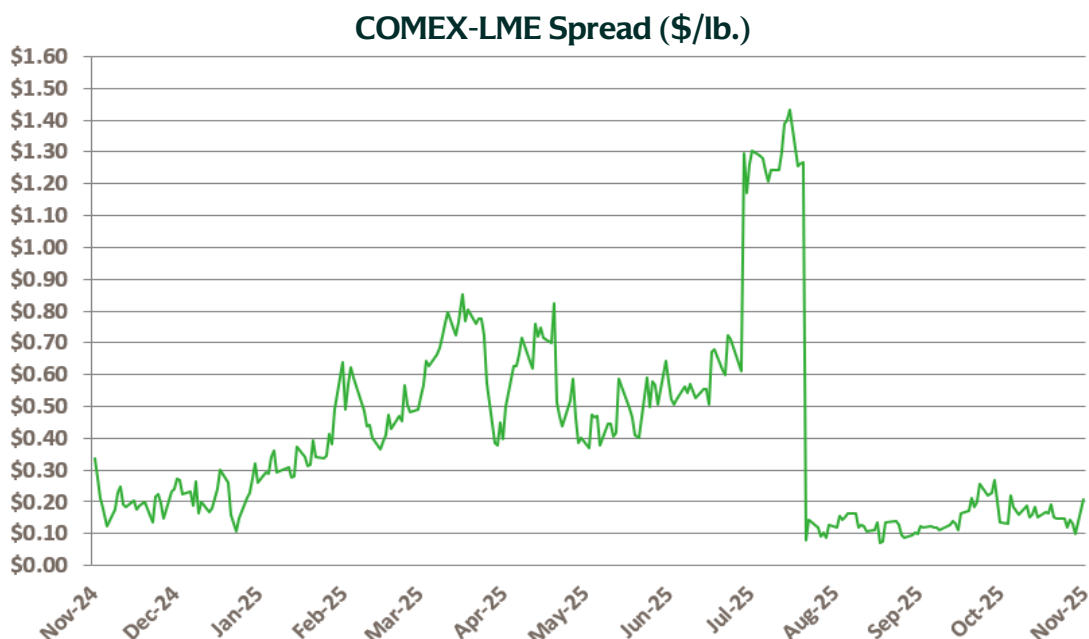


Fig. 11 – Source: Bloomberg, COMEX copper and LME price spread by pound. Accessed November 12, 2025.

However, the U.S. Index has held its premium over the global benchmark as the 50% tariff remained on imports of semi-finished copper products and copper intensive derivative products.

Heading into 2026, commodity trading houses have restarted paying big incentives to secure U.S.-bound shipments of copper for 2026, with some firms paying more than \$500/ton (\$0.23/lb.), a price exceeding the benchmark LME index. The traders' bids are about 10 times higher than manufacturers in China for spot supplies because they are willing to bet that they can sell the cargoes at much higher levels in the U.S.

With several key copper mines facing major operational setbacks, the magnetic effect of the U.S. tariff trade risks exacerbating global supply constraints and leaving manufacturers exposed to a further surge in global prices.

Oil and diesel futures are caught between growing output and rising geopolitical tensions

In early 2025, diesel fuel futures rose to a six-month high following a series of Ukrainian strikes on Russian oil infrastructure. Crude oil and its products have been balancing strong global supplies as OPEC works to claim back market share against rising tensions with Russia.



2026 opportunity: Diesel futures are still below the three-year average, which is favorable for companies locking in costs for the coming fiscal year.

OPEC+ added one more modest supply boost (137,000 b/d) for December and announced it would pause further hikes during Q1 2025. OPEC+ also reversed estimates for global oil markets in Q3 2025 from a deficit to a surplus as U.S. production exceeded expectations while the group ramped up supplies. World oil output exceeded demand by 500,000 b/d during the period compared to the 400,000 b/d shortfall estimated a month ago.

NYMEX Ultra Low Sulfur Diesel (\$/gallon)



Fig. 12 – Source: Bloomberg, NYMEX heating oil ULSD pricing. Accessed November 12, 2025.

Natural gas braces for winter weather as production and storage grows

Natural gas futures have risen to an eight-month high heading into the winter season. **Colder weather and increasing LNG activity are driving bullish momentum.** As of November 14, U.S. natural gas storage levels stood at 3.915 trillion cubic feet, 4.3% above the five-year average but 0.9% below levels from a year earlier.

US LNG exports continue to climb toward record highs as new megaprojects such as Plaquemines ramp up flows. U.S. production, meanwhile, is holding near 110.1 billion cubic feet per day, or up 8.4% Y/Y, and has helped cap the pricing rally heading into 2026.

U.S. LNG Export Flows

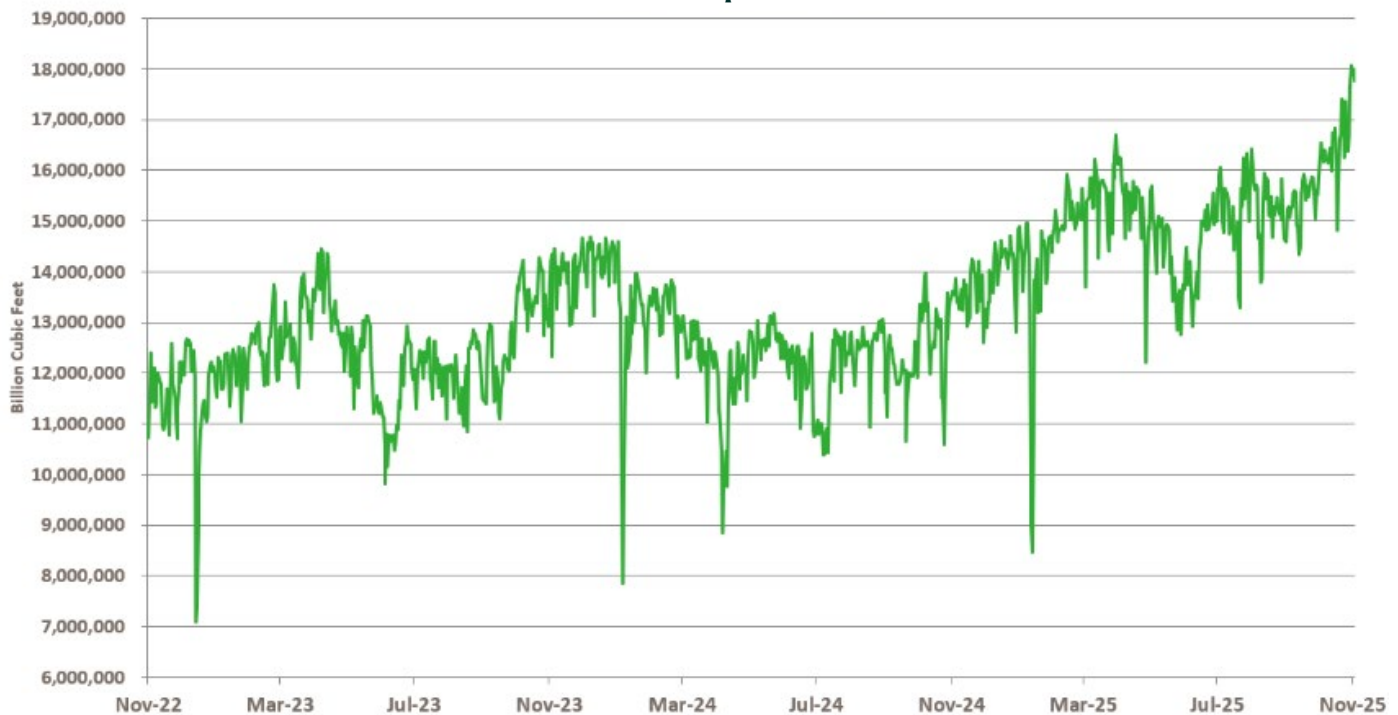


Fig. 13 – Source: Bloomberg, U.S. LNG export flows. Accessed November 12, 2025.

EU leaders greenlit a 19th Russia sanctions package in November that would ban all LNG imports from Russia in January 2027, one year earlier than initially planned. The specifics of this package include:

- Targeting Russian banks, lenders in Central Asia, and several crypto exchanges.
- Trade restrictions on Chinese and Indian entities that have helped Russia evade sanctions.
- A support of U.S. and UK moves to sanction Russia's largest oil producers Rosneft and Lukoil PJSC.



The tightening of Russian gas supply could lead to greater opportunities for U.S. exports to fill the gap.



What the 2026 commodities markets outlook means for businesses

1. **Consider reassessing budget assumptions tied to commodity price normalization.** Policy risks and supply chain distortions driving cost volatility across commodities could lead to static budget models not aligning with actual exposure.
2. **Building greater flexibility into sourcing and hedging strategies** could help combat tariff uncertainties and supply disruptions.
3. **Expect energy price planning to require tighter, more frequent recalibration.** Fuel-intensive sectors especially should be prepared to adjust plans more frequently as geopolitical conditions continue to present risk.

EQUIPMENT FINANCE OUTLOOK

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Equipment Finance Outlook

A PIVOTAL YEAR FOR EQUIPMENT FINANCE GROWTH



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Key takeaways:

1. Growth in equipment finance in 2026 is expected to be led by technology and construction as institutional liquidity and project activity return.
2. Easing interest rates, improving credit conditions, sustained investment in automation, digital infrastructure, and green construction are fueling demand.
3. Flexible financing models are gaining share as businesses optimize capital allocation.
4. The permanent restoration of the 100% bonus depreciation through the H.R.1 Act improves the after-tax economics of equipment purchases.

After two years of economic uncertainty, the equipment finance market is set to enter 2026 in a markedly stronger position. Capital expenditure pipelines are opening across transportation, manufacturing, technology, and construction as buyers are returning to the market with renewed confidence. Adding in pricing signals stabilizing and policy certainty improving, this coming year presents a prime window for growth.

Why act now?

Volume acceleration: Industry forecasts project 4% to 6% growth in equipment finance volume for 2026, up from an estimated 3% in 2025². Resumed procurement activity, particularly in sectors focused on modernizing operations and infrastructure, is driving demand. **Businesses that postponed or reduced equipment investments due to rate uncertainty or supply chain constraints are now able to move forward.**

Tailwinds in play: Interest rates easing toward the end of 2025 and sustained investment in automation, digital infrastructure, and green construction are fueling demand, along with improving credit conditions. Federal tax policy favoring capital investment is expected to support demand in these areas: The H.R.1 – One Big Beautiful Bill Act made the 100% bonus depreciation permanent for qualified property placed in service after January 19, 2025. It also enables the 40% bonus depreciation for other eligible property types. These provisions remove the disincentives associated with delayed depreciation and enhance the net return on investments. This introduces meaningful planning advantages and supports stronger rates of return on capital equipment purchases.

Sector leaders: Technology and construction equipment finance are expected to outperform other segments. Transportation and manufacturing are stabilizing, with activity tied more closely to efficiency improvements than new growth. **This dynamic offers diversified opportunity for capital allocation strategies in 2026.**

The macro advantage

Global GDP growth is projected to hold near 3% in 2026. Central banks are easing policy rates as inflationary pressures recede, improving financing conditions across markets. For U.S.-based borrowers, this creates a more favorable environment for multi-year asset planning. Lower borrowing costs are a critical catalyst for capital equipment investment.

Current rate benchmarks offer further context. As of November 25, 2025, the 1-month term SOFR stands at 4.03%, with the 3-month term SOFR is slightly higher at 4.2%. Short-term SOFR dynamics in the past 30 days showed the 3-month tenor consistently pricing above the 1-month tenor by 15-20 basis points. This widening spread suggests that short-term borrowing costs could remain firm in the near term, offering stability that can reduce hesitation around capital planning and supports steadier execution of equipment replacement cycles and modernization projects.

Liquidity is also improving. Institutional lenders are reengaging in asset-backed transactions, and non-bank financiers are broadening participation across equipment-heavy verticals.

SOFR Averages from October – November 2025

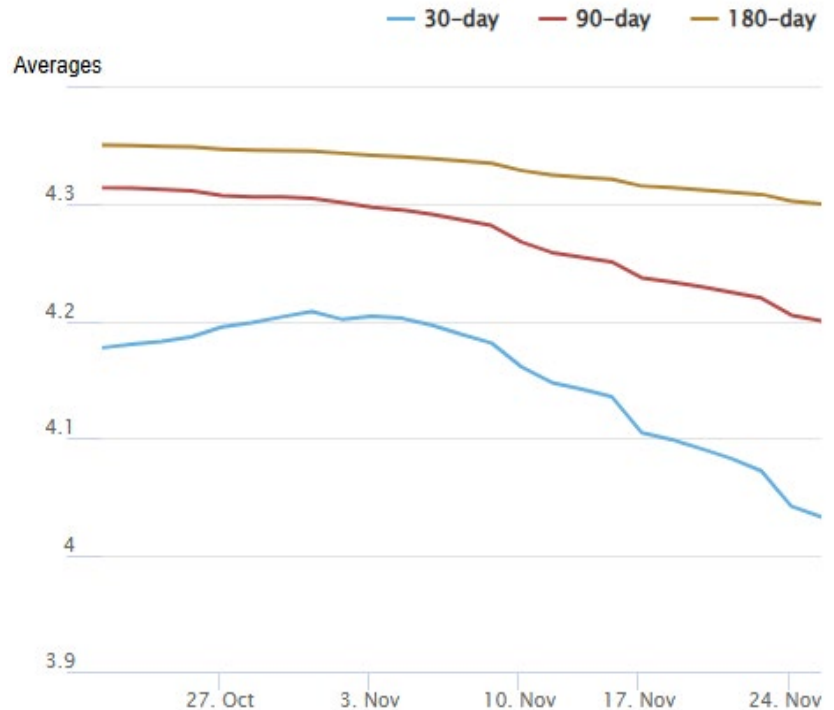


Fig. 14 – Source: FRED, November 25, 2025



This return of capital supports greater deal flow and a more competitive environment for structured financing, and it means deferred projects are coming back online.

The three transformative trends in market dynamics that are driving demand



Flexibility first

Businesses are prioritizing lease, rental, and equipment-as-a-service (EaaS) arrangements over outright purchases. These models allow for more responsive cost structures and reduce the need for long-term balance sheet commitments. In sectors with capital investments that experience rapid depreciation, such as in IT, machinery, or energy equipment, these models can also help mitigate the risk of obsolescence.



Technology intensity

Equipment assets now often include embedded automation, advanced sensors, and data integration platforms. These features raise the ticket sizes and increase financing complexity, as well as require intensive setup to integrate into operations. As a result, finance teams are expected to focus on structures that can accommodate lifecycle support, staggered deployment, and multi-asset coordination.



Risk discipline

Lenders are adjusting risk models by sector, offering favorable pricing and expanded access to industries with more stable cash flow patterns and resiliency, such as technology and infrastructure. Exposure limits and pricing premiums are expected to increase in more cyclical verticals. Borrowers in these favored sectors are likely to see more competitive terms and faster approvals.

Sector outlook

Technology: With CapEx growth projected near 9% and CFO confidence indicators above 85³, technology is leading the charge across sectors, driven by AI infrastructure, semiconductor expansion, and scalable data centers. Demand for new data centers led to an all-time high of \$40 billion in construction spending earlier this summer². The financing need extends beyond hardware to integrated solutions requiring coordination across vendors, assets, and service platforms.

Construction equipment: Infrastructure-related construction activity is sustaining demand through 2026, supported by state and federal funded projects. Contractors and operators are favoring lease models that match project lifecycles, with off-balance-sheet treatment and usage-based pricing gaining adoption.

Manufacturing: Manufacturing remains stable with mid-single-digit growth, which has been buoyed by automation and precision equipment. Semiconductor manufacturing investments is one area we expect to see ongoing growth in the coming years, supported by advanced manufacturing investment credits from the H.R.1 Act, with companies announcing over half-a-trillion dollars in private investments made to revitalize the U.S. chip ecosystem⁴.

Transportation: Transportation continues a gradual recovery. Freight markets have normalized, and interest in fleet electrification is growing. However, infrastructure constraints and high capital requirements are limiting near-term expansion in this area.

Five-Year CapEx Growth Trends by Sector (2022-2026)

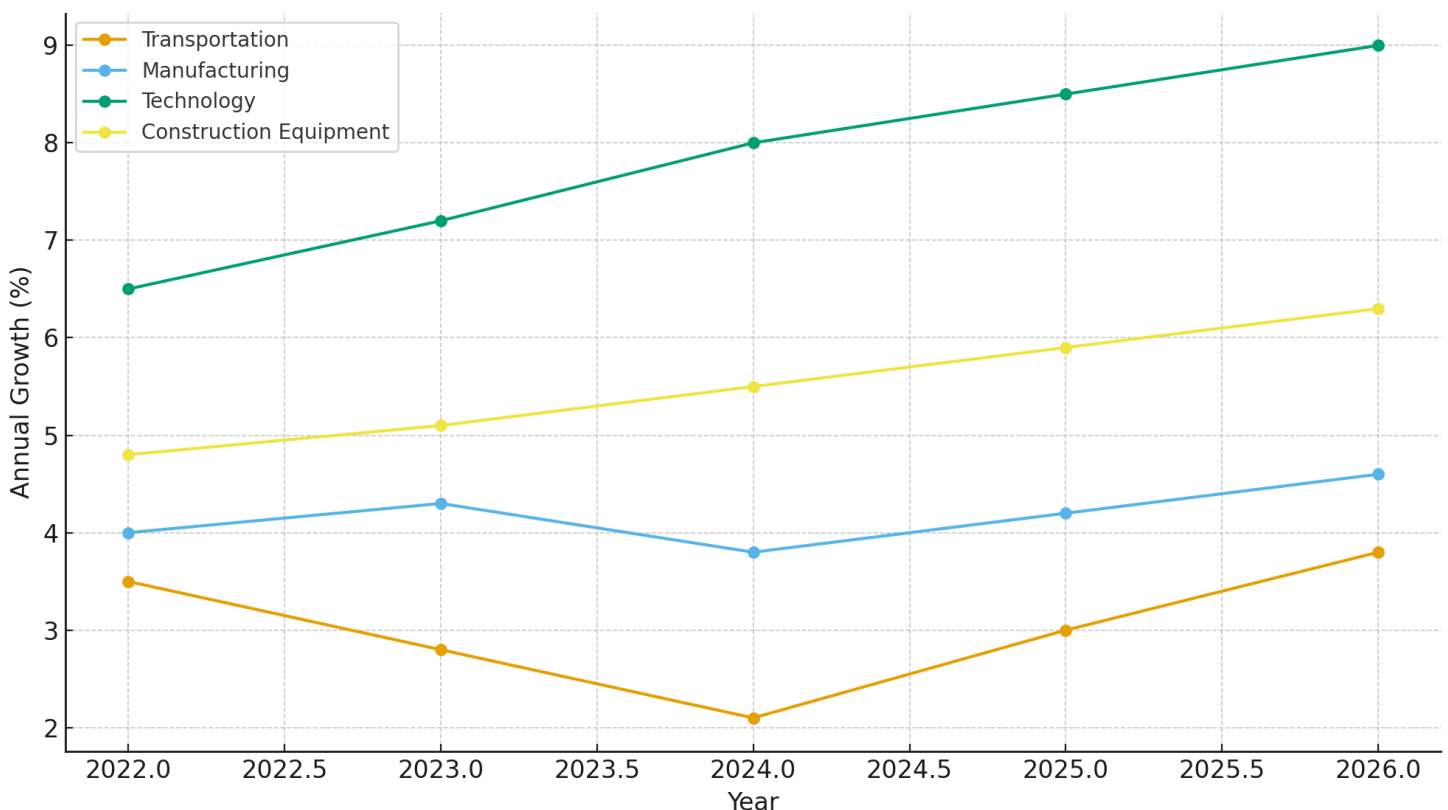


Fig. 15. Source – Forward-looking sector forecast ranges (ELFF, ACT, Statista) normalization to create a five-year trendline.

Innovation in finance structures

Leasing and usage-based models: Operating leases and EaaS are gaining momentum. These structures help reduce upfront capital requirements and allow for greater adaptability to usage patterns or project duration. They also offer recurring revenue models for vendors, making them increasingly attractive across industries.

Embedded and vendor finance: Financing is being integrated directly into digital sales environments, streamlining financing at the point of transaction. Buyers benefit from faster execution and improved alignment between operational and financial planning.

Green finance: ESG priorities are shaping credit allocation. Lenders are channeling more capital into low-emission and energy-efficient equipment categories. It's estimated that \$27 trillion in CapEx spending across industries will be required to reach climate targets by 2050 in the U.S., and investment in climate finance is expected to grow to \$9 trillion by 2030⁵. Businesses with equipment needs to meet internal policy goals or greater regulatory requirements might find more competitive terms and broader program options in the coming year.

Digital risk analytics: AI-enabled credit models are expanding access for small- and mid-sized enterprises. Lenders are also incorporating predictive maintenance into pricing and underwriting. These tools are helping to reduce default risk and open new financing channels for underserved segments.

AI-driven credit scoring and predictive maintenance unlock new small and medium enterprise opportunities.

The five-year horizon

Between now and 2030, expect structural growth to average 4% to 5% annually. This growth will be supported by continued investment in digital infrastructure, energy transition, electrification,

process automation, and infrastructural renewal, as well as reshoring. Fintech-enabled origination is also reducing time-to-funding and expanding access. The challenge will be ensuring capital strategies match asset usage, project timelines, and operational constraints.



Equipment finance outlook for 2026

The equipment-finance industry stands at the intersection of **recovery and transformation**. With moderating inflation, improving sentiment, and structural investment drivers, **2026 is the year to capture growth**.

Technology and construction is expected to lead, transportation and manufacturing will stabilize, and innovative financing models will redefine the competitive landscape.

- 1. Evaluate timing.** Consider taking advantage of the 100% bonus depreciation for qualified equipment placed in service after January 19, 2025.
- 2. Monitor rate signals.** A widening SOFR spread may increase borrowing costs, so it's recommended to review exposure to floating-rate instruments and the timing of lease resets.
- 3. Align with lender priorities.** Credit availability remains strongest in sectors with high resilience, including technology, automation, and infrastructure.
- 4. Match structure to usage.** Flexible financing models offer greater control and efficiency, especially where asset turnover or deployment timelines can be varied.

PAYMENTS OUTLOOK

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Payments Outlook

EMERGING DYNAMICS IN PAYMENTS FOR THE YEAR AHEAD



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Key takeaways:

1. Payments are entering a period of unprecedented transformation driven by rapid technology adoption, evolving consumer expectations, regulatory shifts, and AI innovation.
2. Digital-first behaviors are now baseline, with speed, convenience, and real-time settlement becoming critical for customer satisfaction and competitive positioning.
3. Emerging AI agents and software-driven ecosystems are reshaping transaction origination and payment choice, introducing new cost structures and strategic dependencies.
4. Cost pressures and compliance milestones—such as the EMV liability shift—are prompting businesses to reassess hardware, security, and explore modern fee strategies like surcharging and cash discounting.

The payments industry is entering one of the most transformative periods in its modern history. As we transition into 2026, a perfect storm of technological acceleration, evolving consumer expectations, regulatory pressure, and emerging artificial intelligence capabilities is fundamentally reshaping the way money moves. What once followed predictable cycles—incremental hardware upgrades, occasional interchange adjustments, and steady growth in digital acceptance—has shifted into a landscape defined by rapid change and continuous innovation.

Consumers have become more mobile-first, more digitally connected, and more sensitive to speed and convenience. Businesses are adapting, but not always at the same pace. Over the past decade, digital payments have matured from novelty to necessity. A customer who once hesitated to tap a phone at checkout now expects the option.

A business that previously resisted online ordering now sees digital channels as essential. And a merchant who was once satisfied with “batching out at the end of the night” now wants (and in some cases requires) near-real-time settlement.

Yet, 2026 challenges industry in ways that extend far beyond convenience. The rise of agentic—autonomous AI purchasing agents—redefines how transactions originate. The ten-year anniversary of the EMV liability shift prompts merchants to reassess their hardware and security posture. Independent Software Vendors (ISVs) are becoming gatekeepers of payment choice, often bundling acceptance into software tools with opaque costs. Meanwhile, cost pressures remain high, and many businesses are exploring modern fee strategies such as surcharging and cash discounting.

Digital payment trends

Digital wallets have shifted from a convenient option to a dominant payment method across both e-commerce and in-person transactions. **By the end of 2025, more than 60% of U.S. adults reported using a digital wallet at least weekly, and global adoption continues to climb⁶.** The Federal Reserve reported that 23% of all payments made were completed on a mobile phone, with adults aged 18-24 being more likely than any other cohort to use their phones to complete payments⁷. Globally, digital wallets account for more than half of all online purchases and nearly one third of POS purchases⁸. Consumers cite the main reasons being speed and convenience. The ability to make a purchase without having to pull out the physical card is a major reason given by four out of five U.S. users⁹. Enhanced security provided with the use of digital wallets is important to consumers, who see biometric authentication as an added layer to protect their payment information. For Gen Z and Millennials, digital wallets are the default. For older demographics, the combination of security and convenience has driven adoption faster than predicted. Research predicts that within the next five years, the use of digital wallets will increase by 35%, rising from the current 4.5 billion users this year¹⁰.



Fig. 16 - Source: Juniper Research, *Digital Wallets Market: 2025-2030*.

Digital-first behavior is now the baseline expectation. Smartphones are the dominant gateway for commerce, not just for online purchases but increasingly for in-person transactions. Consumers expect seamless experiences, such as Face ID confirmations, tap-to-pay, digital receipts, and automated loyalty interactions. Physical cards still exist, but they are no longer the hero of the transaction. Instead, digital wallets, tokenized card-on-file credentials, and embedded payment methods are driving the majority of this growth. **For many merchants, the biggest challenge is understanding the downstream implications of shifting to digital-first payment options, such as privacy, loyalty integration, tokenization behavior, and customer recognition across channels.**

Instant payment trends

Instant payments through account-to-account (A2A) rails or person-to-person (P2P) platforms have grown exponentially. These payments allow users to make the transfers using ACH/EFT payments and include names such as Zelle®, Venmo®, and Paze®. **In 2025 alone, instant payment volume surpassed 160 billion transactions globally¹¹.**

This past year, we saw the expansion of Paypal® as a payment method at POS devices, a shift driven by a large-scale marketing campaign highlighting the simplicity of use.

Consumers are increasingly more comfortable using these solutions to make purchases and for social transactions, like contributing to group gifts or splitting lunch bills. There's also been a rise in people using instant payments through real-time payment rails instead of ACH for what's known as A2A or "me-to-me" transactions, which involves transferring money from an investment account to a demand deposit (checking) account.



Businesses are also leveraging instant payment technology for payroll, bill payments, and B2B transactions. Card networks are responding to this trend: all major networks now include solutions that support payments with Visa Direct®, Mastercard Move®, and Discover Direct®. Estimates show that the volume of A2A transactions in the U.S. could soar to nearly \$200 billion by 2026¹².

Role of agentic in payments

Agentic are AI-driven autonomous purchasing agents that act as intermediaries in payments, playing a crucial role in the digital payment ecosystem. These agents independently authorize, clear, and settle transactions. A typical use case includes a consumer requesting an AI agent search online for a particular product. The agent scours websites to provide recommendations. The consumer then loads their payment credentials to the AI agent and instructs it to make the purchase. While this speeds up the online shopping process for consumers, merchants have reduced visibility into these transactions and could lose the typical device-level signs that help them detect fraud. Since the AI stores and manages payment credentials, the card networks also have no visibility into their use at the time of transaction. Consumers are also exposing themselves to fraud risk by sharing payment credentials to unregistered AI agents.

The lack of insight and regulation of agentic use in payments creates an environment that may not employ adequate PCI controls and/or credential tokenization to ensure secure transaction processing.



In 2026 and beyond, as AI agentic use rises, merchants should consider strengthening their fraud detection tools to recognize AI transactions, leverage tokenization processes to offer protection, and ensure dispute processes account for these transactions.

10 years of EMV

It has been 10 years since the widespread adoption of Europay, Mastercard, Visa (EMV) chip card issuance and the liability shift of counterfeit card-present fraud in the U.S. from the card issuer to the merchant. This shift in liability was long overdue and resulted in the U.S. nearly eliminating counterfeit card fraud. EMV chip transactions in the U.S. now account for 93.51% of card-present transactions, according to EMVCo, the EMV standards body¹³.

EMV remains foundational, but the industry is moving toward tokenization, contactless payments, and digital wallets for better security, speed, and convenience. Tap-to-pay technology took off during the COVID-19 pandemic as consumers were looking for contactless payment options. At the same time, issuers started embedding NFC technology in their cards to enable tap-to-pay capabilities. **The confluence of the two trends created a perfect storm where tap-to-pay's popularity explosion made the technology mainstream.** 65% of EMV cards are now dual interface, supporting both contact and contactless payments¹⁴. A decade after its rollout, EMV has transformed card-present security, but its legacy is now shaping the next wave of innovation with contactless, tokenization, and digital-first payments.

Worldwide EMV Chip Card Deployment and Adoption

	2022		2023		2024	
Region	EMV Cards	Adoption Rate	EMV Cards	Adoption Rate	EMV Cards	Adoption Rate
Africa & the Middle East	423M	92.30%	467M	92.27%	507M	92.73%
Asia Pacific	8,131M	64.29%	8,703M	65.52%	9,285M	67.04%
Canada, Latin America, and the Caribbean	1,348M	88.91%	1,494M	89.20%	1,695M	90.96%
Europe Zone 1	1,300M	90.64%	1,372M	90.29%	1,450M	90.51%
Europe Zone 2	159M	73.10%	186M	74.45%	219M	77.56%
United States	1,433M	65.02%	1,492M	66.38%	1,577M	67.91%
Global	12,779M	69.25%	13,716M	70.40%	14,734M	71.98%

Fig. 17 – Source: EMVco “Worldwide EMV Deployment Statistics.” Accessed December 1, 2025.

When separation makes sense

Some industry analysts are calling 2026 the year of the ISV. Using vertical-specific software isn't a new concept; companies have long relied on specialized software for tasks from customer management and invoicing to inventory management and communications. Historically, payment devices were separate from this business software, but cloud technology has enabled integration between software developers and payment processing providers, making it possible for payment modules to appear directly in the software during sale or refund transactions. Card-present transactions still require a device, but those devices are simpler and less expensive because they only serve to transmit the card data via tap, dip, or swipe to the software. This integration streamlines operations and reduces costs for businesses.

However, while simplification is desirable, it is not always optimal.

Integration often comes with revenue-driven agreements between software developers and payment processors. Business owners are then presented with either a single-option model for their merchant services account, meaning there is only one payment processor option that is often the most expensive and with poor support, or a preferred-option model that provides the business with choice but is still more expensive compared to the alternatives and may still lack strong support.

When looking at industry specific software, always look at all your options. **A trend we are seeing for 2026 is separation over integration when it makes sense, such as when there is a more affordable option that provides a proven customer support model that is quick, reliable, and impactful.**

Processing costs remain a challenge for merchants as they are one of the largest business expenses beyond payroll. As card network fees have risen, effective merchant rates have seen a slight decrease. This is due mainly to more efficient routing, fewer manual errors, and improved fraud tools. Diligence in monitoring these expenses and staying abreast of any changes and trends can help a merchant understand the fees and ensure they are controlling the controllables.

In the coming year, consider implementing these practices to reduce costs and improve payment processing:

- **Batch daily.** Timeliness matters when paying interchange to the card brands.
- **Ensure terminals work properly.** EMV chip cards with both dip and tap capabilities do more than just protect against fraud. Cards accepted with these POS methods also could lower your interchange costs
- **Train staff on PIN usage.** Avoid discouraging customers to use PIN for debit cards because it helps reduce processing costs.
- **Regularly review your statements.** Look for keywords like “standard,” “non-qual,” or “merit I” as these may indicate higher interchange rates and an opportunity for improvement, such as correcting a terminal error, offering staff training, reducing unknown charges, or addressing issues with your processing environment.
- **Implement a surcharge.** Where legal, adding a fee to credit card transactions that is equal to or lower than your cost of acceptance can help you pass along some of the cost.
- **Offer a cash discount.** Instead of adding a surcharge to credit transactions, you can instead raise prices on your goods or services to an amount equal to your processing expenses and offer a discount to customers who pay with cash. This has the same effect of passing on a surcharge with a more positive consumer experience.

The choice between offering a cash discount or implementing a surcharge for many businesses revolves around understanding your customers, balancing your operational goals for the business, and ensuring compliance[†].



Strategic recommendations to consider based on payment trends 2026 outlook

- 1. Rapid transformation in the payment ecosystem requires proactive planning.** Organizations should evaluate whether their current infrastructure and vendor relationships can adapt to rapid shifts in technology and consumer behavior.
- 2. Understand that digital and preferred payment options are now expected.** Mobile-first and real-time settlement capabilities have become baseline requirements. Businesses that lag in adopting these features risk higher costs, process inefficiencies, and diminished customer satisfaction and retention.
- 3. Be aware of new risks and dependencies with emerging AI and platform dynamics.** Autonomous purchasing agents and software-driven payment integration are altering transaction origination and cost structures. Leaders should assess exposure to opaque pricing models and ensure governance over AI-enabled processes.

[†]Businesses are solely responsible for compliance with applicable state laws and card brand regulations related to surcharging, cash discount, and minimum card purchase requirements.

INSURANCE AND RISK MANAGEMENT OUTLOOK

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President
Huntington Insurance, Inc.

**HUNTINGTON
INSURANCE**

A  **Huntington Bank** AFFILIATE

Insurance and Risk Management Outlook

EXPECT A MIXED INSURANCE MARKET IN 2026



ANGIE KLETT

President
Huntington Insurance, Inc.

Key takeaways:

1. Commercial P&C and cyber liability insurance markets are easing, which is creating a more competitive environment for businesses heading into 2026.
2. Elevated employer healthcare costs remain a budgetary challenge as pharmacy and behavioral health trends drive plan inflation.
3. Business owners aged 55 and older are turning to life insurance strategies for succession planning.

P&C premium trends are stabilizing, but selective

Signs of moderation emerged across the commercial P&C sector in 2025 after seven consecutive years of hard market conditions. Average rate increases slowed across all account sizes in Q3, with medium and large accounts seeing considerably lower rates¹⁵:



Small accounts saw a 1.2% average premium increase, down from 4% in Q2.



Medium accounts saw a 1.9% increase, a 52% reduction from Q2.



Large accounts saw a 1.6% increase, down 42% from Q2.

Notably, commercial property premiums fell by 0.2% on average in Q3, the first decline in property premiums since Q2 2017¹⁵. Increased competition among carriers has created a more favorable environment for buyers, particularly in property and management liability. Some firms reported aggressive pricing behavior from carriers trying to secure new business, which reflects a broader shift in market posture from previous years.

However, not all lines moved in the same direction. Auto liability and excess coverage still remain in hard territory, with carriers maintaining tighter underwriting. **Expect higher premium pressure driven by social inflation, litigation trends, and EV adoption¹⁶.**

Cyber liability insurance is a must-have, not a maybe

Cyber insurance rates declined for the fourth time in six quarters, falling 2.6% in Q3 2025¹⁵. Excess cyber liability insurance underwriting capacity with increased market competition continues to help contribute to soft market conditions.

The gap between risk and preparedness continues to widen. Carriers are still insuring higher levels of exposure but are more focused on qualifying risks. Organizations with mature cybersecurity postures – robust employee training programs, incident response plans, and MFA implementation, for example – are likely to see more favorable pricing and coverage, while those with gaps in controls may find themselves facing more limited markets or restricted coverage.

What to expect

The buyer-friendly environment is expected to persist in 2026, but the bar for adequate cybersecurity will continue to rise as AI-related risks, ransomware, and systemic vulnerabilities reshape the way carriers underwrite policies.

Coverage terms are expected to become more tailored and specific, with insurers pushing for clarity around exposure modeling, breach history, and organizational readiness.

- 1. Review cyber posture before entering the market.** MFA, endpoint detection, employee training, and recovery planning are now minimum thresholds for favorable underwriting.
- 2. Coordinate with brokers to customize coverage.** As risks become more technical and systemic, off-the-shelf policies may no longer match actual exposure.
- 3. If opting out of cyber insurance, reinvest strategically.** Any premium dollars saved should be directed toward risk-reducing infrastructure and employee training rather than being absorbed as general savings. With the global average cost of a data breach reaching \$4.4 million last year¹⁷, the price of not prioritizing cyber risk is too high.

Looking ahead

Market dynamics suggest a softening trend will carry into the coming year. Strong reinsurance market performance along with growing capacity and carrier competition is expected to reduce the base cost in certain coverage lines, allowing carriers to pass along pricing relief.

Still, underwriting remains selective. Carriers continue to weigh risks associated with inflation and increased frequency and severity of weather-related losses. Global insured losses from natural catastrophes reached \$137 billion in 2024, with economic losses from disaster events in the same year reaching \$318 billion¹⁸. **These structural risks are unlikely to fade in the near term and could limit pricing improvements in certain segments.**

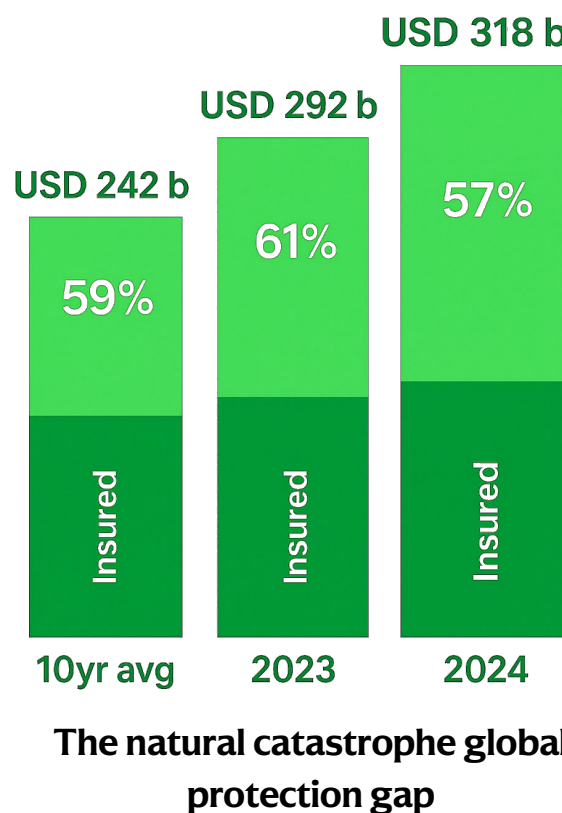


Fig. 18 – Source: Swiss RE Institute, “Sigma 1/2025: Natural Catastrophes: Insured losses on trend to USD 145 billion in 2025. Accessed Dec. 2, 2025.

Opportunities in P&C insurance

1. **Buyers should engage early (90-120 days ahead of renewal)** with brokers, assess risk controls, and explore alternative strategies to manage costs and coverage effectively.
2. **Market conditions can help leaders reevaluate their coverage structure.** Softening markets provide an opportunity to reassess limits, deductibles, and self-insured retentions.
3. **Stay informed on Employment Practices Liability (EPL) exposures.** AI-based discrimination is an emerging risk. In addition to discrimination, harassment, and retaliation claims, AI bias is now a litigated and regulated risk. The EEOC's recent enforcement activity highlights the legal and reputational risks of AI-driven hiring practices¹⁹.

Turning to employee benefits: healthcare cost considerations

We saw employer-sponsored healthcare costs skyrocket throughout 2025, continuing the trend of record-high year-over-year healthcare cost increases. Chronic conditions such as cancer, cardiovascular and musculoskeletal issues remain top healthcare cost drivers. This past year, drug costs were also a key driver. Pharmacy cost growth outpaced general medical inflation by 2.5 percentage point²⁰, a trend driven largely by heightened adoption of GLP-1 drugs for weight loss and diabetes management.



Mental health service use continues to rise, with utilization growing 44.6% between January 2023 and December 2024²⁰.

Another top cost driver was behavioral health. Employers have been expanding access to mental health support, seeing these services as a critical component of workplace wellbeing, but higher utilization of these services has also introduced new cost pressure. Health plans now anticipate a 10% to 15% trend impact from behavioral health claims alone²¹.

What to expect

Cost escalation is expected to persist in 2026. Employers face median healthcare cost increases of 9%, with some projections reaching up to 10% to 12%²¹. If that compounding cost trend continues, this median estimate means that 2026 costs will be roughly 62% higher than 2017 levels.

GLP-1 drugs remain a central concern for benefit plan sponsors. Forty-one percent of surveyed health plans identified them as one of the top two cost drivers heading into 2026²⁰. Some employers are considering reducing coverage entirely, but this might not be a preferred option for all. Instead, plan sponsors are exploring more sophisticated utilization management, such as offering nutrition support and other wraparound services that may reduce reliance on high-cost medication.

On the regulatory front, the federal government's Most Favored Nation (MFN) drug pricing initiative could bring eventual cost relief, with the prices of Ozempic and Wegovy stated to lower from \$1,000 and \$1,350 per month to \$350²², though the implementation and impact is not known at this time. It is not recommended that employers rely on policy shifts to materially impact 2026 healthcare budgeting.

Employer-sponsored healthcare considerations

1. Review your pharmacy benefits strategy. Working with vendors to tighten controls on GLP-1 prescriptions and explore alternative care pathways could help reduce costs.
2. Request clearer performance metrics from health plan providers.
3. Establish internal benchmarks to track cost trends to help inform pricing negotiations and set expectations for multi-year budgeting.

Life insurance as a strategic financial asset

The greatest transfer of wealth in U.S. history is expected to occur within the next decade. In 2020, the U.S. census bureau reported that 51% of business owners were age 55 and over²³. These business owners could see more customizable, business-focused solutions available than ever before, particularly if strategies are defined 5-10 years prior to a planned exit. Because of this significant demographic wave focusing on exit strategies, the life insurance market is shifting from being viewed as a protection product to becoming a core part of business transition planning.

Life insurance can be leveraged to fund buy-sell agreements, cover estate taxes or outstanding debt, or help with business costs.

As business owners prepare for transitions to family, partners, or employees, these customizable solutions can provide:

- Protection and equalization for heirs who don't want to run the business.
- Stability for employees.
- A flexible source of liquidity.

What does this outlook mean for businesses?

The commercial insurance market is not uniform. Some lines are easing while others remain under pressure, which creates an opportunity for organizations to rebalance risk, coverage, and cost before trend lines shift again.



Insurance trends and outlook for 2026

1. **Softening P&C and cyber markets allow for proactive repositioning.** For organizations with strong risk profiles, early renewals, better pricing, and broader coverage could be available.
2. **Healthcare costs are trending high, so consider benchmarking aggressively.** Working with vendors and plan providers to receive data and manage high-cost medications and behavioral health utilization can help you manage costs.
3. **Underwriting discipline remains.** Whether it's cyber coverage or employee practices liability, strong controls will continue to make a difference for becoming a more favorable risk.
4. **Consider life insurance as a key component of business succession.** Exits are inevitable for business owners, and it's never too early to begin planning a transition.

FINANCIAL ADVISORY SERVICES OUTLOOK

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Financial Advisory Services Outlook

DISTRESS MAKES A COMEBACK: BANKRUPTCY FILINGS EXPECTED TO CONTINUE TO RISE THROUGH EARLY 2026



BRIAN DAVIES

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Key takeaways:

1. Business bankruptcy filings increased by nearly 5% for the 12 months ending June 30, 2025, from the same period in 2024.
2. Total bankruptcy filings, including personal, rose nearly 12% in the same time span.
3. Filings in Manufacturing and Services industries made up the largest percentage of business filings.
4. Late 2025 interest rate cuts and potential changes to U.S. tariff policy may offer some relief to struggling companies and allow them to address core issues and return to health rather than filing for bankruptcy.

Middle market companies, typically defined as businesses with \$10 million to \$1 billion in annual revenues, are facing a crossroads as 2026 approaches. Amid persistent macroeconomic pressures, including interest rates, tariffs, and maturity of pandemic-era debt, many are grappling with liquidity constraints and strategic pivots. While dealmaking is on the rise, distress remains a core risk component, particularly in certain sectors.

While volatility and a degree of unpredictability stand to be a hallmark of 2026, here are some trends that emerged in 2025 which can be expected to continue, at least through the early part of the year.

Insolvency outlook based on a ten-year trend

After several years of decline, bankruptcy filings in the United States continued to climb in 2025, signaling mounting financial strain for households and businesses alike.



For the twelve-month period ending June 2025, total filings climbed to 542,529 cases, an 11.5% increase over the previous year, with business filings showing a 4.5% increase over the same period the prior year, according to data from the Administrative Office of the U.S. Courts²⁴.

Analysts point to a perfect storm of economic pressures that include persistent inflation and elevated interest rates through the third quarter as key drivers behind this trend. While filings remain well below the historic highs seen after the Great Recession, the uptick underscores growing vulnerability in consumer finances and hints at broader challenges for the economy in the months ahead²⁵.

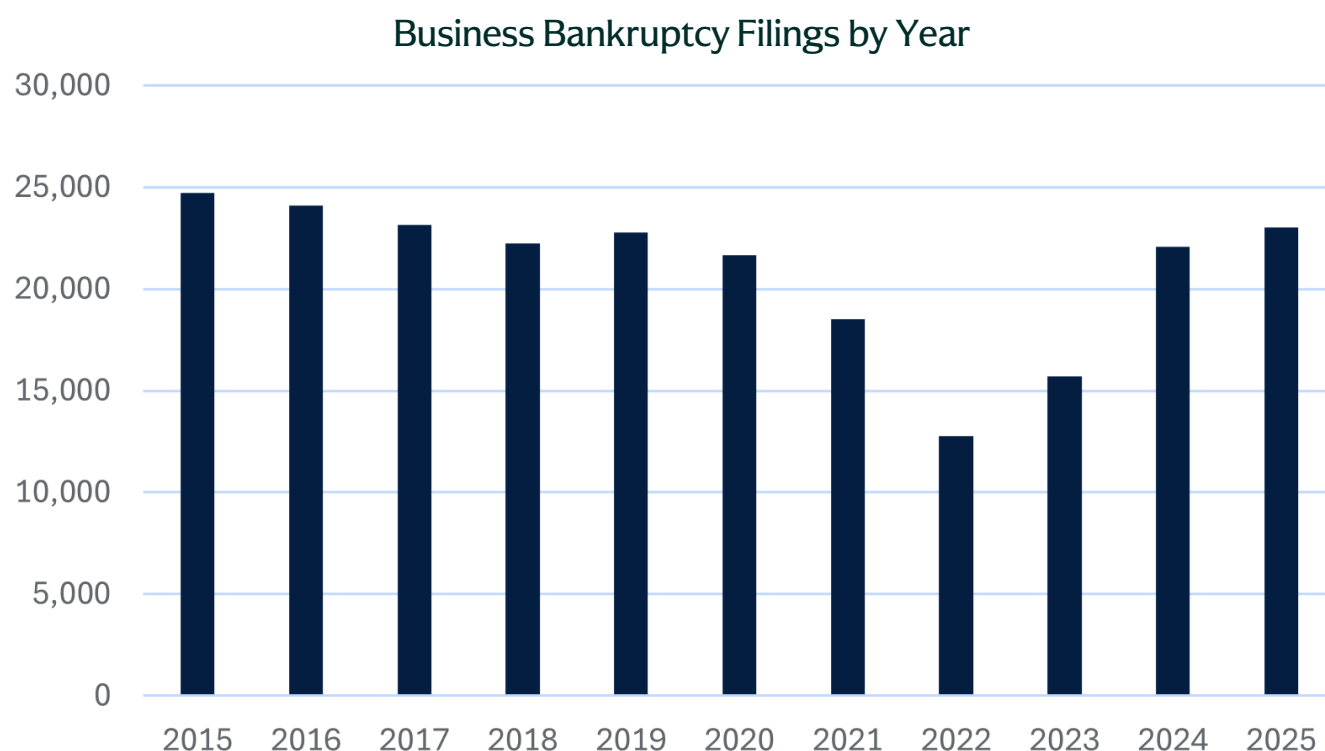


Fig. 19 - Data for 12-Month Period Ending June 30. Sources: American Bankruptcy Institute, United States Congress, Administrative Office of the US Courts.

Looking back, the sharp decline in commercial filings beginning in 2020 is attributable, in large part, to government support programs designed to stabilize the economy reeling from the COVID-19 pandemic-era shutdowns. But as stimulus funds expired and high interest rates, inflation, and rising debt burdens took hold, filings began to rebound.

Between 2023 and the first half of 2025, an 11%–17% annual increase in business bankruptcies became the new normal. Commercial Chapter 11 filings rose nearly 20% year-over-year in both Q1 2024 and March 2025, with 2024 seeing a 20% rise over 2023. The number of public and private companies (with over U.S. \$100 million in assets) filing also increased 44% by mid-2025, and total corporate bankruptcies hit a 14-year peak in 2024, with 694 filings.

Since the Administrative Office of the U.S. Courts annual reporting is delivered on June 30 each year, the official results for the second half of 2025 will not be available until July 2026. However, the expectation based on the trends is that the upward trajectory will continue at least through the first half of 2026 although this may be fueled by 2025 calendar year filings. Two consecutive interest rate cuts late in 2025, as well as potential revisions to the U.S. tariff policy, may not be enough to reverse damage to struggling businesses, but it may provide some positive relief for those that are hanging in the balance^{26, 27}.

Trends by industry

While pockets of stability and growth exist, most major industry groups within the U.S. economy experienced some level of distress in 2025. A significant volume was centered in businesses in manufacturing and services industry sectors – which are likely to not only experience the direct effects of macroeconomic issues such as supply chain volatility, labor shortages, and commodity pricing, but also the impact of declining confidence on consumer spending.

Bankruptcy Filings by Industry Group

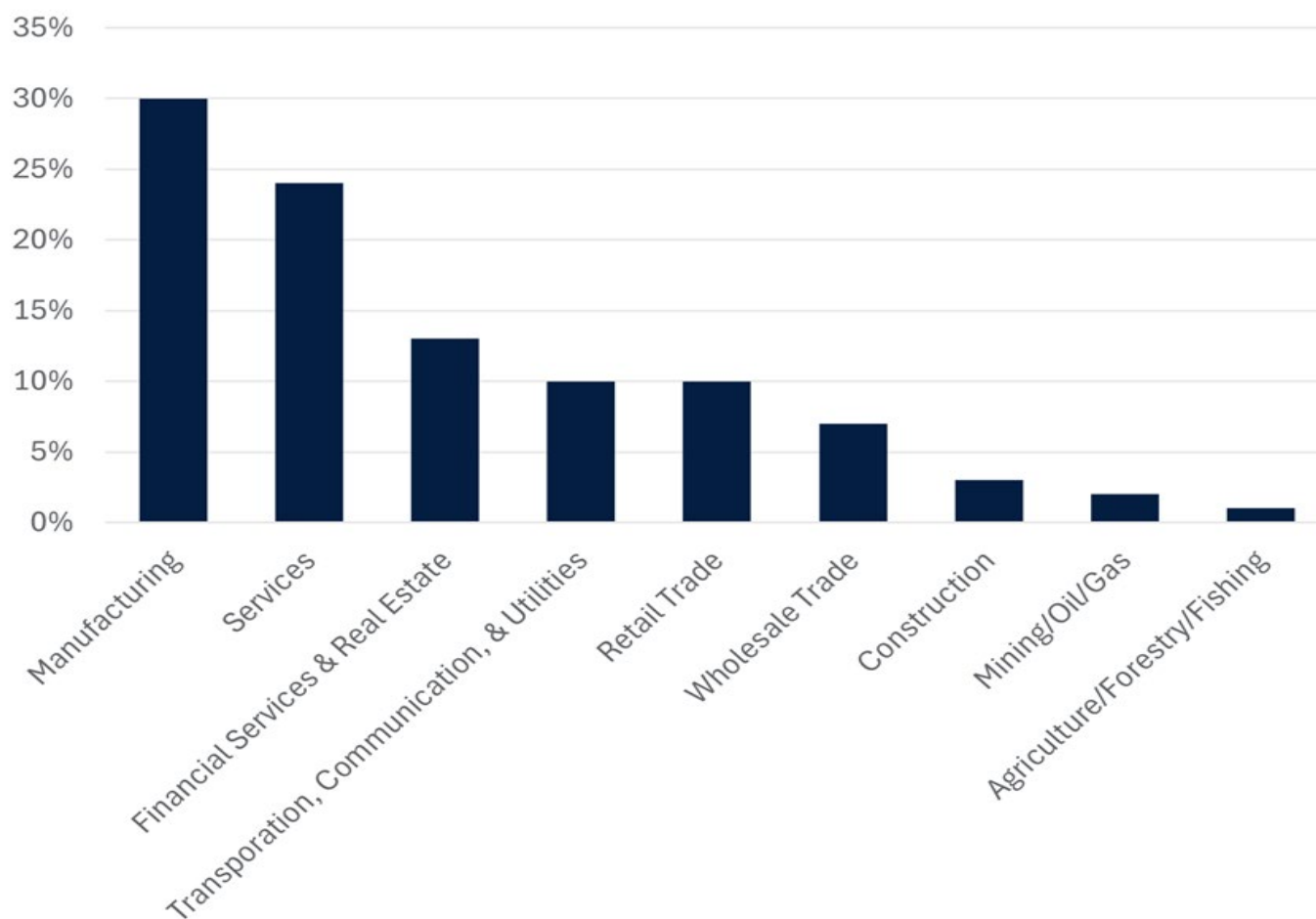


Fig. 20 – Bankruptcies filed July 1, 2024, through June 30, 2025, by public and private companies with more than US \$100 million in assets at the time of filing. Sources: Bankruptcy Data. Capstone Partners.

Even if 2026 trends resemble a plateau instead of a peak, bankruptcy activity is projected to remain elevated in 2026 from historic lows, and some industries will continue to bear the brunt of the risk.

Consumer discretionary sectors, particularly retail and casual dining, are among the most vulnerable.

Casual dining chains, already burdened by high labor and food costs, face additional pressure from declining foot traffic and elevated debt loads. The combination of shrinking discretionary income and competitive pricing dynamics makes this sector a prime candidate for restructuring²⁸.

Real estate, both commercial and residential, is another area of concern.

The FDIC has flagged commercial real estate lending as a key risk for 2025–2026, citing loan maturities and refinancing challenges in an environment of higher yields. Office properties remain underutilized due to hybrid work trends, while retail spaces struggle with declining occupancy. Residential construction and housebuilders are also exposed as rising mortgage rates dampen demand and slow new projects²⁹.

Energy and industrial sectors face their own set of challenges.

Commodity price volatility and leveraged financing structures increase vulnerability, particularly for midstream energy operators and manufacturers dependent on global trade. Fitch's outlook for Latin American midstream energy and European engineering and construction remains neutral for 2026, signaling limited recovery prospects³⁰.

Healthcare and higher education are not immune to these pressures.

Moody's has flagged not-for-profit healthcare providers and U.S. higher education institutions as sectors facing persistent financial strain. Rising labor costs, regulatory compliance expenses, and declining enrollment rates contribute to mounting operational challenges³¹. These organizations often operate with thin margins and limited flexibility, making them susceptible to liquidity shocks.

The financial sector, particularly non-bank lenders and private credit funds, is another area to watch. Moody's warns that low transparency and high leverage in private credit markets pose systemic risks³². As liquidity tightens and defaults rise, entities invested in sectors with high levels of distress could face increased challenges of their own.

In summary, the outlook for 2026 suggests that bankruptcy risk will remain concentrated in sectors sensitive to interest rates, consumer demand, and global trade dynamics. Retail, casual dining, real estate, energy, healthcare, higher education, and non-bank finance are among the most exposed.

Companies operating in these industries should consider prioritizing liquidity management, debt restructuring, and operational efficiency to navigate what may be another challenging year for corporate solvency.

Strategic planning for 2026

Regardless of company size, ownership structure, or industry, all businesses should engage in an annual strategic planning process which includes a comprehensive evaluation of near- and long-term risks and overall organizational health³³.

Some of the main areas we recommend evaluating include:

- **Company performance.** This includes, but is not limited to, financial performance, strengths of core processes, culture, and technical expertise. The understanding of the company's strengths and weaknesses will allow management to align resources to maximize delivery to customers and strengthen competitive advantages in the market.

- **Market opportunity.** Analyzing the market addresses the question of how the industry's customer base is changing, and whether the current plan is well matched to the most important priorities of the high-growth and or high-profit segments. Additionally, this process should evaluate the go-to-market approach to ensure it is aligned with internal resources, products, and support.
- **Competitive landscape.** Strategically addressing a company's competition involves more than just acknowledging rivals—it's about using competitive insights to shape the positioning, messaging, and long-term strategy. A company's competitive advantages must be compelling enough to overcome those of its competitors. Even when a company sells products that are commoditized, it can have competitive advantages.

Business owners and operators who routinely review key performance indicators (KPIs), benchmark performance against industry competitors, and have a foundational awareness of their operational, administrative, and financial functions are more likely to recognize signs of stress in the business, when early intervention can have a significant impact on the company's performance and outlook. The earlier issues are identified and addressed, the more options a business will have.

Interventions for distressed companies

Depending on the level of distress, along with other internal and external factors, a struggling business may have several different approaches available besides filing for bankruptcy.

1. Proactive Performance Improvement Projects

Companies may benefit from the assistance of a business performance improvement team to help identify inefficiencies and opportunities for development. If this is started early enough, this process may help a business avoid the need for more aggressive interventions in the future. This process can also benefit healthy companies and lead to the discovery of new opportunities for growth.

2. Distressed M&A and Divestitures

With a significant amount of private equity dry powder available, 2026 is expected to be an aggressive year for middle market M&A—especially carve outs and strategic asset sales. Distressed middle-market businesses may attract opportunistic buyers seeking operational upside. Divestiture paths can be more advantageous than full bankruptcy.

3. Out-of-Court Restructuring

For many businesses in significant distress, an out-of-court process may still be a viable alternative to bankruptcy. In general, out-of-court restructuring processes can be accomplished with less expense and in a shorter amount of time than bankruptcy while delivering positive outcomes for stakeholders.

4. Bankruptcy

If an out-of-court solution is not available or desired for some reason, an experienced financial advisor can provide support through bankruptcy. Depending on the circumstances, different stakeholders – including creditors, debtors, and trustees – may engage advisory professionals to assist them and advocate for their interests during the process.

M&A OUTLOOK

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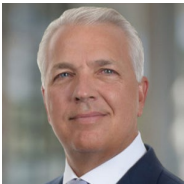
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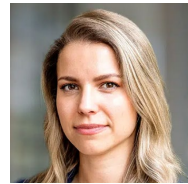


M&A Outlook

MIDDLE MARKET POISED TO SEE STEADY YET GRADUAL REOPENING OF M&A IN 2026

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Key takeaways:

1. Expect gradual middle market M&A recovery in 2026, driven by private equity deployment, eventual exit activity, and continued strength in large cap dealmaking.
2. Private equity reemerged as a dominant force, ending a three-year lull with five consecutive quarters of platform acquisition growth and near-record participation in middle market deals.
3. Interest rate cuts and improving CEO confidence will be critical catalysts for transaction activity. Monitoring monetary policy and preparing for strategic moves could be important as financing conditions ease.

The long-anticipated release of U.S. dealmaking did not fully materialize in 2025 as drags on the economy chilled activity. However, transactions by large, capitalized companies flourished, private equity buyers mobilized, and CEO sentiments showed improvement as the year progressed, all factors that provide a backdrop for a gradual reawakening of the middle market in 2026. The market was not entirely silent in 2025, but middle market deals that did close were typically either true industry leaders that received strong valuations from a competitive buyer pool or average companies that faced headwinds to close.

The three-year merger and acquisition (M&A) downcycle started to turn through Q1 2025 with a 6.6% year-over-year (YOY) increase in middle market deal volume. Q1 2025 marked the first time there had been three consecutive quarters of YOY middle market M&A growth since 2021. (Of note, Capstone Partners' definition of the middle market includes deals where the transaction value is not disclosed or is less than \$500 million in enterprise value.) The building momentum quickly dissipated as tariff policy fog spread in Q2 and impaired decision making for both buyers and sellers. Following the Liberation Day announcements on April 2, Q2 deal volume relapsed into a 1.2% YOY decline.

The result was a continuation of a challenging market, which has now dragged into its fourth year and has continued to buck the precedent timeline of 12-24 months for a decline in M&A. This decline has created a backed-up deal market that will not dissipate, rather, it will continue to accumulate and look for an opportunity to unleash. Overall middle market volume through Q3 still eked out a positive YOY volume gain of 1.9%, with the increase driven by the strong Q1, resilient financial buyer activity throughout the year, and select hot pockets in the market where volume surged for quality companies. Collectively, these drivers filled the void of the 16.5% YOY decline in public company dealmaking that challenged year-to-date (YTD) Q3.

While the middle market has struggled to gain traction amid unsteady tariff and geopolitical outlooks, U.S. transactions above \$1 billion in enterprise value (EV) have resurged. Solid earnings growth, strong balance sheets, and increasingly favorable access to capital due to interest rates cuts have created a favorable backdrop for mega mergers. Additionally, the pro-merger policy shifts and more permissive antitrust posture of the current administration have served to rejuvenate deal activity for large, leading companies.

“When President Trump nominated me, he entrusted me with the responsibility of ensuring that ‘our competition laws are enforced, both vigorously and fairly, with clear rules that facilitate, rather than stifle, the ingenuity of our greatest companies,’” said U.S. Assistant Attorney General Gail Slater, Head of the Department of Justice (DOJ) Antitrust Division, in a September speech to Ohio State University Law School³⁴. “That has been the guiding principle of my enforcement philosophy. The Division’s job is to call balls and strikes and let the free market do its job, not to decide which companies win and which companies lose. In my tenure at the Division, we have worked to expedite our review of transactions, and we have reintroduced early terminations. The vast majority of mergers do not give rise to competitive concerns, and in those cases, we aim to get out of the way quickly.”

This philosophy shift has been apparent in deal activity. **Through Q3 2025, M&A volume for large cap players increased a sizeable 36.8% YOY.** This uptick followed a 9.7% increase from full year 2023 to 2024, which was the first positive activity since 2021. Notable 2025 deals that cleared DOJ antitrust scrutiny included United Health Group Incorporated’s (NYSE:UNH) 2023 announced acquisition of home care provider Amedisys for \$3.3 billion and Nippon Steel North America, Inc.’s 2023 announced acquisition of United States Steel Corporation (NYSE:X) for \$14.9 billion. The wave of activity in the upper echelon of the deal market bodes well for M&A energy to trickle down into the middle market.

Large Cap Deals Lead Way for Middle Market Activity

(Number of Transactions Greater than \$1 Billion)

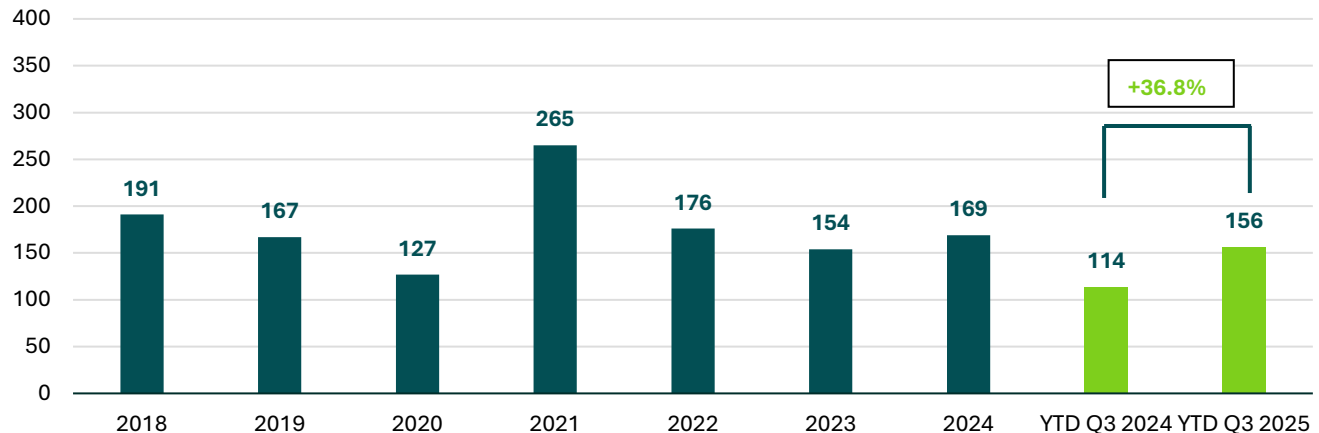


Fig. 21 – Source: Capital IQ and Capstone Partners

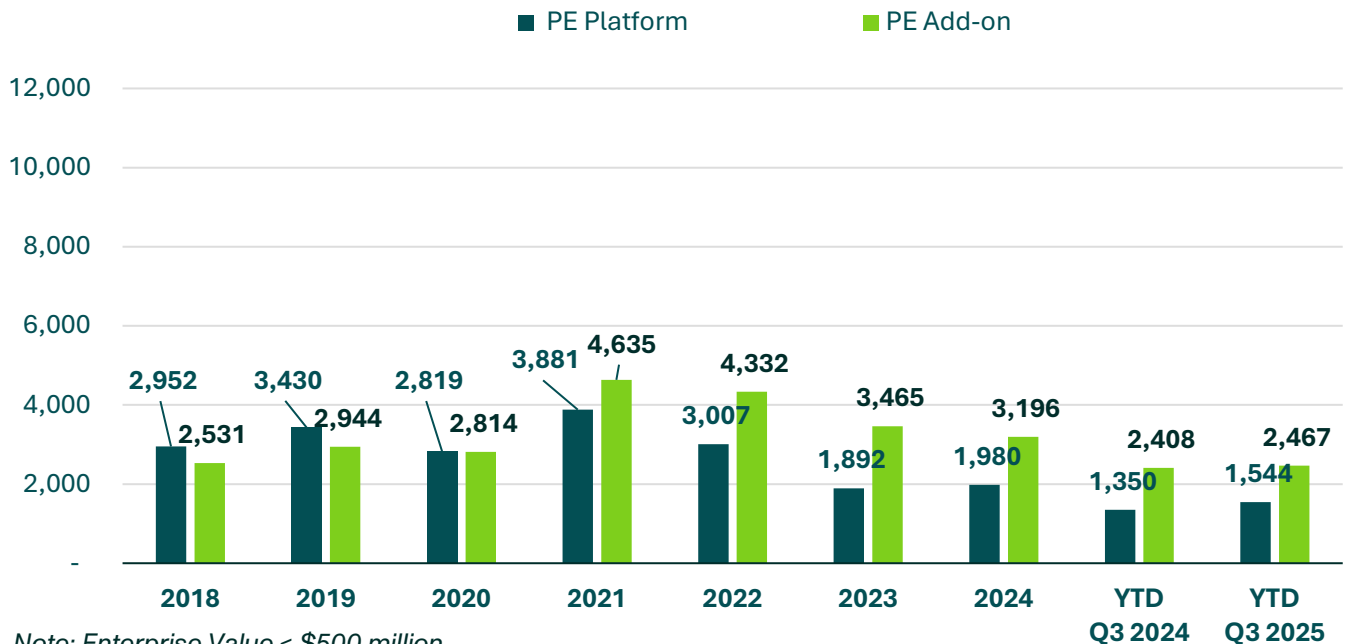
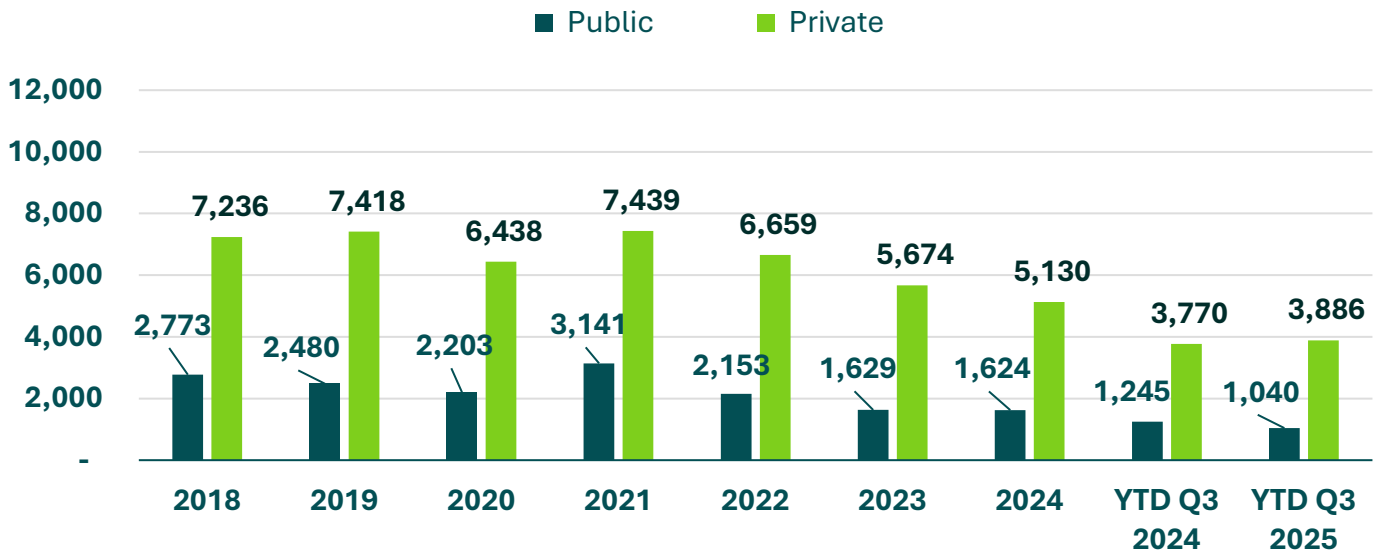
Another notable force moving the markets in 2025 has been the definitive resurgence of private equity buyers. After three years of sitting on the sidelines, reluctantly hoarding around \$1.6 trillion in dry powder and waiting for improved market timing, pressure from limited partners (LPs) to deploy capital mounted. Sponsors initially opted to use stop gap measures such as dividend recapitalizations to ease investor demands.

Finally, platform acquisitions began to come back en masse in Q4 with a 42% YOY increase followed by a 43% YOY increase in Q1 2025. This resurgence came after 10 consecutive quarters of negative YOY growth that began in Q2 2022. Platform activity in Q3 2025 marked the fifth consecutive quarter of positive YOY growth.

Middle market add-on acquisitions have similarly been completed with discipline in the moving market. Year-over-year gains of 3.1% (Q1), 3.5% (Q2), and 0.7% (Q3) created the first three quarters of consecutive add-on activity growth since 2022. **These movements amid the tepid economic environment and strategic buyer wariness have solidified the sponsor community's conviction to reenter the middle market.**

Sponsors Execute Transactions Despite Market Disruptions (*Transaction Volume*)

Private equity firms were committed buyers in 2025, with positive year-over-year growth every quarter as of Q3 while public buyer activity dropped after Liberation Day (-24% Q2, -23% Q3) and private companies paused (-8% Q2, +3% Q3).



Note: Enterprise Value < \$500 million

Fig. 22 and 23 - Source: Capital IQ and Capstone Partners

In addition to volume growth, financial buyers have driven premium valuations as they outbid strategics on an average EBITDA multiple basis to gain M&A market share and satisfy capital deployment mandates. Sponsor activity significantly lifted transaction values in Q3, advancing 23.5% quarter-on-quarter (QoQ) to an average \$83.9 million in enterprise value while public strategic average deal value increased 4.2% QoQ to \$83 million and private strategics moved down market, declining 17.9% QoQ to \$52 million. On an average purchase multiple basis, sponsors paid 12.0x EV/EBITDA through Q3 2025 while private strategics paid an average of 9.8x and public strategics an average of 8.6x during the same period.

Valuation Multiples for Add-Ons Increase Nearly Four Turns from 2024

(Average EV/EBITDA Multiple)



Note: Enterprise Value < \$500 million, includes multiples between 3x-30x.

Fig. 24 and 25 - Source: Capital IQ and Capstone Partners



Sponsor reengagement is a long awaited and key catalyst for stable middle market resurgence, as data analysis of historic M&A buyer composition reveals. In 2006, private equity buyers completed 22% of total middle market transactions. This percentage has ballooned and peaked in 2022 (45.5%) before retreating slightly (~43%) and then expanding again to a near-record high of 45% as of Q3 2025.

Capstone launched its Middle Market Private Equity Index in November 2025 to better track the growing asset class and evaluate buyer preferences. The Index aggregates proprietary private equity market data on a quarterly basis, indexing the values to 100 with a base quarter of Q1 2006. Through this methodology, Capstone is able to provide sponsors, portfolio businesses, and private business owners with a unique perspective on the general health of private equity market activity. The report also provides an in-depth analysis on M&A valuations and volume by sector within 10 of Capstone's primary coverage industries, identifying emerging hot spots for private equity buy-side activity through H1 2025.

The report highlights that while private equity has returned as active buyers, exit activity has continued to fall each year since 2021. While best-in-class portfolio exits in 2025 have enabled sponsors to maintain internal rate of return (IRR) levels, this continued selectivity could hinder return distributions and LP relationships.

When pent-up exit demand unleashes, private equity's dual-sided investor mandate to both deploy capital (acquire companies) and return capital (sell companies) will increase deal supply in the middle market and further propagate a bustling transaction marketplace.

Industry M&A outlook

While many industries across the middle market faced YOY volume declines of 20% or more through Q3, key segments, opportunity zones, and many services companies saw double digit M&A volume growth and commanded premium purchase multiples.

Deal volume in the Aerospace, Defense, Government, & Security (ADGS) industry increased 21.7% YOY through Q3. Transactions were bolstered by the global demand for mission-critical solutions and equipment due to rising geopolitical tensions. Defense spending and government contracts further insulated ADGS companies from macroeconomic volatility.

Sectors where Capstone bankers specialize that saw positive M&A activity included Training & Simulation, Security Solutions, Air, Land, Sea, Space (ALSS) Systems, and Tactical Products. The Industrials industry recorded a 30% YOY decline in deal volume through Q3. Transactions that did occur were often driven by public company divestitures and portfolio realignments amid tariff and supply chain disruptions. **Industrials companies with U.S. sourcing and/or reduced tariff exposure continued to attract strong buyer interest.**

Additionally, Industrial Services providers such as HVAC Services and Industrial & Environmental Services (I&ES) saw double digit growth and strong private equity interest.

Pockets of the Healthcare industry recorded deal activity driven by underlying secular trends such as the aging U.S. population, rising prevalence of chronic conditions, and the shift to value-based care; M&A activity proliferated in both Behavioral Healthcare Services and Medical Device Outsourcing.



Regulatory shifts under the H.R. 1 – The One Big Beautiful Bill Act may further serve to fuel near- and long-term M&A momentum in sectors such as Home Care as Medicaid funding eligibility requirements shift and operators make strategic acquisitions to buffer bottom lines. The Consumer industry experienced a 26% YOY volume decline through Q3.

Dealmaking in many sectors was defensive in nature, with companies seeking to slough off non-core or low-growth assets in the challenging economy. Distressed sales and bankruptcies were also peppered throughout the industry. Some challenged sectors saw private equity buyers swoop in to claim attractive opportunities even amid falling deal volume. This was the case in areas such as Automotive Aftermarket (-15.8% YOY M&A volume through Q3 volume, +7.7% private equity platform activity); Restaurants (-28.9% M&A, +100% platform activity), and Home Goods (-25% M&A, +6.3% platform activity). These opportunistic platform entries into Consumer segments indicate sponsors' long-term growth expectations and are precursors to further add-on acquisitions in 2026 and beyond as they deploy buy-and-build strategies.

Other sectors of the Consumer industry that profited from ongoing shifts in consumer behavior with YOY deal volume gains were Vitamins & Supplements and Outdoor Recreation & Enthusiasts. Additional services pockets of the market that gained positive transaction momentum and attracted strong interest from financial players (and in some cases strategics as well) included Architecture & Engineering (A&E) Services, Construction Services, Accounting Services, HR & Staffing Services, and Healthcare Information Technology (HCIT) Services. Companies that operate in areas that garnered 2025 buyer interest even despite market volatility are well positioned to explore exit opportunities in the near-term while the supply side of the M&A market remains low and buyers hungry.

Reaching or enhancing profitability has continued to serve as a leading goal for operators, as many CEOs await market clarity and continue to climb out of a period of elevated interest rates, supply chain pressures, and significant inflation.

Capstone Partners' Middle Market Business Owners Survey revealed that profitability is the leading operational initiative for middle market business owners over the next 12 months, as noted by 22.2% of CEOs surveyed. Improving efficiency and implementing artificial intelligence (AI) and machine learning tools will also be pertinent operational initiatives for 2026, as identified by 16% and 11.2% of owners, respectively. Among total CEOs surveyed, the lion's share (45.3%) emphasized performance improvement support as the most useful resource in support of their primary operational initiative, followed by capital investment (31.4%) and strategic partnerships (23.2%). The share of business owners that require performance improvement support increased 3.4% compared to the prior year as CEOs seek to maintain margins and enhance operational efficiencies amid a difficult macroeconomic environment and ongoing trade headwinds.

Amid the challenging environment, middle market business owners have increasingly explored capital markets transactions to accelerate company growth, secure personal liquidity, and optimize capital structure. In 2025, 57.4% of surveyed CEOs completed at least one capital markets transaction in the past 12 months, a 13.3% YOY increase. Interest rate cuts have supported this expansion, evidenced by CEOs' debt capital securements rising 5.8% YOY to 24.4%. Equity capital raises have remained the most popular growth level YOY, pursued by 29.9% of CEOs in 2025. In addition, 21.7% of CEOs divested assets, 17.5% acquired another business, and 7% sold their company. Complex capital markets deal proceedings have pushed many business owners to hire an investment banker; these CEOs have completed capital markets transactions at a higher rate than those without an advisor.

Business Owners Show Increased Demand for Capital Markets Solutions Amid Dynamic Macroeconomic Environment



30% Raised equity capital

Nearly one-third (29.9%) of CEOs raised equity capital to secure partial liquidity and maintain operational control in 2025, an increase of 1.2% YOY.



24% Secured debt capital

Debt capital has been increasingly accessible as the Federal Reserve cut interest rates, supporting continued activity in the Syndicated Loan market.



22% Divested assets

Asset divestments have been a popular option for business owners looking to drive operational efficiencies and fund future growth initiatives.



18% Acquired a business

Over the past 12 months, 17.5% of CEOs surveyed indicated that they had completed an acquisition of another company to gain scale, up 4.1% YOY.



7% Sold their company

In 2025, 7% of owners sold their business, up 4.8% YOY as cheaper debt costs have propelled increased merger and acquisition (M&A) appetite among financial buyers.

Question: Which of the following business strategies have you enacted over the last 12 months?

Fig. 26 - Source: Capstone Partners' Middle Market Business Owner Survey, Total Sample Size (N): 401

Restoring CEO confidence

Heading into 2026, the restoration of CEO confidence will be an important fundamental for middle market M&A reopening. In 2025, CEO confidence dropped from 60% in Q1 to 34% in Q2, according to The Conference Board *Measure of CEO Confidence*^{TM35}. This weakness was in line with the M&A drop-off after April 2. Since then, CEO confidence increased to 49% in Q3 and dropped slightly to 48% in Q4 – remaining in negative territory with a reading below 50%.

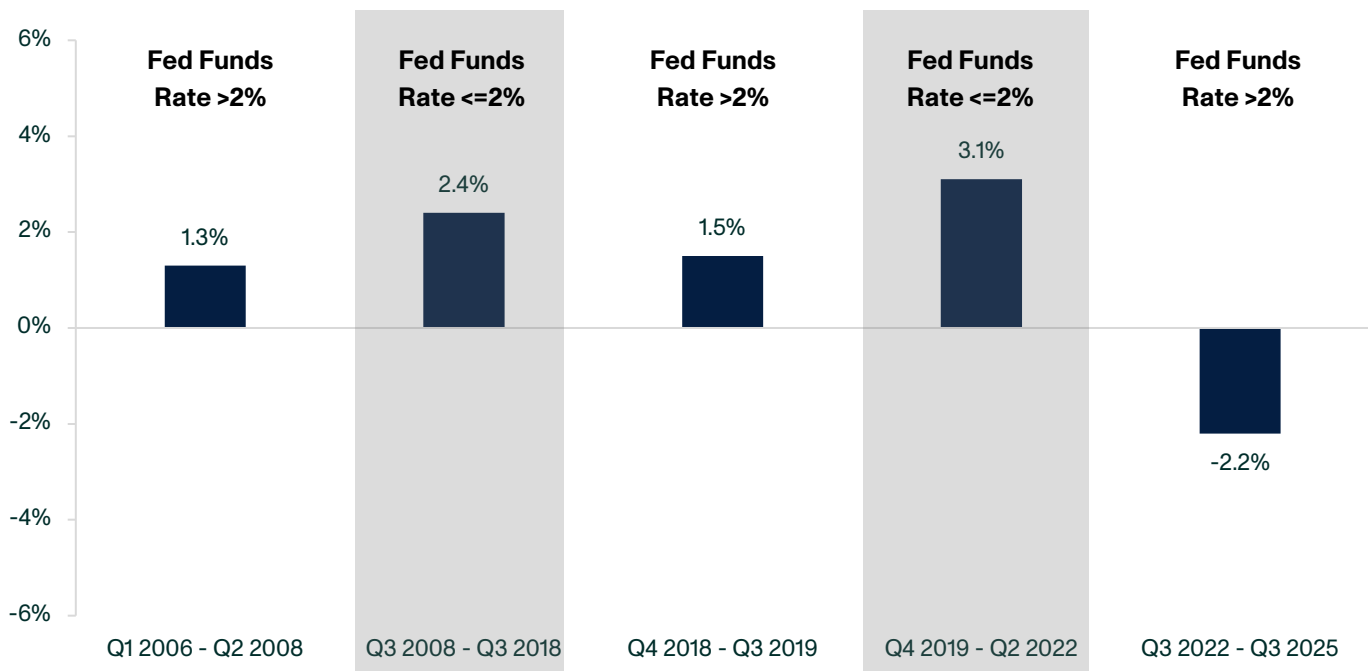
The Federal Reserve's interest rate cuts of 25 basis points in both September and October bode well for improved CEO confidence improvements in 2026. Interest rate cuts should help to address two key pain points for middle market business owners. The first is to boost economic spending and ease

inflation. CEOs ranked inflation as their top concern for company growth for the third consecutive year in Capstone's survey. The second is to support hiring; a concern reported by more than 60% of business owners.

Capstone analyzed in its piece "[Why the Fed Funds Rate Matters](#)" that CEO confidence levels appear to spike and remain relatively high when the fed funds rate is in the range of, or below 2%. Currently, the fed funds rate remains well above that at 3.75%–4.00%. While many factors are at play and correlation does not directly imply causation, Capstone additionally found that when the fed funds rate is at or below 2%, quarterly middle market deal volumes were also 22% higher. **With more rate cuts on the table in 2026, CEO confidence could continue to repair, and M&A volume be boosted going forward.**

Fed Funds Rate vs. Quarterly Middle Market M&A Volume Growth

(Average QoQ M&A Volume Change)



Note: Enterprise Value < \$500 million; Shading indicates periods when Fed Funds Rate was ≤2%

Fig. 27 - Source: Federal Reserve Economic Data, Capital IQ, and Capstone Partners

Market wrap up and 2026 outlook

In conclusion, the middle market is likely to see a steady, yet gradual reopening of M&A in 2026.

1. Private equity will continue to deploy capital with conviction through buy-side opportunities and will eventually supply more deals to the market through exit activity. Public and private company buyers and sellers who have focused on strategic portfolio restructuring and tariff risk mitigations in 2025 will slowly adapt to moving dynamics and reenter the market.
2. For companies in select areas, including ADGS and Services sectors, a clear exit window is already open.
3. Owners who are evaluating strategic options for 2026 are prioritizing performance improvement initiatives to grow company profitability and improve efficiencies with technology including AI.
4. In addition to a resurgence in sponsor buyer activity and large cap dealmaking, key indicators that will continue to expand M&A volume will be interest cuts and CEO confidence.

Capstone Partners will continue to closely monitor the evolving market and partner with companies in their strategic decision-making to maximize financial outcomes at every stage of the corporate lifecycle.

EQUITY CAPITAL MARKETS OUTLOOK

Chris Hastings

Head of Equity Capital Markets
Capstone Partners



Equity Capital Markets Outlook

GROWTH CAPITAL VOLUME THIS YEAR OUTPACED PRIOR YEAR, VALUATIONS CONTINUE STRONG REBOUND



CHRIS HASTINGS

Head of Equity Capital Markets
Capstone Partners

Key takeaways:

1. The equity capital raising market improved in 2025, led by artificial intelligence deals with other tariff-resistant sectors also growing.
2. Valuations climbed towards their 2021 highs, and “A” and “B+” companies were able to complete transactions on favorable terms.
3. Tariff and interest rate policies are ending with more certainty in 2025 than in Q1, and the private capital markets are well positioned for a strong 2026.
4. Capstone expects improvements in valuation, terms, and deal volume to continue into next year, with signals that the breadth in the market rebound is widening.

2025 is on track to be the strongest year for growth equity deployment since 2021. Through November 15, equity capital investments in late-stage private companies have reached \$307 billion, surpassing levels seen in recent years. Part of the volume increase was caused by larger transactions in artificial intelligence (AI) and data center companies, but even with these deals 2025 volume is ahead of 2024. 2025 saw 37 transactions above \$1 billion, compared to 32 in 2024.

Other active sectors in growth equity financing include professional services and aerospace and defense.

The professional services sector, which includes companies in consulting, accounting, financial advisory, and insurance, recorded 127 transactions in 2025, up from 110 in 2024.

Growth equity investors continue to show strong interest in professional services due to high operating margins, AI implementation opportunities, and inorganic growth potential. **Capstone Partners expects activity in this sector to remain robust in 2026.**

Growth Equity Capital Raised by Year

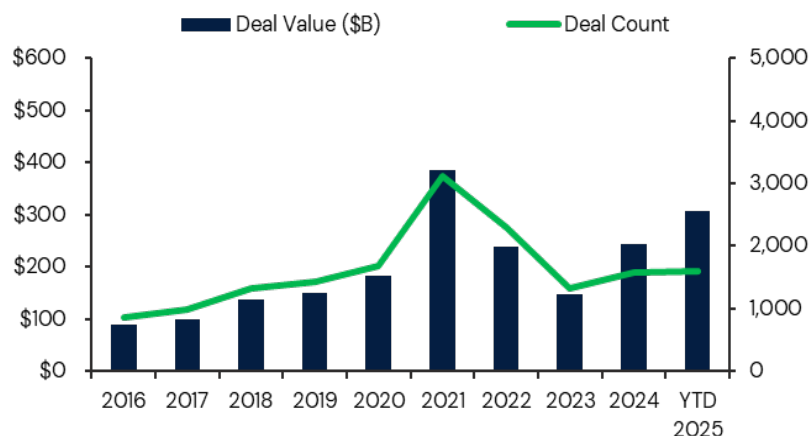


Fig. 28 – Source: Capital IQ, Pitchbook, Capstone Partners

The current geopolitical climate has focused investors' interests on aerospace defense technologies—which include cybersecurity, satellite communications, rare-earth materials, and offensive technologies. The current administration has made a top priority of securing domestic industrial defense production. This year saw multiple public/private partnerships, including the Department of Defense's investment in MP Materials and the Department of Commerce's announced transaction with Vulcan Elements.

A theme from 2025 we expect to continue in 2026 is supporting the defense supply chain with a movement to domestic manufacturing. Companies that make components for defense, aerospace, and other domestically sensitive sectors are well-positioned to benefit from decoupling global supply chains and U.S. companies looking to source domestically. Historically manufacturing companies skewed towards control sales, although 2025 saw an increase in manufacturing capital raises as investors sought exposure to tariff-resistant business models. 2025 saw 145 manufacturing capital raise transactions, up from 113 in 2024.

We expect the regulatory and investor focus on aerospace and defense companies to remain topical in 2026. An example of this is Huntington Bank client The Partner Companies, a manufacturer of mission critical components for the defense, aerospace, and other mission-critical sectors, which Huntington subsidiary Capstone Partners advised on its \$100+ million strategic growth equity investment from Tensile Capital Management.

Huntington Bank and Capstone Partners client The Partner Companies completed a \$100M equity raise in 2025, exemplifying the continued interest in the manufacturing and defense sectors.

Valuations remain elevated this year, signaling sustained investor confidence and a stable late-stage funding environment. As of November 2025, median valuations for North American transactions were \$260 million, compared to \$200 million in 2024 and slightly above the 2021 level of \$250 million.

This continued improvement reflects robust investor sentiment, improving public market comparables, and continued demand for high-growth opportunities, particularly in AI-driven sectors.

Median Pre-Money Valuations for Growth Companies



Fig. 29 – Source: Source: Capital IQ, Pitchbook, Capstone Partners



Financing structures continue to evolve to meet the financing needs of companies. With interest rates still elevated and tariff-exposed sectors still challenged, there remains a need for creative structuring between capital raisers and providers.

Equity investments that have more bespoke terms—“structured equity”—can be a compelling solution for companies in a variety of situations.

- **Companies in performance transitions or in sectors with secular headwinds** – terms can typically be constructed to bridge a valuation gap between companies and investors.
- **Companies that do not wish to take on bank debt** – this typically includes companies with strong operating performance that either have sufficient existing senior debt, or those that wish to avoid cash-pay interest but still want to minimize the dilution associated with traditional growth equity.
- **Companies that are acquisitive** – Structured equity solutions provide flexible capital to support a company’s inorganic growth strategy.
- **Secondary proceeds via minority recapitalization** – this is typically reserved for companies with strong operating performance that want to simplify their ownership structure or redeem older shareholders.

Terms included in structured equity solutions may include:

- **Contractual dividends:** either cash, paid-in-kind (PIK), or a combination.
- **Redeemable preferred stock** rather than traditional convertible preferred stock. The redemption feature provides downside protection to the investor which enables them to offer a less dilutive solution compared to traditional growth equity.

- **Valuation ratchet or “give-backs”:** sometimes valuation can be structurally adjusted based on performance. This can either be used as protection in a downside scenario, or a return of economics to the company if management outperforms.

A large portion of structural creativity has been explored to fund the continued data center expansion. Examples from this year include Equinix’s \$15 billion joint venture with GIC and CPP, and Digital Realty’s \$7 billion joint venture with Blackstone.

Equity capital raises and M&A. Minority-stake capital is a flexible type of financing that can be a useful tool for entrepreneurs who are managing their own liquidity prior to a full sale. If a business owner is considering an exit but does not think today is the optimal time, they can sell a minority stake to a growth equity investor today followed by a full exit in two to three years. By doing so, the business owner can still receive liquidity, diversify their personal risk, and receive a value-add partner to help scale the business prior to a sale.

Private equity fundraising volumes and fund count on pace for five-year lows. Fund count has declined each year since 2021, as LPs concentrate commitments with established managers amid limited exits and distributions. Through Q3 2025, U.S. private equity and growth equity funds raised \$131 billion across 210 vehicles, down from \$149 billion across 258 vehicles during the same period in the prior year.



Despite the broader fundraising slowdown, growth equity has emerged as a bright spot.

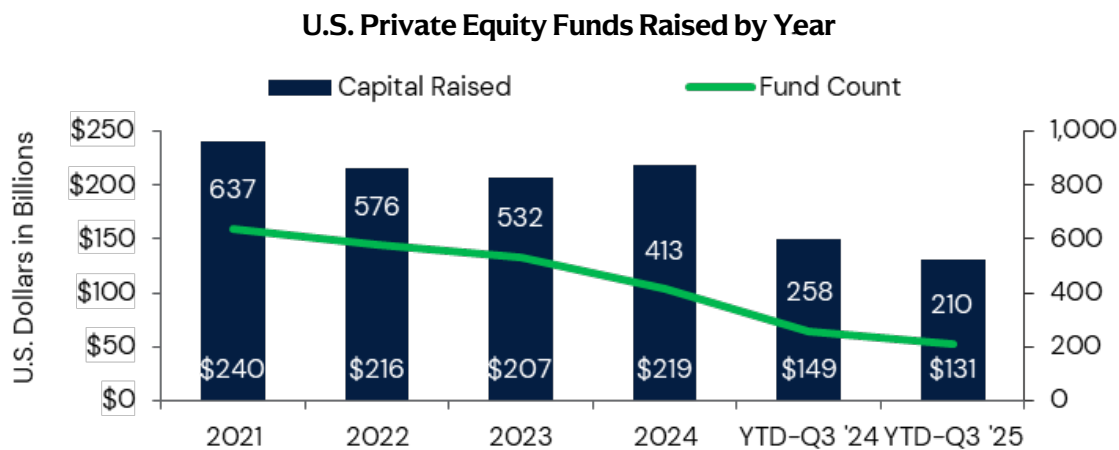


Fig. 30 – Source: Capital IQ, Pitchbook, Capstone Partners

Growth equity funds remained a significant portion of the private equity landscape in 2025. Growth funds accounted for 27% of U.S. private equity capital raised through Q3—the highest level in five years and a sharp increase from the prior year. Investor appetite for growth-oriented strategies remains strong, with growth capital representing 10.4% of total private equity deal value, above the 10-year average of 9.8%.

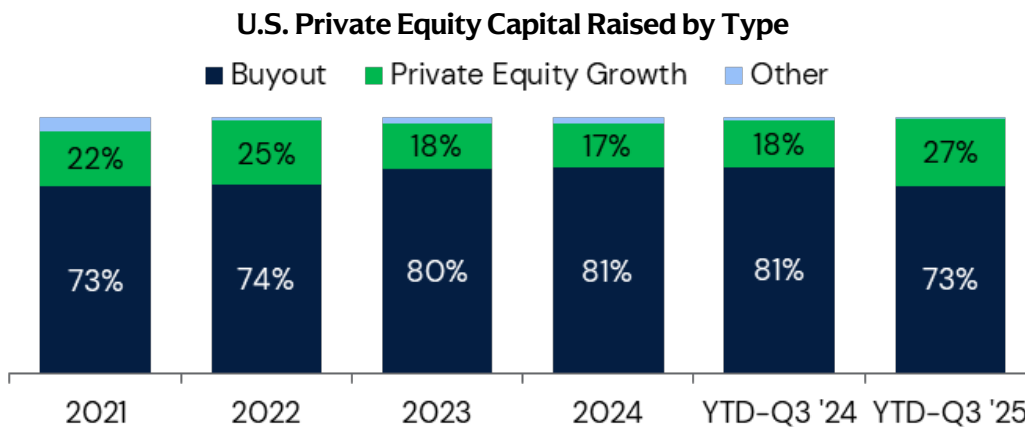


Fig. 31 – Source: Capital IQ, Pitchbook, Capstone Partners

The rise in growth equity funds relative to the decline in traditional buyout fundraising signals a structural shift in capital allocation. More capital is concentrating among fewer managers, reducing appetite for smaller transactions. At the same time, growth equity firms have scaled meaningfully: 24% of all growth funds now exceed \$1 billion in size, up from just 10% in 2020 and 4% in 2015. This reflects a clear shift toward larger vehicles and bigger check sizes.

Heading into 2026, we expect the continued improvement in private markets to permit more exits for private equity managers, allowing them to recycle capital to their LPs. This should set the stage for an improved fundraising environment, likely in the second half of 2026, that should disproportionately bolster smaller or newer funds.



Key predictions for 2026

Following an improving environment for capital raising in 2025, Capstone's Equity Capital Market team anticipates that 2026 will bring new opportunities for companies seeking growth capital, particularly along the following themes:

1. **Companies that are scaled enough to raise \$50M+ will have an easier time finding investors than companies that are seeking lower check sizes.** Growth equity funds will continue to increase in size and prioritize companies with scaled EBITDA (\$10M or higher).
2. **Investors will remain flexible.** As has been the case in recent years, investors are rigid in company quality, but flexible in terms, sizing, and ownership stake. Capstone believes that there will be continued interest from buyout firms in minority-stake transactions, and there will be ample interest from "hybrid" investors who can provide equity with debt-like pricing.
3. **Tariff uncertainty will continue to ease.** 2025 saw a prioritization of companies that manufacture domestically or are otherwise insulated from U.S. tariff policy. As the current administration continues to narrow their trade focus, more sectors will find it easier to raise capital.
4. **Founders will have more opportunities to exit.** While many will seize the moment to take maximum liquidity, a subset of founders will opt for a minority stake sale and defer the majority of their gains for a later transaction.
5. **Private equity managers will increase distributions to LPs.** With continued improvement in valuations, private equity managers will have more opportunities to exit and distribute to their LPs, giving LPs the opportunity to recycle capital back to those same managers. This will also make it easier for smaller or newer funds to raise capital.

DEBT CAPITAL AND PRIVATE CREDIT OUTLOOK

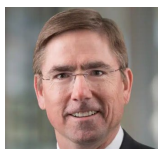
Kent Brown

Head of Debt Advisory
Capstone Partners



Debt Capital and Private Credit Outlook

FAVORABLE LENDING CONDITIONS PREVAIL HEADING INTO YEAR-END 2025



KENT BROWN

Head of Debt Advisory
Capstone Partners

Key takeaways:

1. M&A activity has been slow for most of 2025 due to tariff disruptions and macro uncertainty, but recent rate cuts and clearer trade policy have begun to revive deal flow.
2. Dividend recapitalizations have returned as sponsors seek liquidity amid limited exits, though lender appetite will decline once M&A activity normalizes.
3. Default rates remain low, aided by proactive lender accommodations and structural advantages of private credit despite stress in consumer-facing and tariff-exposed sectors.
4. Deal activity in all segments has begun to accelerate and competition among lenders remains aggressive, themes that suggest a good H2 2026 and even better 2027.

Favorable credit market conditions continue

As we approach year-end 2025, the middle market (MM) debt market remains quite “borrower friendly” and is characterized by heightened competition among lenders for a limited set of lending opportunities, tightened SOFR spreads, and unusually aggressive lending terms.

Today’s favorable market conditions have been driven by a pronounced technical supply/demand imbalance that has emerged over the last several years: simply too much capital (supply) chasing too few deals (demand). LP investment capital has continued to pour into the private credit market, particularly the larger credit funds, resulting in drastically rising assets under management (AUM) and dry powder reserves awaiting deployment into new opportunities.

While some green shoots are emerging, loan transaction volumes in the private credit (PC) market have been declining for the last five quarters, driven by continued lackluster M&A deal flow within the MM, the disruption that could be attributed to uncertain tariff policies and growing macroeconomic concerns. However, with the Federal Reserve’s 25 bps rate cut in October and further cuts anticipated paired with better visibility on tariff policy emerging, M&A activity is finally inching upward.

Private credit fundraising and dry powder

The last decade has witnessed a considerable amount of investment capital flowing into the private credit/direct lending market and a surge in loans being deployed by 100+ credit funds that focus on the MM. Not only has the number of new credit funds entering the market increased over the last five years but the average fund size has risen dramatically as well. *Private Debt Investor* reported that the average fund size in H1 25 exceeded \$900 million, up >50% from 2020 levels³⁶.

Funds raised have exceeded funds actually deployed which has led to increased competition among lenders, a reduction of SOFR spreads throughout the market, and a buildup of dry powder available for new lending opportunities.



Pitchbook/LCD estimates dry powder within U.S. direct lending funds exceeds \$150 billion today.

U.S. Direct Lending Fundraising (\$B)

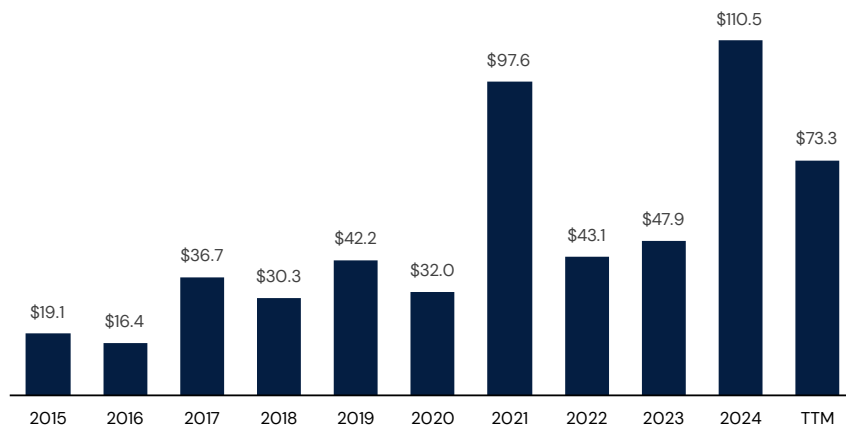


Fig. 32 – Source: Pitchbook/LCD, accessed November 25, 2025.

U.S. Direct Lending AUM (\$B)

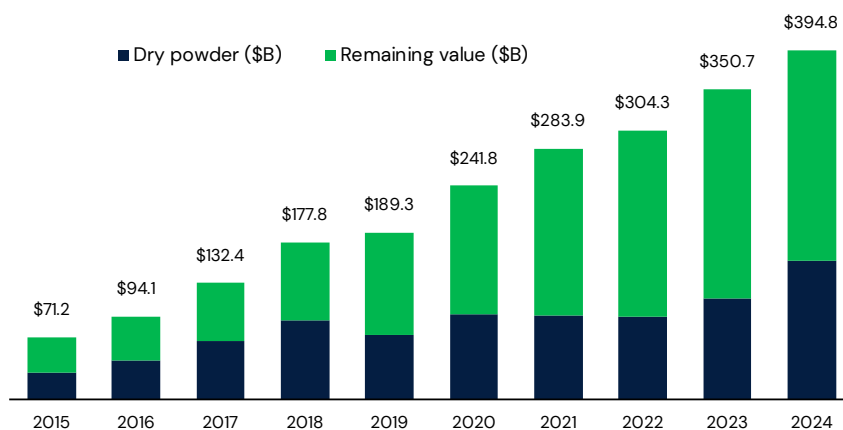


Fig. 33 – Source: Pitchbook/LCD, accessed November 25, 2025.

Loan market volume

Deal activity so far in 2025 has fallen short of expectations from late 2024 when lenders hoped that the second President Trump administration would unleash a boom of M&A and buyout activity. This has failed to materialize though deal flow has picked up modestly in recent months.



Many lenders have reported deal volume began to improve at the start of Q4 '25, but the YTD pace still lags that of 2024 levels by circa 15% on both count and volume metrics due in large measure to April's Liberation Day tariff shock that brought new-loan issuance to a halt.

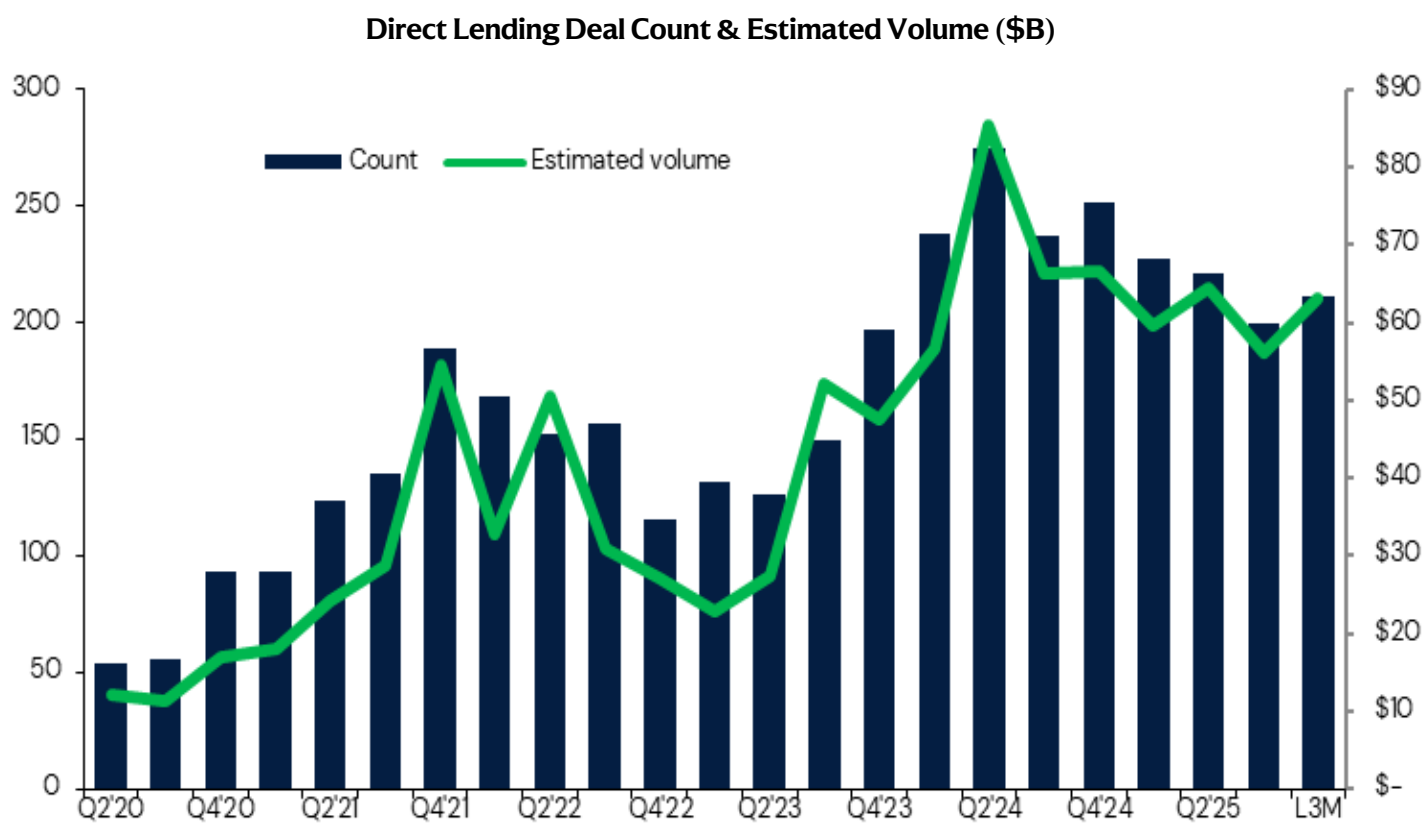


Fig. 34 – Source: Pitchbook/LCD, accessed November 25, 2025.

Private credit loan volume for the three months ending October 31 stood at \$63 billion across 211 deals, slightly above Q3 25 totals. **The modest uptick is being driven by greater visibility of U.S. trade policy and the direction of U.S. interest rates³⁷.**

Perhaps considered a leading indicator, business development companies (BDC) are reporting a noticeable acceleration in the volume of transactions under initial review in comments on Q3 25 earnings calls³⁸.

LBO M&A Loan Volume (\$B)

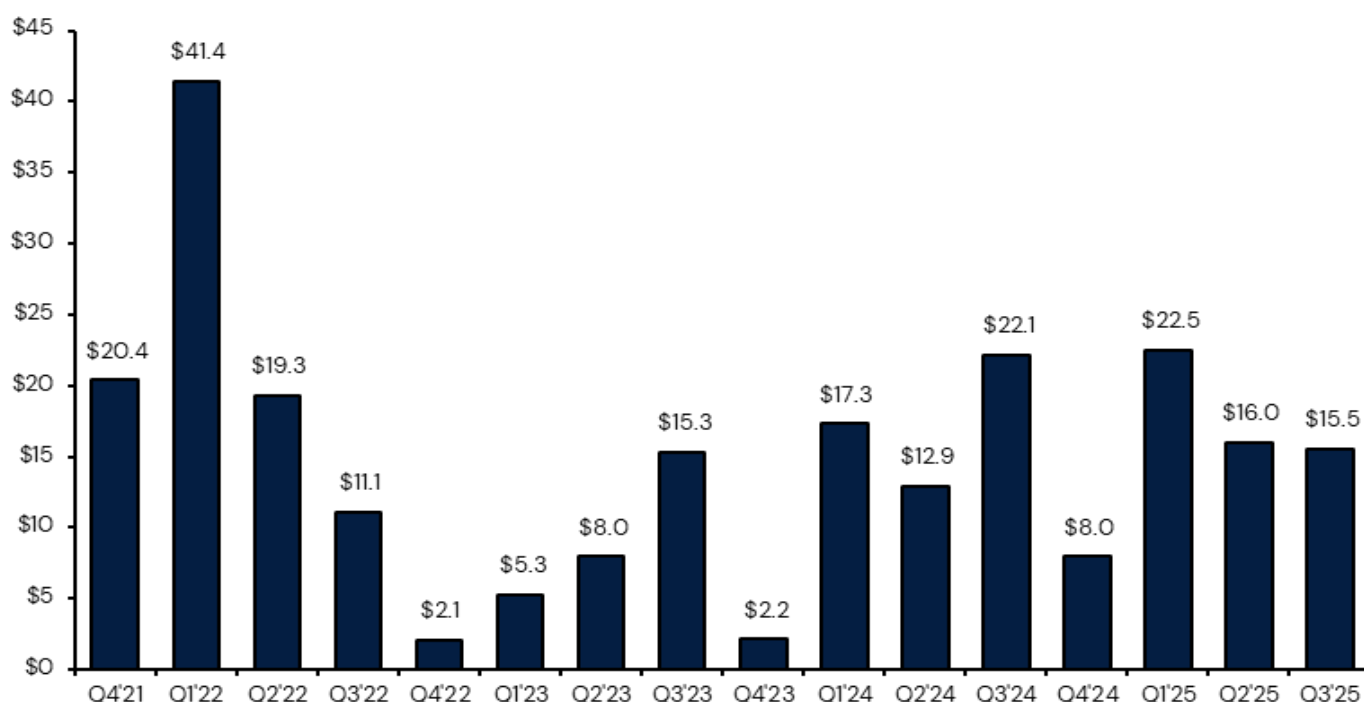


Fig. 35 – Source: Pitchbook/LCD, accessed November 25, 2025.

Interest rates declining

The Fed undertook two 0.25% rate cuts thus far in 2025 which has helped stimulate M&A activity that offers much-needed relief to PE sponsors navigating a difficult exit environment. The market is predicting further rate cuts are coming with today's forward curve suggesting that SOFR will bottom out at just over 3% by March 2027³⁹.

Given the credit market's supply/demand imbalance, SOFR spreads have tightened considerably over the last few years for corporate borrowers of all sizes. SOFR spreads vary principally by borrower size with large-cap unitranche loans pricing today in the SOFR+4.5%-5% context⁴⁰ and MM loans pricing some 50-75bps wider. One large private credit lender noted that while SOFR spreads are tighter than they were 12 months ago, they have remained relatively stable despite the lack of significant M&A volume.

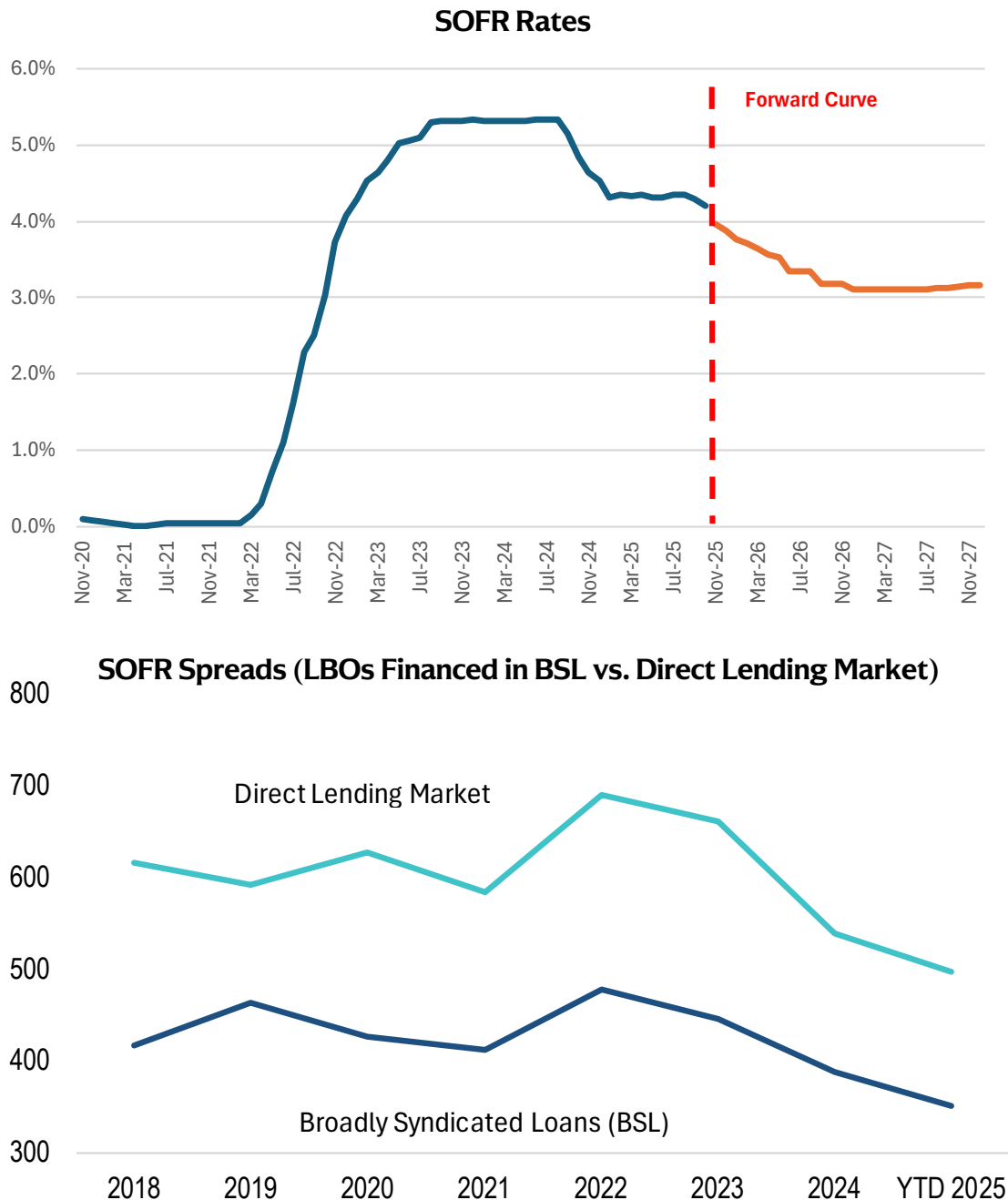


Fig. 36 – Source: Pitchbook/LCD, accessed November 25, 2025.

MM borrowers remain strong

MM private companies have continued to perform well with YOY revenue growth of 4.0% and earnings growth of 3.3% as of Q3 2025, the twelfth quarter in a row of solid profit performance according to a study by Golub Capital⁴¹. The Golub data suggests that U.S. companies continued to successfully navigate a challenging and uncertain environment in Q3 and that profit margins generally were stable and, in some sectors, modestly expanded (i.e., Healthcare and Technology). **This suggests that such companies continued to exercise pricing power and maintain cost discipline**—boosting cash flow even before the effects of the Fed's rate cut in September and October and the future cuts expected by the market.

U.S. Institutional Loan Volume (By Use of Proceeds, \$B)

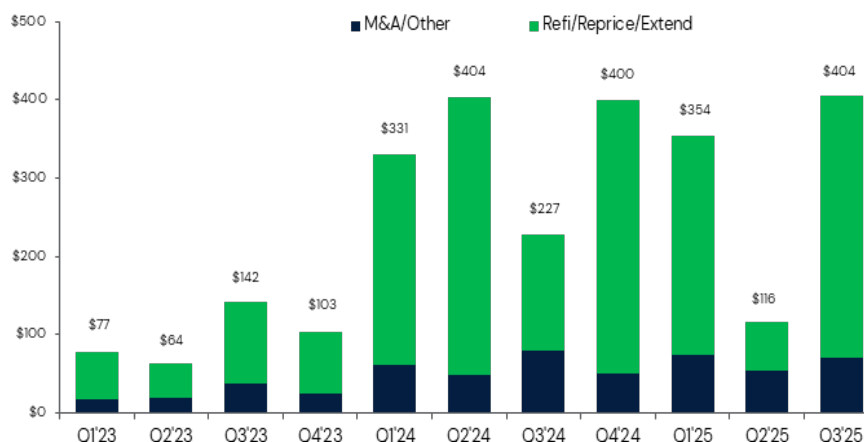


Fig. 37 – Source: Pitchbook/LCD, accessed November 25, 2025.

Refinancing wave

Until “new money” M&A loan volume in the MM returns to normal levels, private credit lenders have turned to less preferred types of transactions to deploy capital, namely refinancings. Benefiting from the lowest spreads since the 2008 financial crisis, **borrowers of all sizes have been seizing the opportunity to reduce loan rates and extend maturities on their credit facilities**. Depending on credit profile, most lenders have been able to reduce loan rates by 1%-3% and take the opportunity to improve lending terms (covenants, DDTL re-loads, etc.).

US Institutional Loan Volume (By Use of Proceeds)

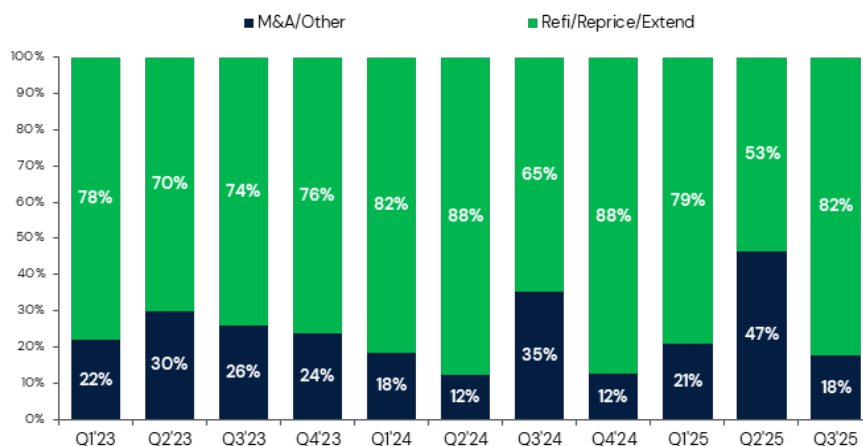


Fig. 38 – Source: Pitchbook/LCD, accessed November 25, 2025.

Window is open for dividend recaps (for now)

For much of the last two years, sponsors have increasingly turned to loan-funded dividends as a means to return capital to their limited partners (LPs) given the difficulties of exiting portfolio investments through the traditional sale and IPO routes. After minimal activity in 2022-23, dividend recaps are back on the scene. These deals are typically reserved for companies with strong credit fundamentals and are often paired with an accretive use of proceeds (M&A or growth initiatives). Most lenders (especially banks) have a natural bias against dividend recaps but will generally consider such deals for existing borrowers and/or new clients showing particularly strong financial performance. When M&A platform acquisition activity eventually returns at scale, lender appetite for dividend recaps will inevitably decline.

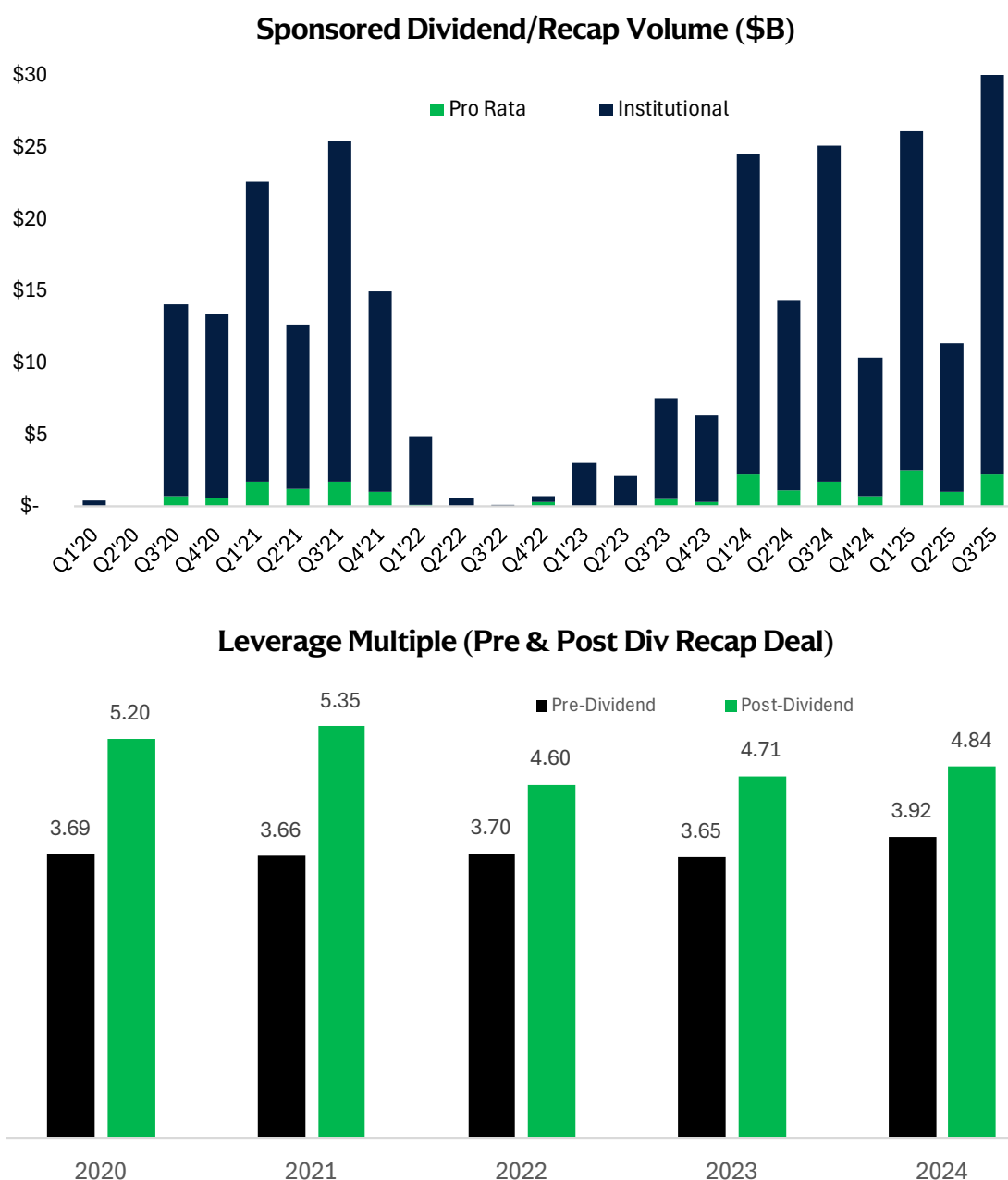
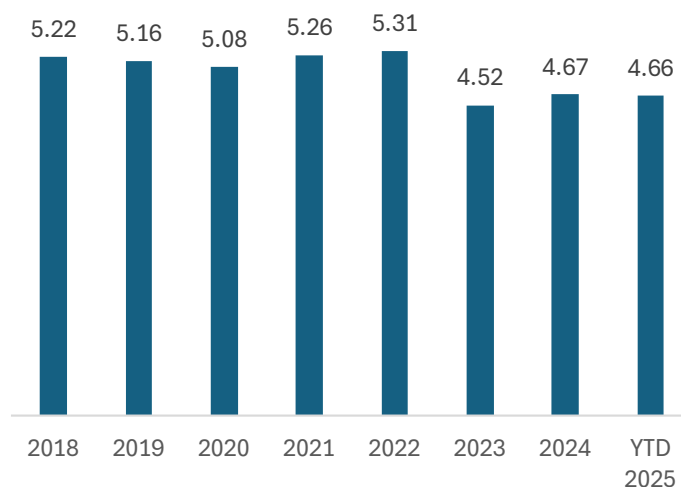


Fig. 39 –
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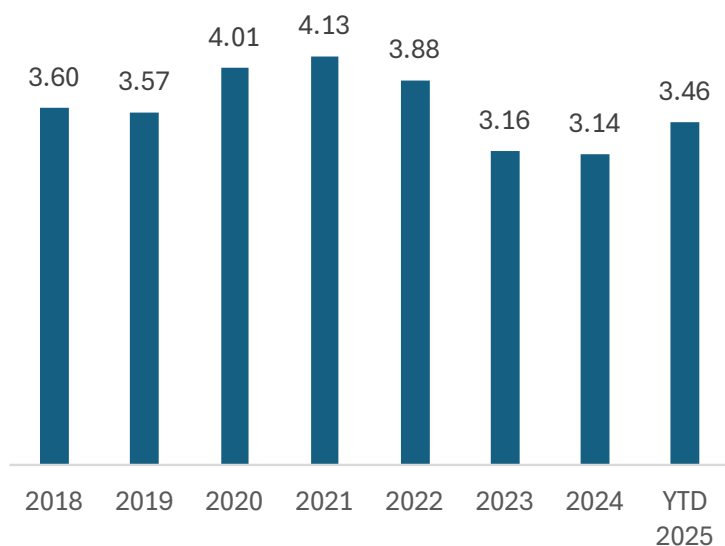
Key credit metrics

Cashflow-based lenders focus on a variety of key measures and ratios when determining debt capacity, including debt/EBITDA, loan-to-value, and interest coverages, among others. Given today's still-elevated levels of nominal interest rates, debt capacity levels have been held in check by relatively thin coverage ratios (interest- and fixed charge-coverage). With interest rates now on the downward trend, debt capacity levels are expected to inch upwards once again in coming quarters.

Total Debt / EBITDA Ratio



Interest Coverage Ratio



Total Debt / Enterprise Value

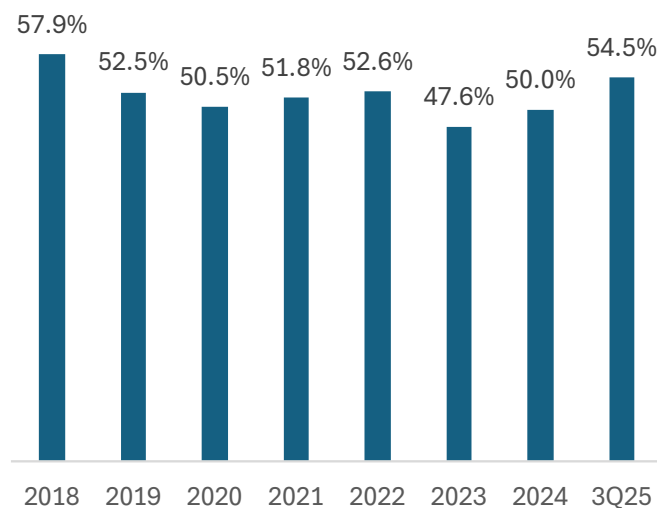


Fig. 40 – Source: Pitchbook/LCD, accessed November 25, 2025.

Stable default rates

Lower interest rates, accommodative lenders, and equity support from PE sponsors have positively impacted loan default rates this year. The Proskauer private credit default index for senior and unitranche loans in Q3 was 1.84%, a level consistent with the prior quarter figure (1.76%) according to a Proskauer press release⁴². **The index suggests that U.S. companies remain strong and resilient despite the impact of tariff policies and macroeconomic uncertainties and further that sponsors, borrowers, and lenders are proactively finding ways to avoid true defaults by addressing potential credit issues before they become acute.**

For those borrowers facing stress/distress, lenders have been quick to provide support through amendments that allow covenant relief, maturity extensions and liberal use of PIK interest. PIK interest essentially allows borrowers to pay its interest with more debt. LCD reported that loans with a PIK component accounted for an average of 16% (or roughly \$20 billion) of total investments across the cohort of top 15 BDCs as of June 2025⁴³. Credits shifting to non-accrual status are concentrated amongst those facing weaker consumer demand and tariff exposure.

Of note, the default rate for private credit was lower than levels experienced in the broadly syndicated loan market largely due to the structural differences of private credit: more rigorous underwriting, constant monitoring, greater access to information/management, a small group of lenders, and financial maintenance covenants.

What we hear from lenders

Recent surveys of MM lenders echo the concerns that we continue to hear from private credit lenders:

- Difficulty in sourcing new loan opportunities.
- Prevalence of loose loan terms.
- The potential for heightened stress/default risk.

We have also noted in some cases that large lenders have moved down market to meet new-loan origination goals amid lackluster deal volumes in the upper-market and, in the process, brought large-cap deal terms (i.e., borrower-friendly) with them – a benefit to smaller MM borrowers.



Market wrap up and 2026 outlook

Q3 press releases from the top dozen BDCs share several themes:

1. Deal activity in all segments (mega, mid, and small) has begun to accelerate.
2. Competition among lenders remains aggressive, especially for top-tier borrowers.
3. Deal mix and building pipelines have improved.
4. More opportunities are being reviewed in committee.

Overall, optimism of a more normal M&A market points to a good H2 26 and an even better 2027.

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