Middle Market Sentiment

February 2026

Executive summary

Considered the center of gravity for U.S. growth, the 200,000 middle market firms with $10 million to $1 billion in annual revenue employ roughly 48 million Americans and help set the tone for the broader economy.[1]

KeyBank's Middle Market Sentiment Survey, fielded among 750 owners and senior executives in November–December 2025, finds this segment stepping into the new year on the front foot.

Company outlooks are strong. Firms are sharpening operations, upgrading technology, and stabilizing teams, while economic optimism holds near even. Capital postures are split between maintaining lines and selectively adding capacity, with larger companies appearing more proactive. Dollars are flowing to AI, core systems, and workforce, signaling both productivity and revenue ambitions. Cybersecurity is a tale of progress and pockets of risk, while M&A signals point to a staggered but active market in the year ahead.

1. Year-End 2025 Middle Market Indicator, National Center for the Middle Market

Q4 2025 responses

Unweighted

Industry

Industry	
Manufacturing	109
Construction	114
Healthcare (Insurance)	4
Healthcare (Non-insurance)	48
Commercial Real Estate	15
Business / Professional Services	122
Technology	176
Automotive (Manufacturing, Dealerships)	14
Energy	25
Retail	74
Transportation	39

Region

Region	
Northeast	193
Midwest	143
South	235
West	179

Revenue

Revenue	
$10M - $25M	122
$25M - $50M	121
$50M - $100M	121
$100M - $250M	136
$250M - $500M	121
$500M - $1B	129

Role

Role	
Business Owners	150
SVPs / VPs / Controllers / Treasurers	277
C-Suite Execs	323
CEOs (Subset of C-Suite Execs)	241
CFOs (Subset of C-Suite Execs)	147

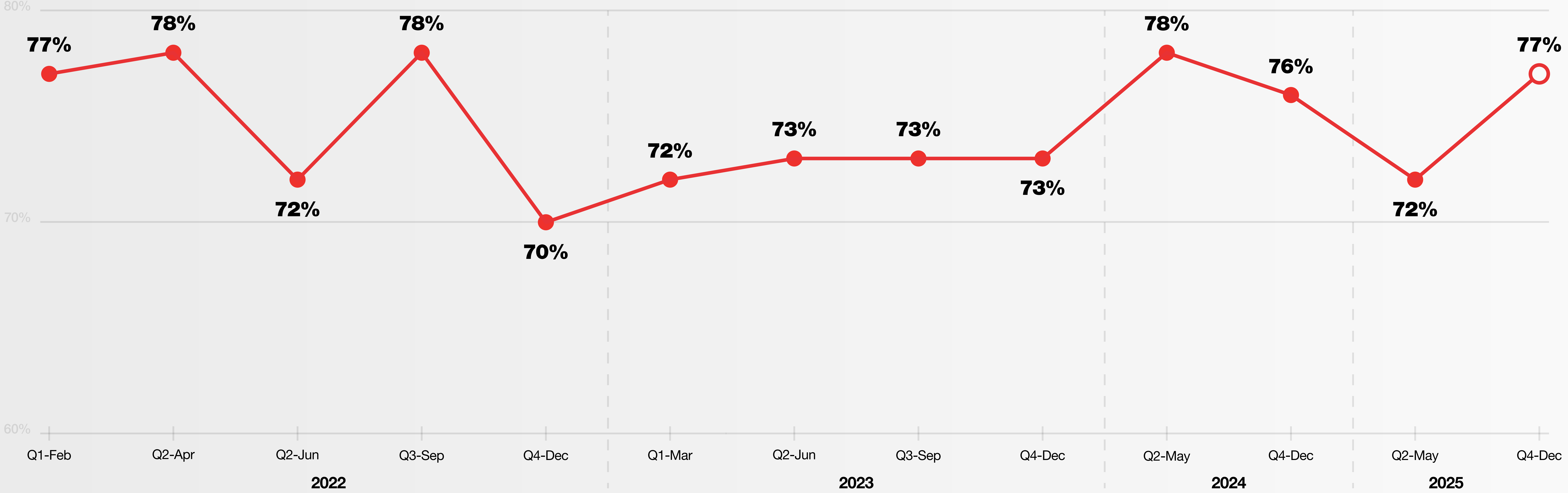
Key findings

Company confidence climbs as execution gains compound across firms

Nearly eight in ten (77%) middle market leaders rate their 12-month outlook as excellent or very good. Confidence is being powered less by macro shifts and more by execution: sharper operating efficiency, upgraded technology, stronger pipelines, and steadier teams. Headwinds remain, but companies are entering the year positioned to convert plans into performance.

Company outlook

Percentage of companies with an “excellent/very good” outlook



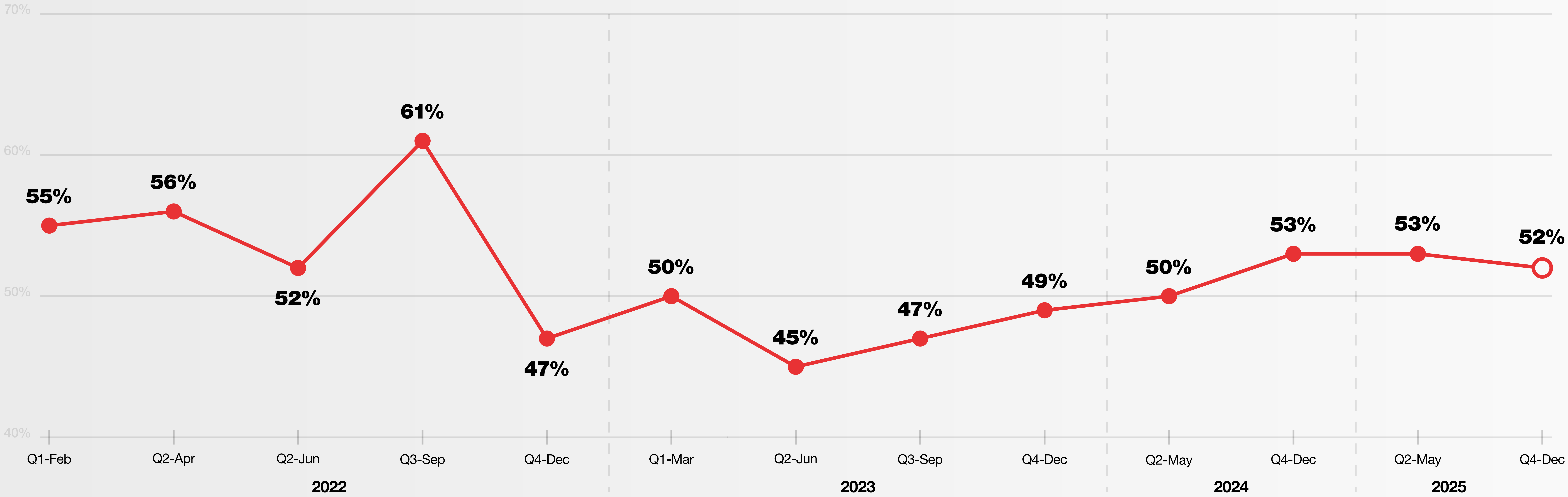
Q. How would you characterize the overall outlook for your company’s financial performance in the next 12 months?

Economic outlook holds, but caution lingers beneath the surface

Economic sentiment is largely unchanged: a slim majority is optimistic about the next 12 months. Underneath, more respondents cluster at the negative end compared to a year ago. With tariffs, inflation, interest costs, and labor pressures still live, leaders are pairing growth plans with contingency playbooks and tighter operating discipline.

U.S. economic outlook

Percentage of companies with an "excellent/very good" outlook



Q. How would you characterize the overall outlook for the U.S. economy in the next 12 months?

Efficiency meets AI: Confidence built from the inside out

Optimism is rooted in execution. Process discipline and technology upgrades are doing the heavy lifting, with automation/AI turning incremental gains into step-change productivity. A sharper hiring market, normalized supply networks, and healthier pipelines add predictability. The payoff is faster cycle times, lower cost-to-serve, and more capacity to fund the next round of growth.

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We’re seeing optimism because middle market firms spent the last couple of years running leaner operations, upgrading core technology, and leveraging more automation and AI to take friction out of work. And now it’s showing up in the results, with improving margins, strong pipelines, and a much better talent market.

Ken Gavrity
President
KeyBank Commercial

Factors contributing to positive company outlook

	Q4 2024	Q2 2025	Q4 2025
Improved efficiency in business operations	53%	51%	66%
Improvements in technology	51%	48%	57%
Implementation of automation / AI	–	–	51%
Ability to attract and/or retain talent	34%	36%	47%
Supply chain network	27%	28%	43%
Interest rates	29%	28%	37%
Current business pipelines	–	27%	36%
Ability to raise prices	33%	30%	34%
Tax rates	31%	29%	31%
Tariffs / trade agreements	14%	25%	29%
Current state of cybersecurity	34%	40%	28%
Energy costs / carbon tax policy	22%	24%	27%
M&A activity	–	–	14%

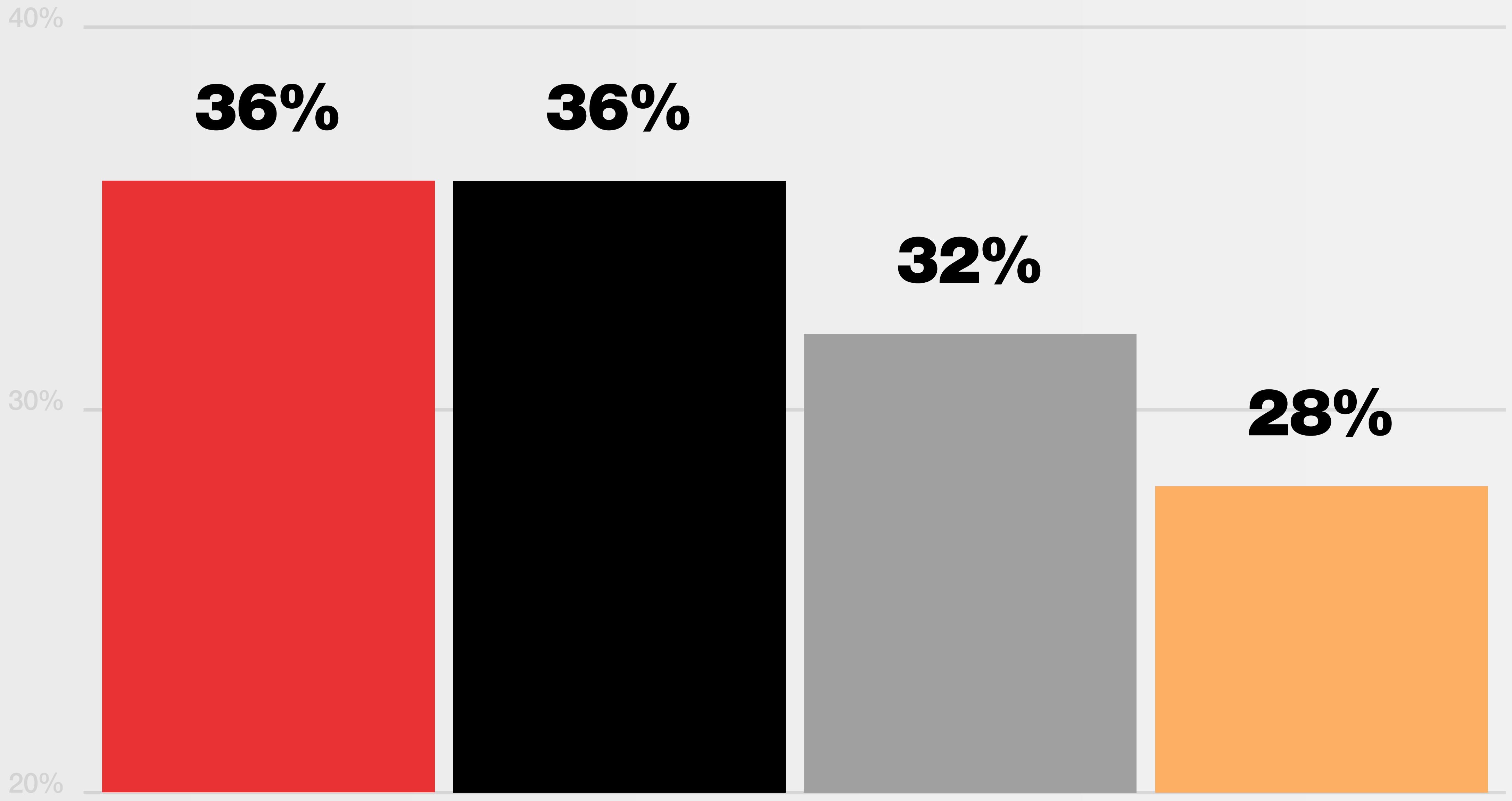
Q. What factors are contributing to your positive overall outlook for your company’s financial performance?

Core risks hold steady, while supply chain concerns lessen

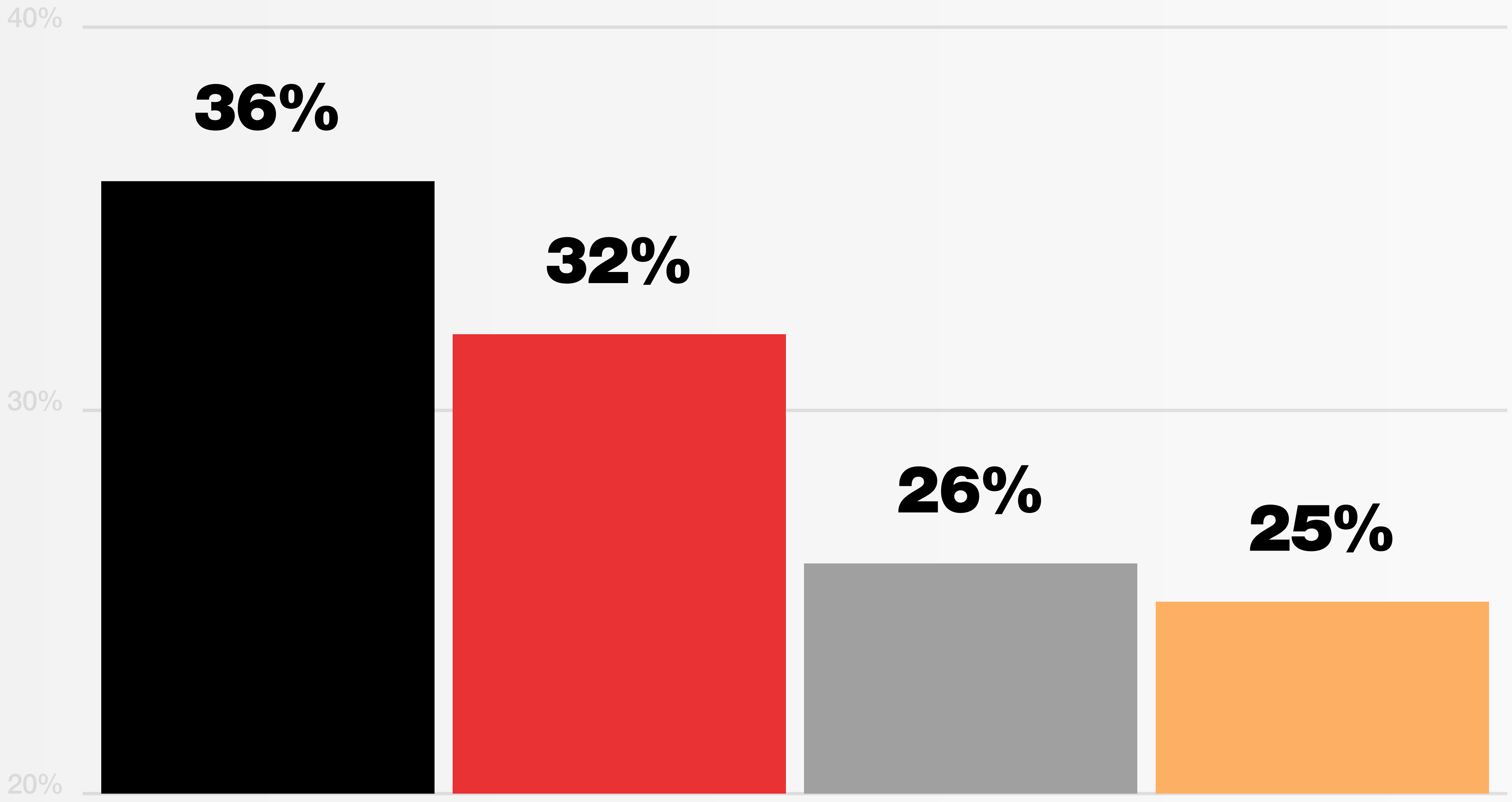
Current and future concerns look largely unchanged. Inflation, tariffs, and higher labor costs continue to top the list, with tariffs slightly ahead in forward views. Concern about higher interest rates remained steady at 28%. The bright spot is logistics. Reported supply chain impact dropped this wave (19% in Q4 2025 vs. 27% in Q2 2025), and expected impact declined as well (21% vs. 26%).

Which of the following issues are currently having a negative impact on your business operations or do you anticipate will have a negative impact on your business operations over the next 12 months?

Top issues **currently** having a negative impact on business operations



Top issues **expected** to have a negative impact on business operations

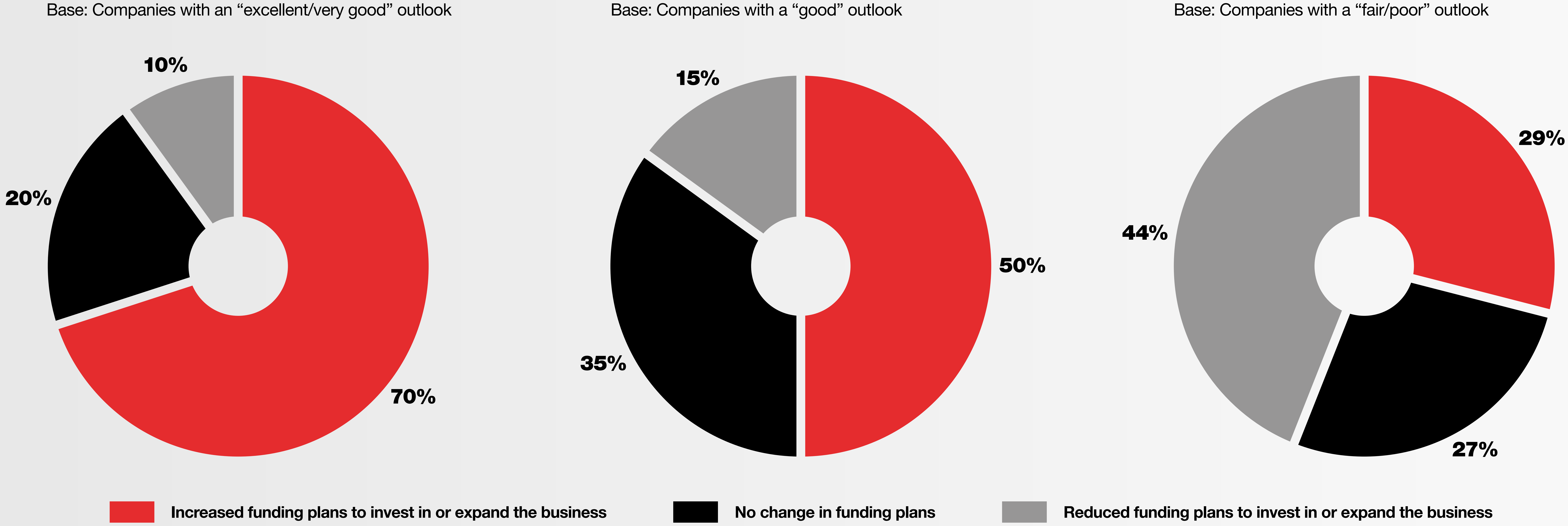


Overall increase in inflation | Tariffs / Trade agreements | Higher labor costs | Higher interest rates

Sentiment remains the strongest signal for investment

Company outlook still predicts whether companies add or trim funding for expansion. High-confidence firms are moving forward, with seven in ten increasing funding. Mid-confidence firms split the difference. Lower-confidence firms are more likely to reduce, with nearly half pulling back. Stronger sentiment is translating to growth bets, while cautious peers protect liquidity and wait for clearer signals.

To what degree have your company's plans to invest in or expand the scope of its operations changed in the next 12 months?

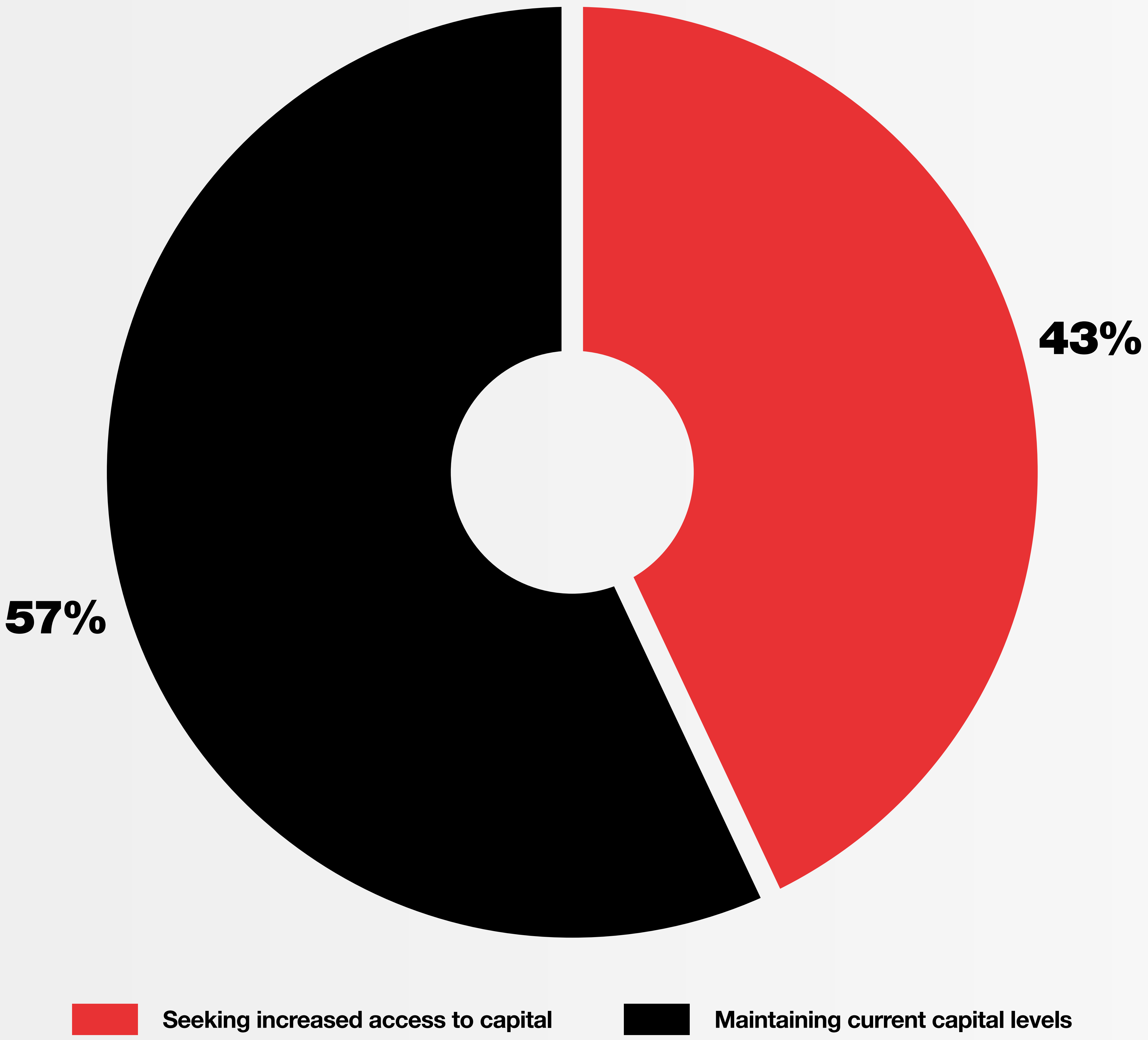


Access to capital

Two capital postures, one goal: Fund measured growth

The market remains split. A majority (57%) are comfortable with their current access to capital, while 43% are building capacity. Among $500M-$1B annual revenue companies, 69% are proactively seeking more. The through line is discipline. Some are arming for expansion and acquisitions. Others are conserving flexibility while rates, tariffs, and demand signals settle.

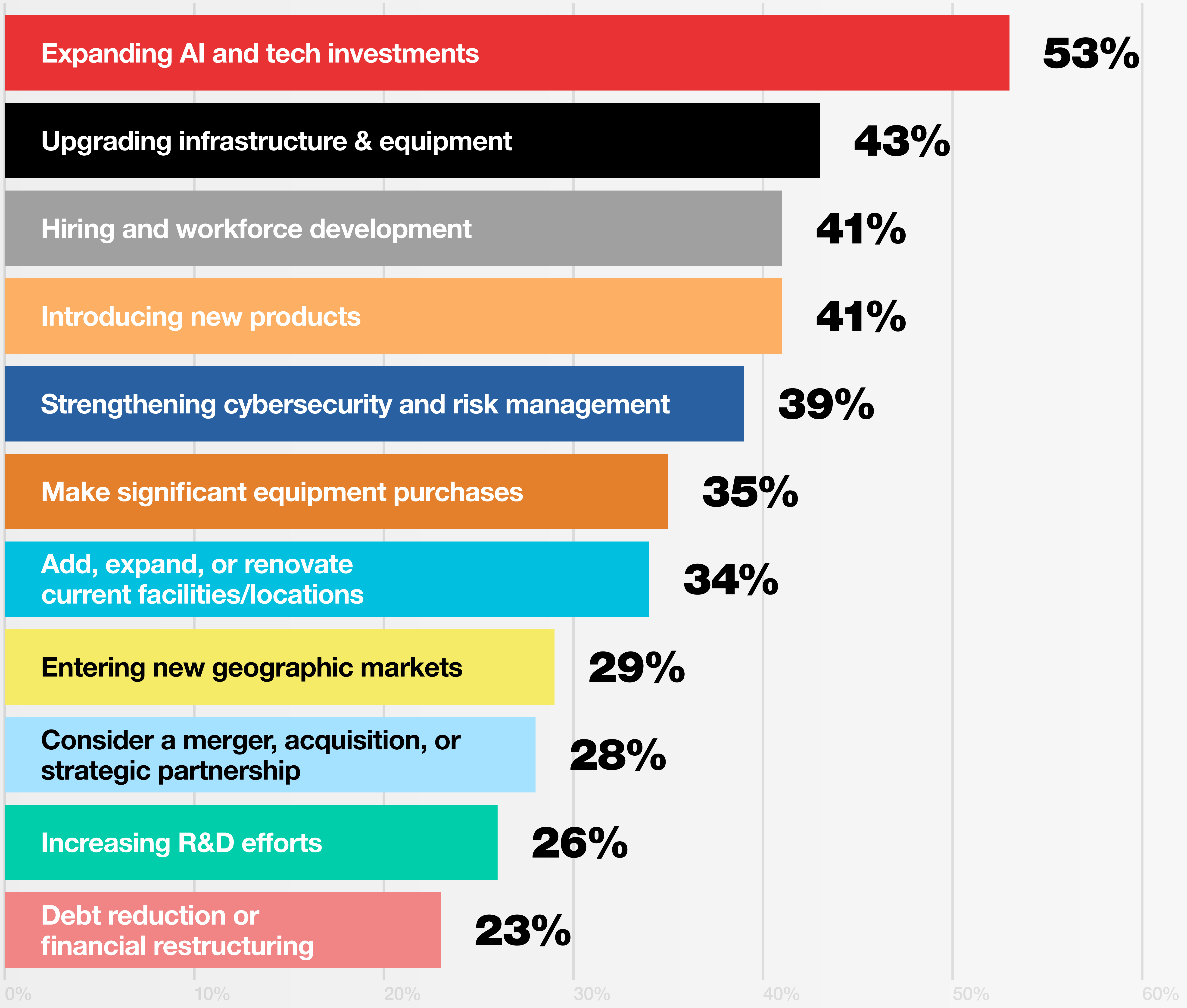
Regarding access to capital, leaders are ...



Funding priorities favor AI, modernization, and new capacity

Capital deployment is converging around productivity and growth. AI and tech expansion rises to 53% and is the top choice for firms seeking more capital and those holding steady. Modernizing infrastructure and equipment reaches 43%. Hiring and workforce development and new product launches are both at 41%, signaling balanced investment in people and pipelines.

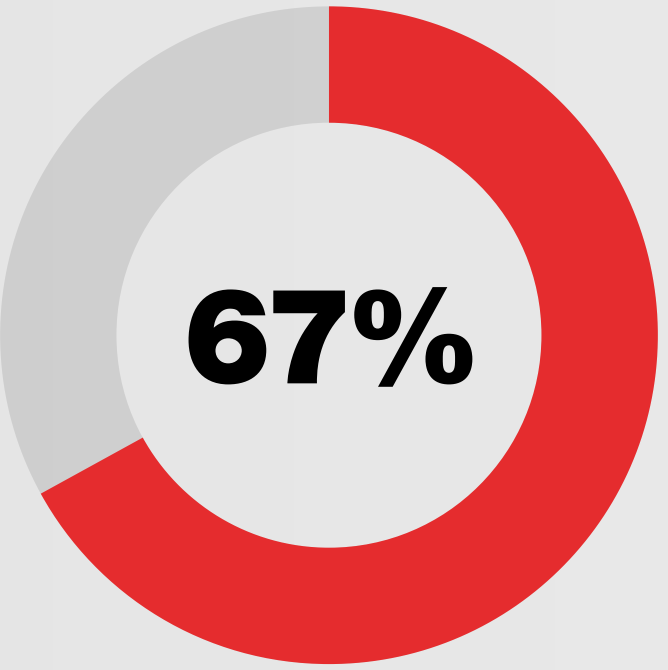
How will your company plan to use capital in the next 12 months?



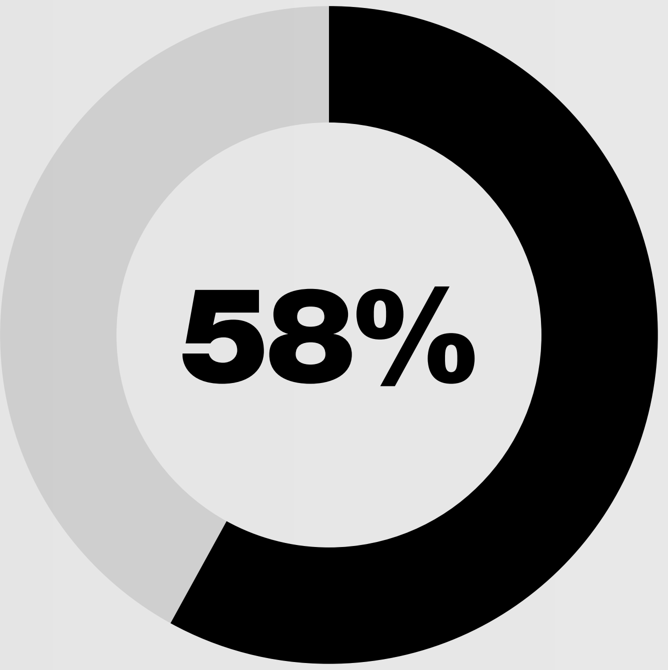
Internal levers lead before equity or added debt

Our data shows most finance teams focus first on improving collections, smoothing payables, and trimming waste to fund growth from within. Equity and debt capacity are then layered on to amplify proven initiatives, not patch holes. This approach preserves flexibility, strengthens negotiating positions, and keeps balance sheets resilient while market conditions and rates continue to evolve.

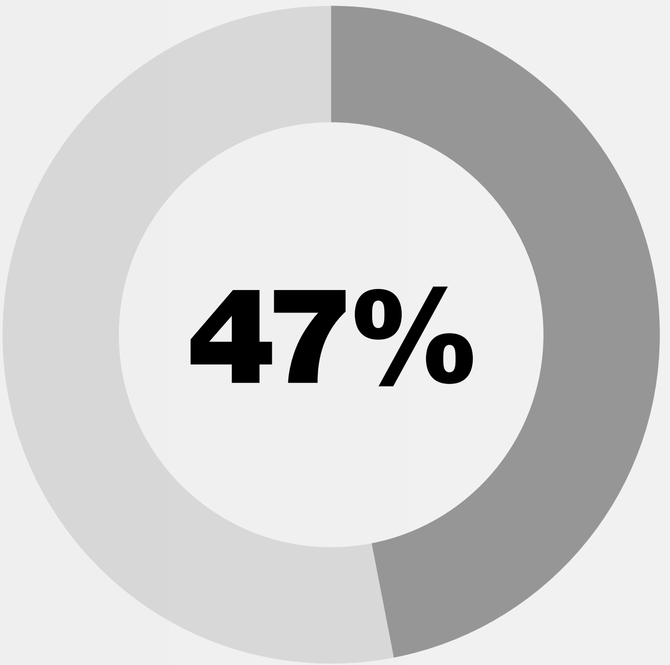
When needed, how do you plan to obtain more capital?



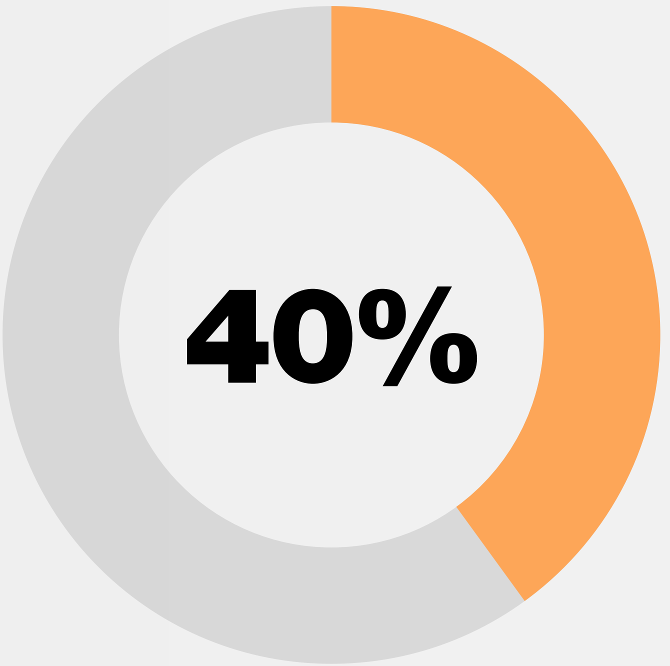
Improve cash flow management



Focus on cost reduction



Raise equity



Increase debt capacity

External funding playbook separates ownership from leverage

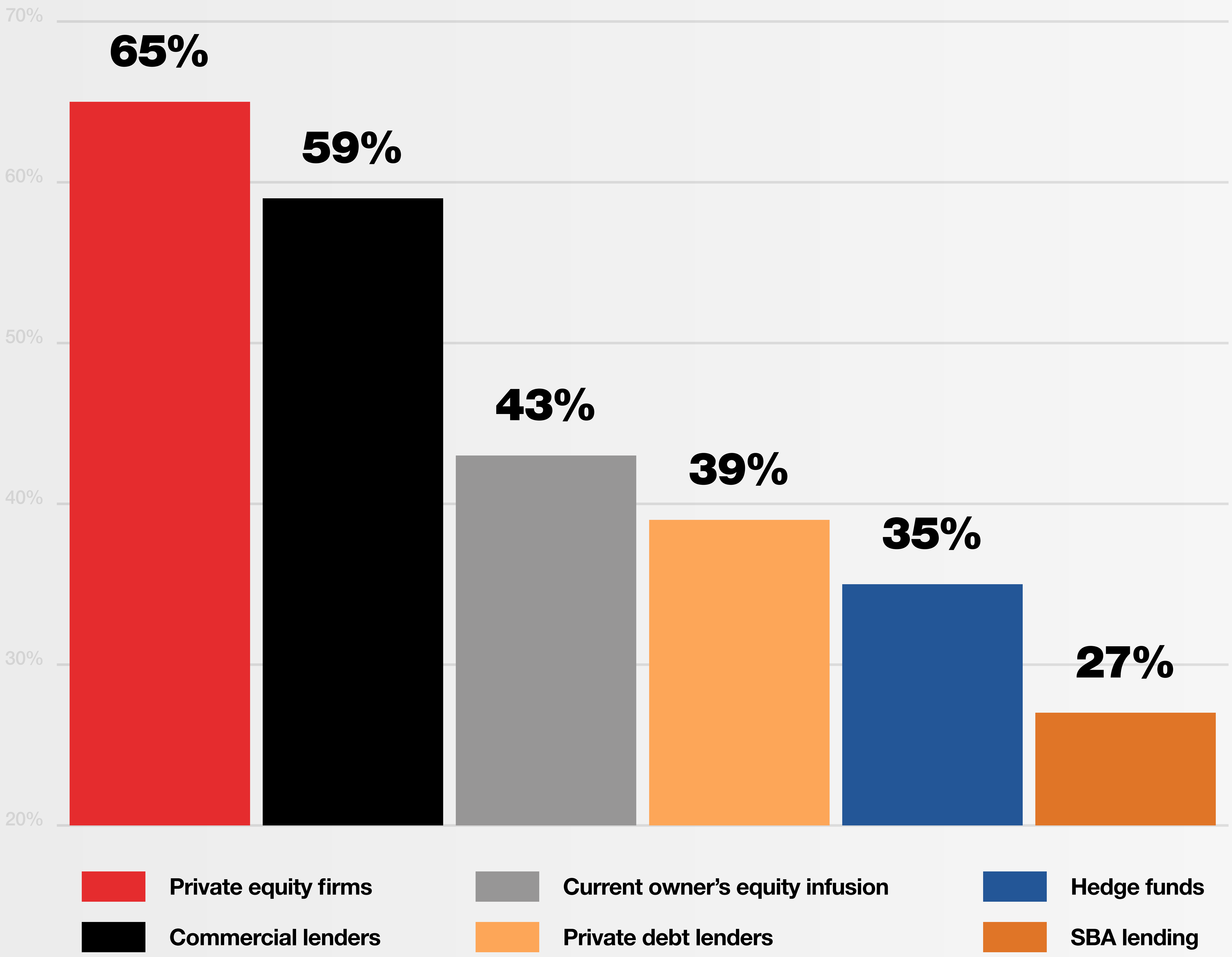
Leaders are clear about where they turn. Private equity is the preferred source when fresh equity is required. For debt capacity, relationship banks remain first choice, valued for pricing, treasury integration, and ongoing advice. That division reflects cost and capability: banks provide predictable terms, integrated services, and counsel on leverage, while private equity provides sector expertise and growth capital. Owner equity infusions are rising, private debt fills narrower higher-cost gaps, and SBA lending supports targeted expansions.

> "Middle market companies have never had more options when it comes to access to capital. Private equity and credit can fuel growth but can be costly. Commercial banks are crucial for optimizing working capital and offer senior debt at the lowest rates. Companies can mix providers, forming relationships with aligned interests to support their needs.

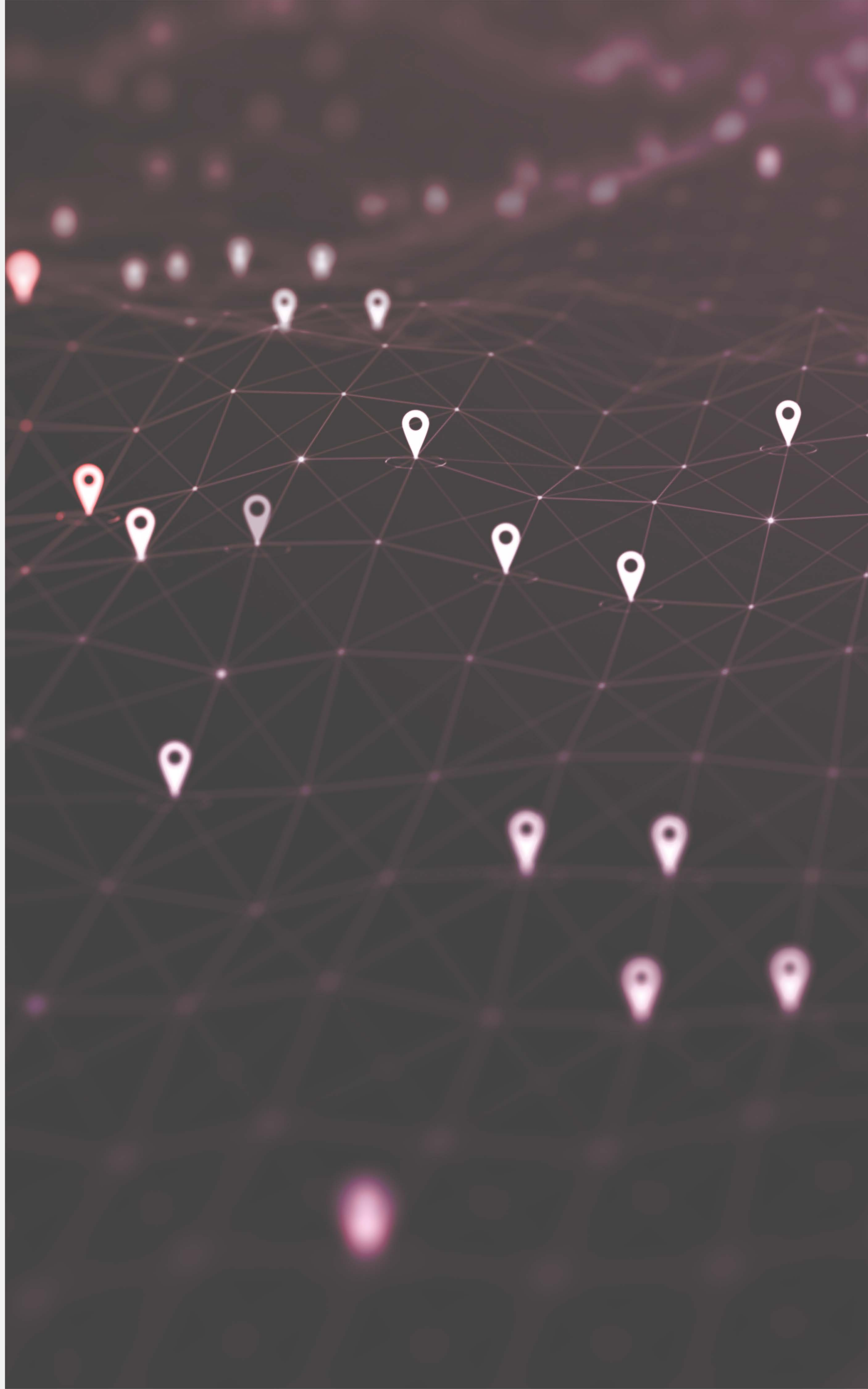
Brandon Nowac
Commercial Executive
KeyBank Commercial

What outside sources of capital would you go to when needed?

Base: Companies planning to obtain capital by increasing debt capacity or raising equity



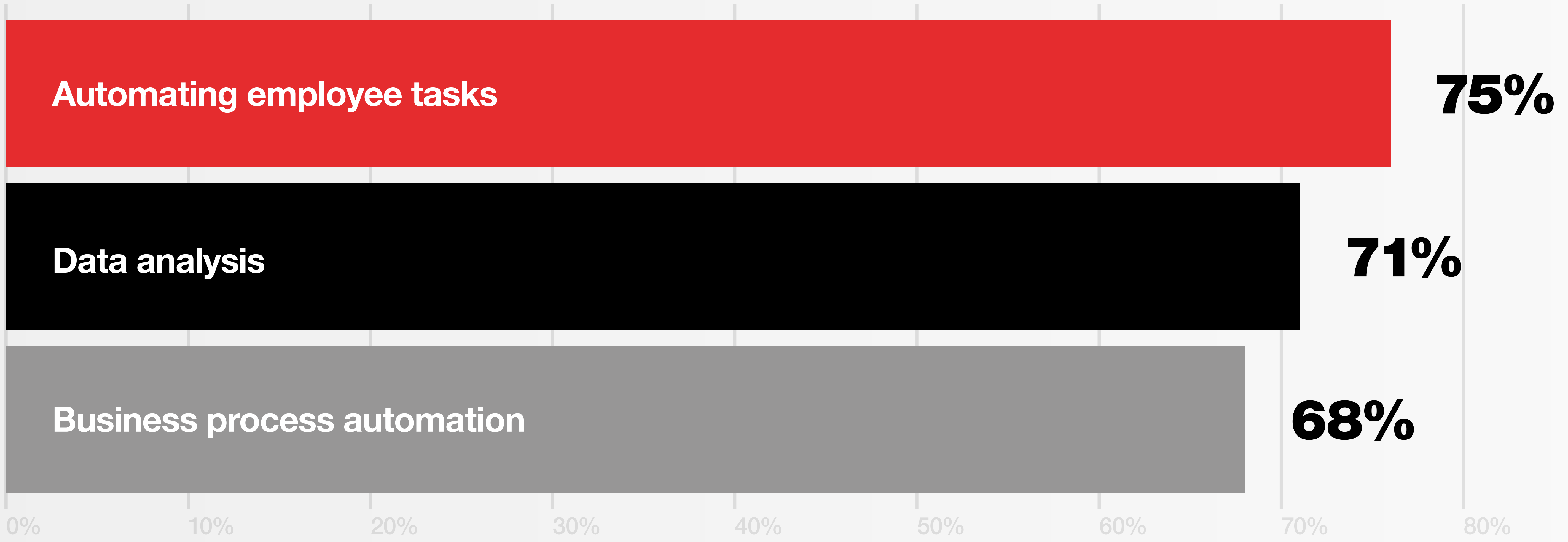
AI implementation



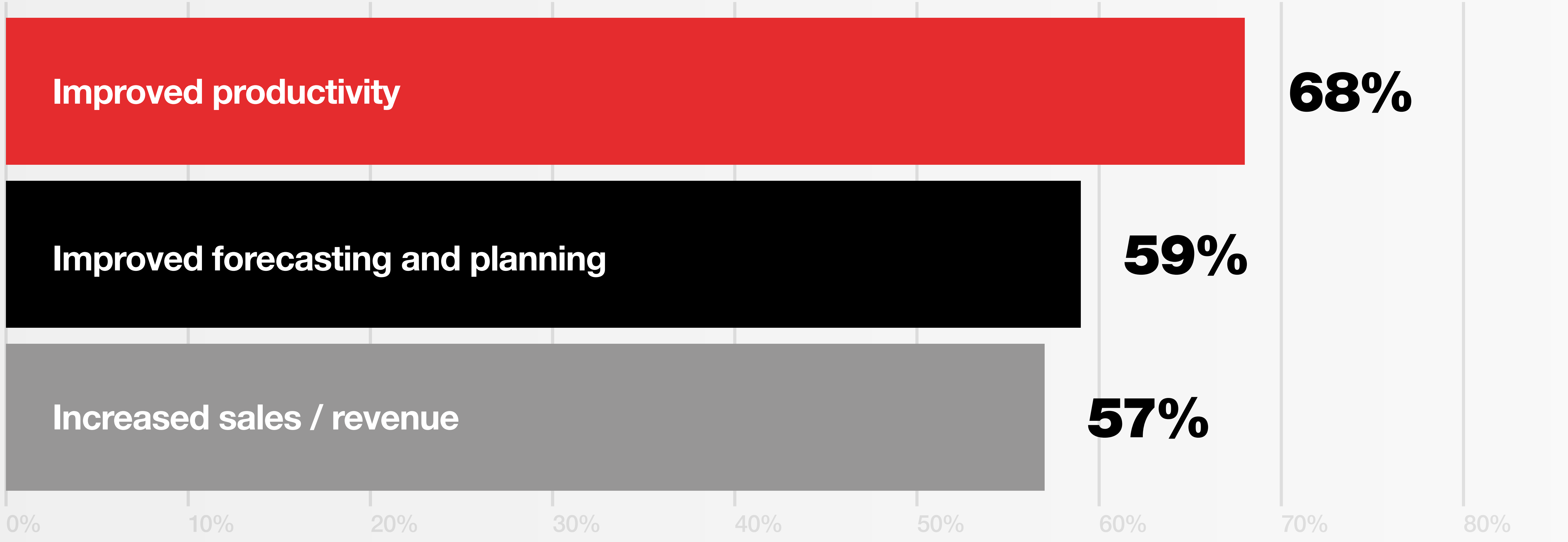
From task relief to enterprise lift

When it comes to AI expansions, executives are prioritizing quick-win automation for employee communications, record-keeping, service tickets, and meeting notes, while building heavier-duty process automation behind the scenes. The benefits story is maturing in parallel. Productivity remains the anchor, yet revenue and planning improvements are rising, suggesting AI is moving from efficiency projects to initiatives that shape how the business grows.

How do you plan to expand AI and technology within your organization?



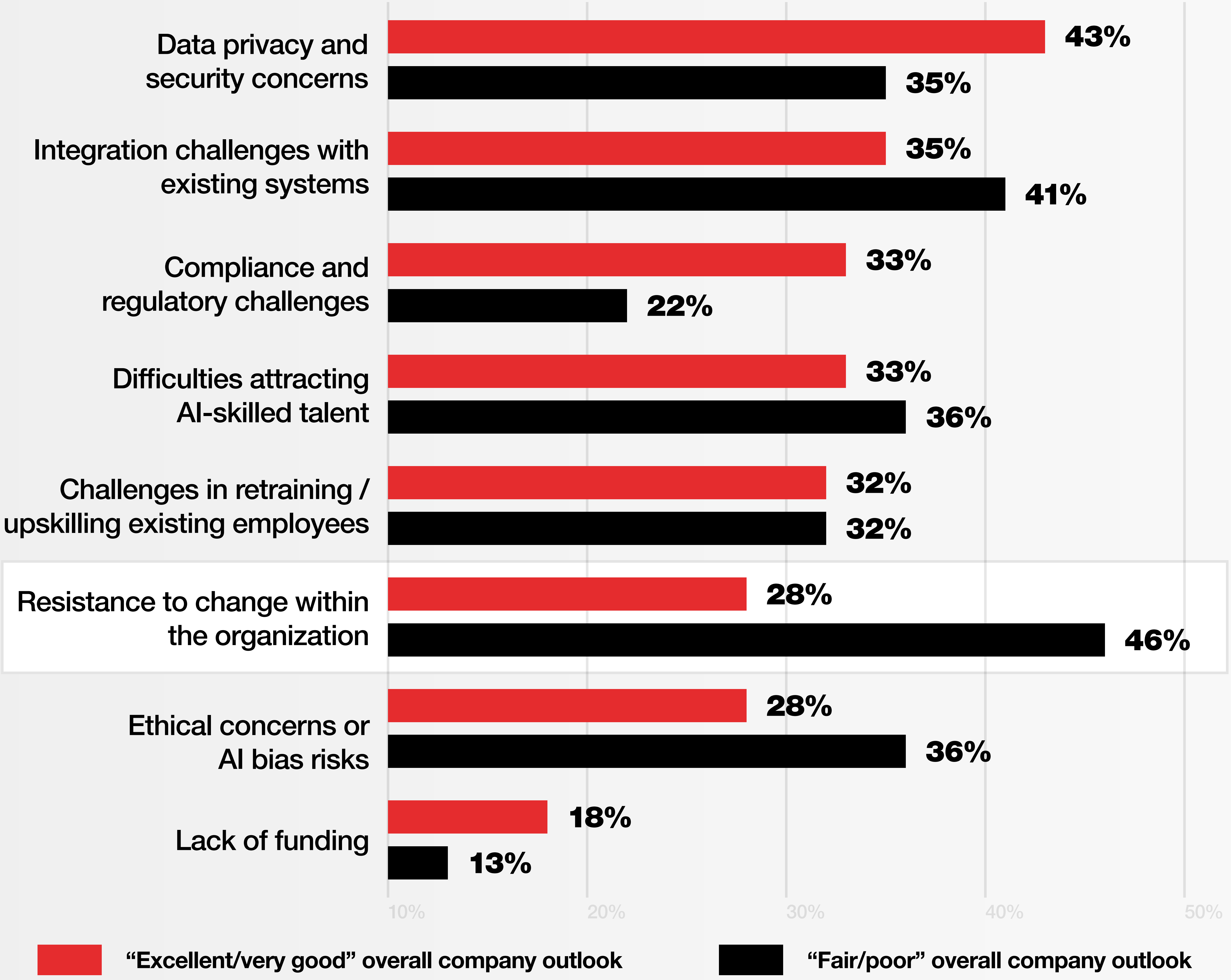
What business or economic benefits do you expect to obtain through expanding AI and technology?



Culture versus controls defines the AI challenge

For firms with excellent or very good outlooks, AI friction concentrates in controls. Data protection, compliance, and system fit lead concerns. For fair or poor outlooks, friction is cultural. Resistance to change ranks highest, with integration issues close behind. Diagnose first, then sequence the fix. Build buy-in and skills where needed, tighten governance where ready.

What challenges has your organization faced when implementing/planning to implement AI within your business?



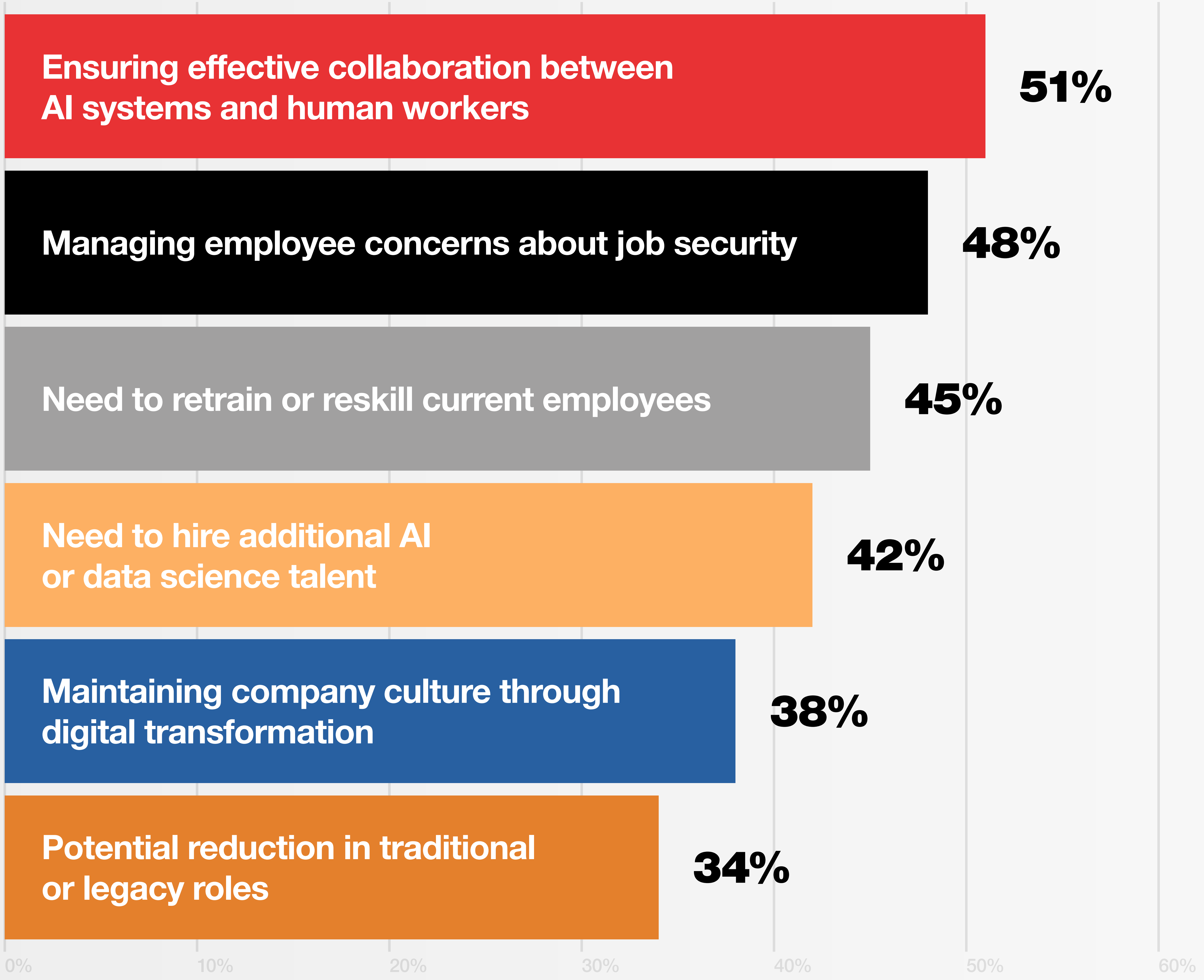
Humans at the center of AI adoption

Related to AI, leaders see the hardest work ahead as human. Collaboration between people and systems tops the list, followed by job concerns, reskilling, and culture. Notably, only a third anticipate cutting legacy roles, suggesting near-term focus on redesigning work over eliminating it. Success will hinge on clear communication, visible guardrails, and hands-on training that makes AI a teammate, not a threat.

> Middle market firms investing in AI tell me the challenge isn’t the model, it’s the rollout. The best teams budget for training, write simple playbooks, and pair technologists with operators. They explain what changes and why, adjust incentives, and keep humans reviewing critical steps. That clarity reduces fear and keeps value creation on track.

Laurie Muller-Girard
Commercial Executive
KeyBank Commercial

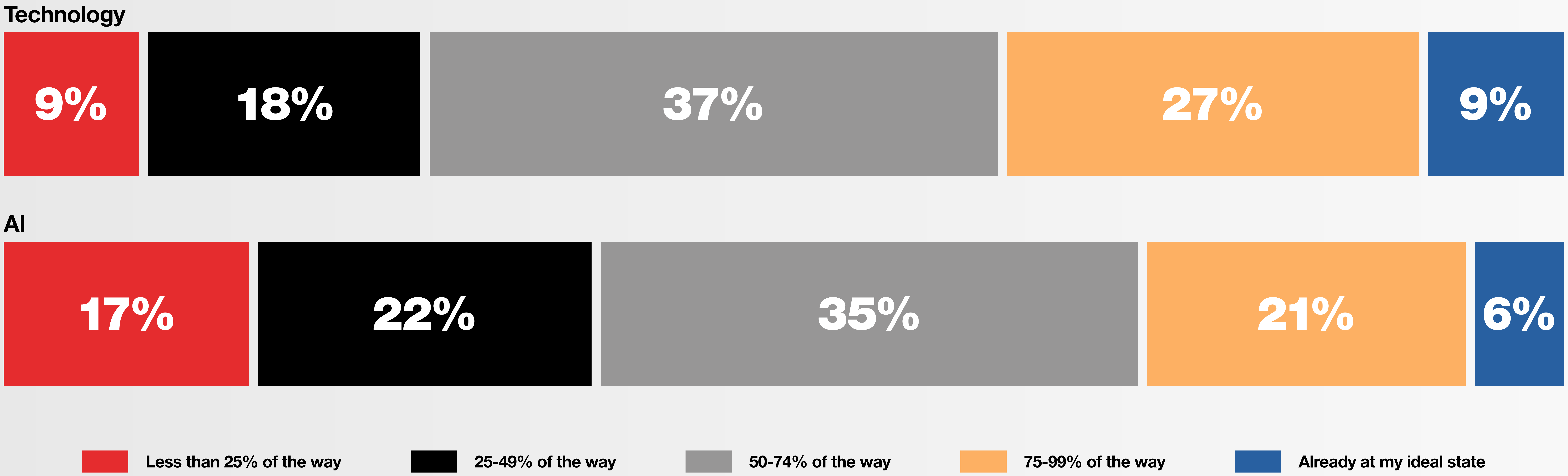
What workforce-related challenges do you expect as your company implements or expands its use of AI?



Modernization is underway but nowhere near finished

Companies largely self-assess as halfway to their tech and AI goals, with AI further behind, signaling work ahead on data, workflows, and change management. Leaders should convert interest into roadmaps, funding, and team readiness, prioritizing projects that unlock repeatable productivity and resilience. Use this baseline to stage the climb and define an "ideal" that ties capabilities to measurable business outcomes.

How close is your company to its ideal state for technology and AI implementation?



Cybersecurity & fraud

Controls are working, but exposure is uneven

Headline risk eased as the share reporting no incident climbed from 28% in Q2 2025 to 35% in Q4 2025. Yet attackers are finding softer targets. Among companies with $10 to $25 million in revenue, 52% faced fraud, a 15-point jump. The mitigation tactics remain largely the same: close the gap with role-based training, prioritize human verification on payment changes, and move vendor payments off paper.

Has your company experienced any of the following in the past 12 months?

36%	Business email / text compromise
31%	Data corruption
24%	Identity theft
24%	Check fraud
23%	Ransomware attacks
20%	Payroll fraud / financial statement fraud
35%	Did not experience

Business email compromise

Business email compromise (BEC) is when criminals impersonate trusted partners to redirect payments, often by hijacking threads or spoofing domains to request "new" ACH or wire details. Companies are countering with account verification tools, dual-authorization on payment changes, email authentication, and staff training.

> "Business email compromise is one of the costliest threats to mid-sized companies. The pattern is simple: A known vendor's email is impersonated and requests to 'update' payment instructions ensue. The strongest defense is a disciplined process. Always authenticate the request through a known contact before making any payment changes.

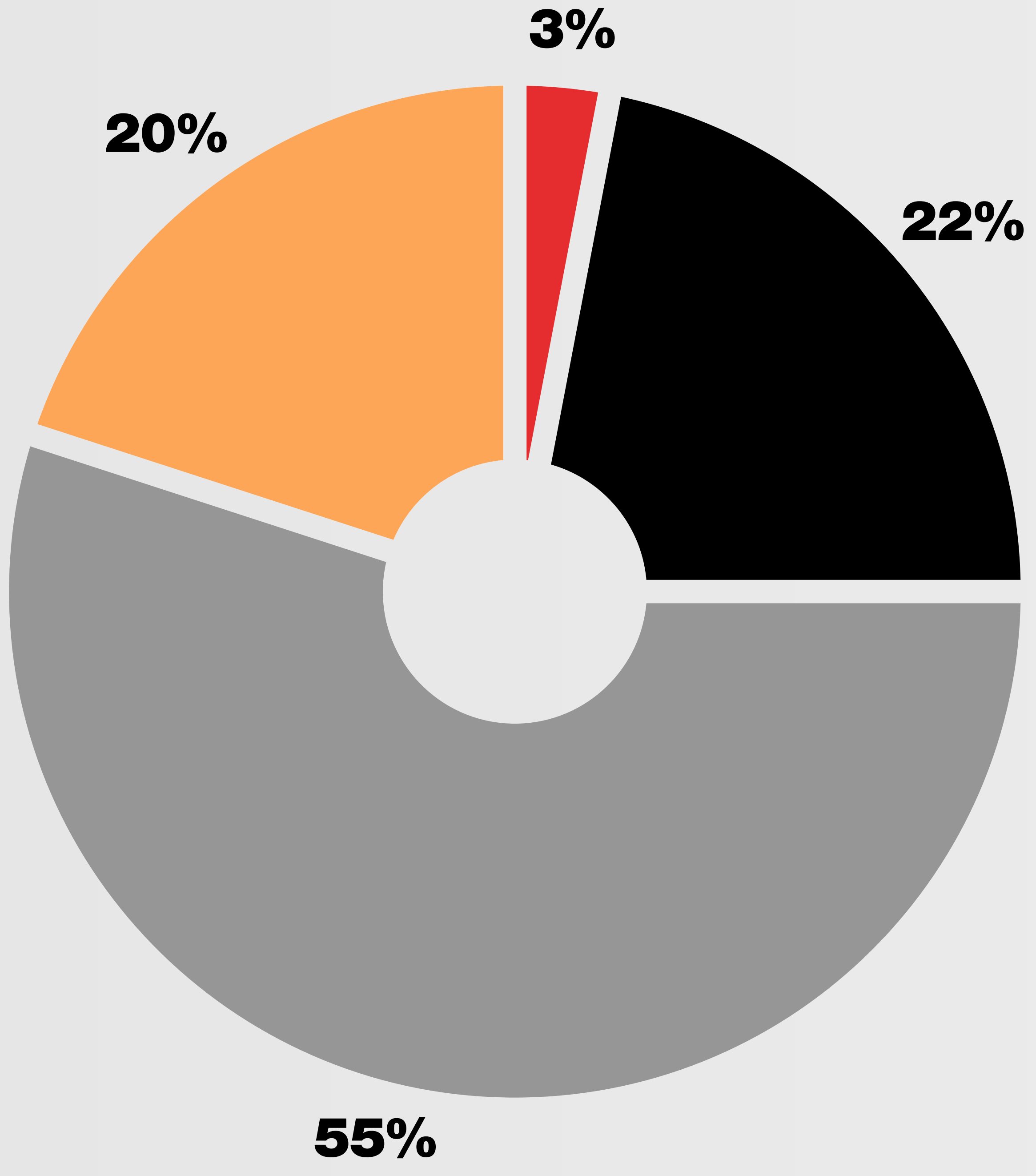
John Carney
Head of Operational Risk
KeyBank Commercial

Confident firms invest more in cybersecurity

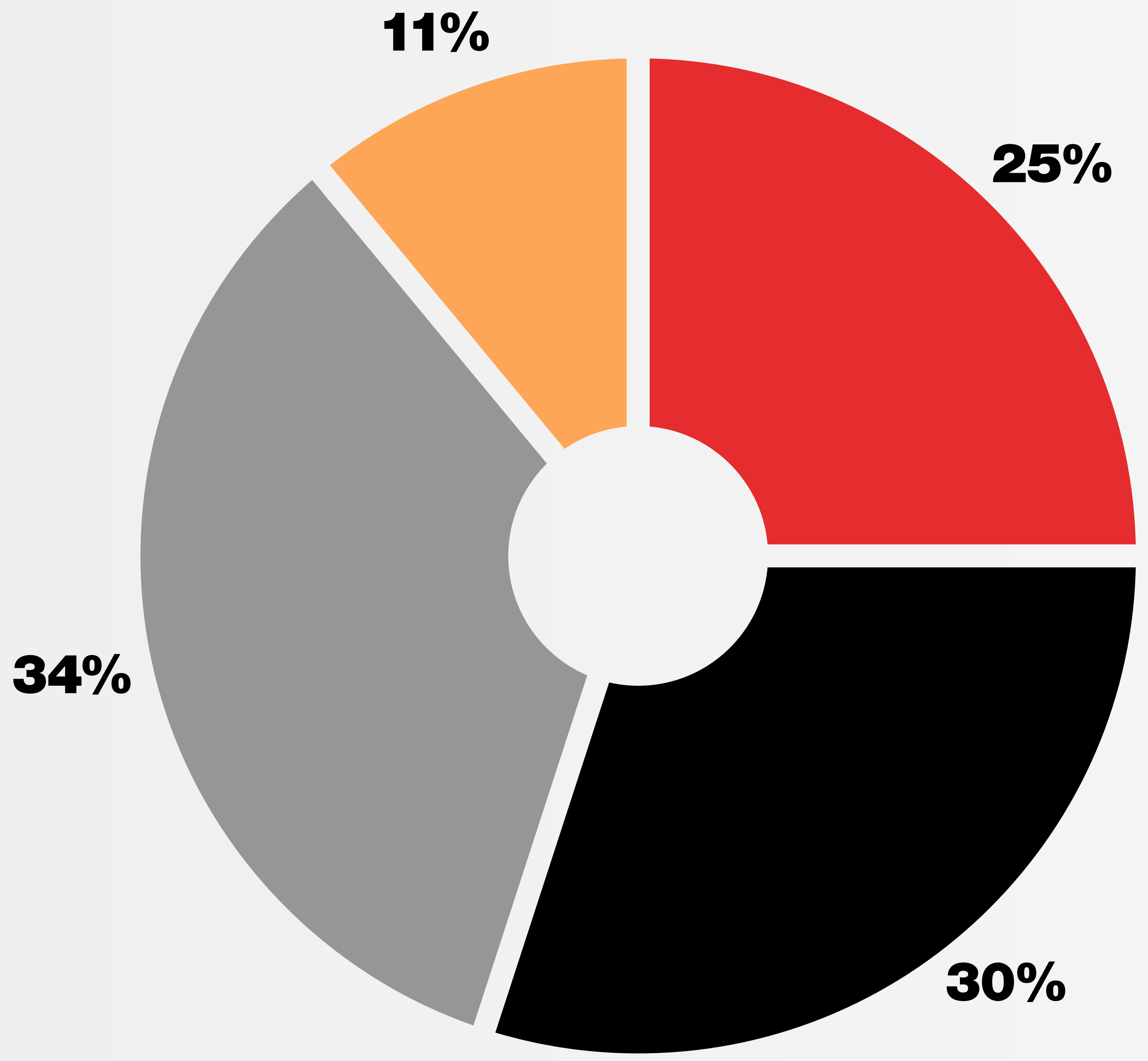
Companies with high confidence tend to focus on increasing their cybersecurity investments by 10–25%, and often make moves of 25% or more. Only a small number of these companies halt their spending. Lower-confidence peers favor small steps and are far likelier to hold flat. Are healthier outlooks enabling this investment, or do investments reduce risk and therefore lift outlooks? The data suggests a feedback cycle at work.

What increase in spend do you plan to make in cybersecurity in the next 12 months?

Base: Companies with an "excellent/very good" company outlook



Base: Companies with a "fair/poor" company outlook



No investment increase planned | Small increase (less than 10%) | Moderate increase (10-25%) | Significant increase (over 25%)

Controls rise, culture change trails

To combat cybersecurity concerns, companies plan to add anti-virus, multi-factor authentication, device protections, and managed detection and response services at scale. That is encouraging, but adoption of written policies and social engineering training still sits below one in four. Fraudsters exploit habits, not just software gaps. It's crucial to make training routine, publish clear rules, and test compliance to convert good tools into real-world protection.

What does your company plan to implement in the next 12 months as part of its cybersecurity efforts?

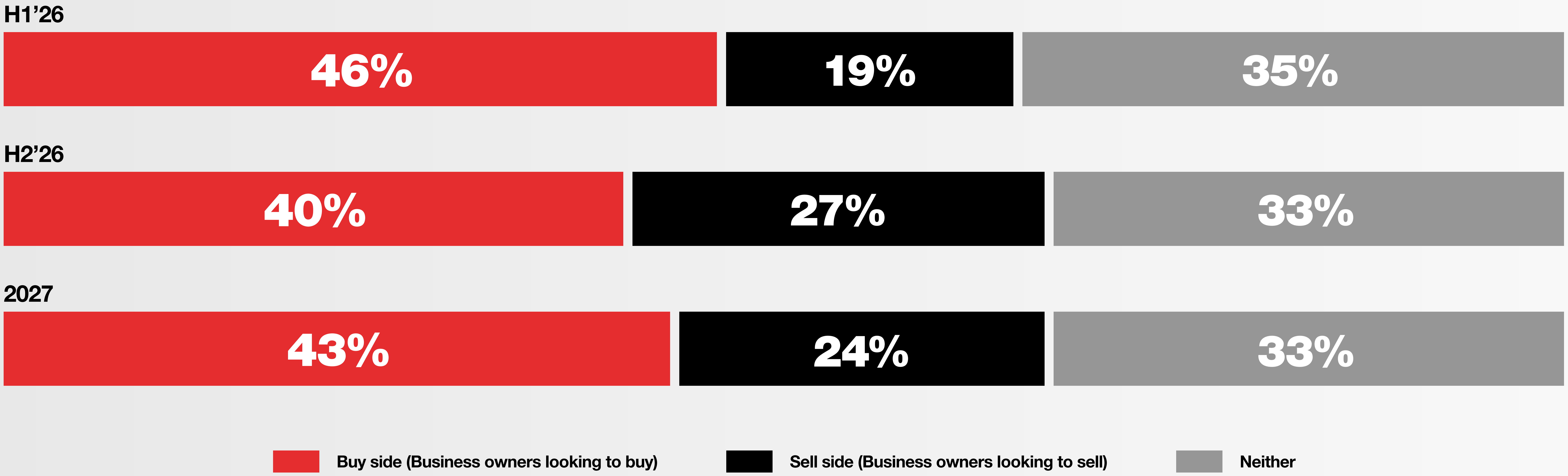
44%	Anti-virus / anti-malware protection on all business computers
43%	Multi-factor authentication
37%	Security measures on computers to prevent users from connecting unauthorized devices
33%	Password policies
33%	Managed detection and response to monitor computer environments
30%	VPN required to access company resources from outside the network
29%	Offsite back-up servers and information storage
28%	Dual authorization for outgoing payments
24%	Written information on security policies and procedure
23%	Social engineering training

Mergers & acquisitions

Buyers lead early, sellers follow later

Signals point to an active first half of 2026 for acquirers, with many firms positioning to add capacity and capabilities before year-end. The back half tilts toward divestitures and owner exits as processes mature and valuations firm. About one-third still sit out, suggesting selective participation and discipline on price, fit, and integration.

Do you anticipate your organization being involved in any M&A activities (buy-side or sell-side) within the next 3 years?



Financing pressures for buyers, relationship work for sellers

Around M&A activity, buyers feel the squeeze from higher capital costs, then face the twin hurdles of target selection and culture fit. Integration risk remains close by. Sellers win through access and trust, where strong banker and sponsor ties accelerate momentum. The practical path is clear. Buyers firm up funding and integration plans early, while sellers invest in relationships, narrative, and clean diligence materials.

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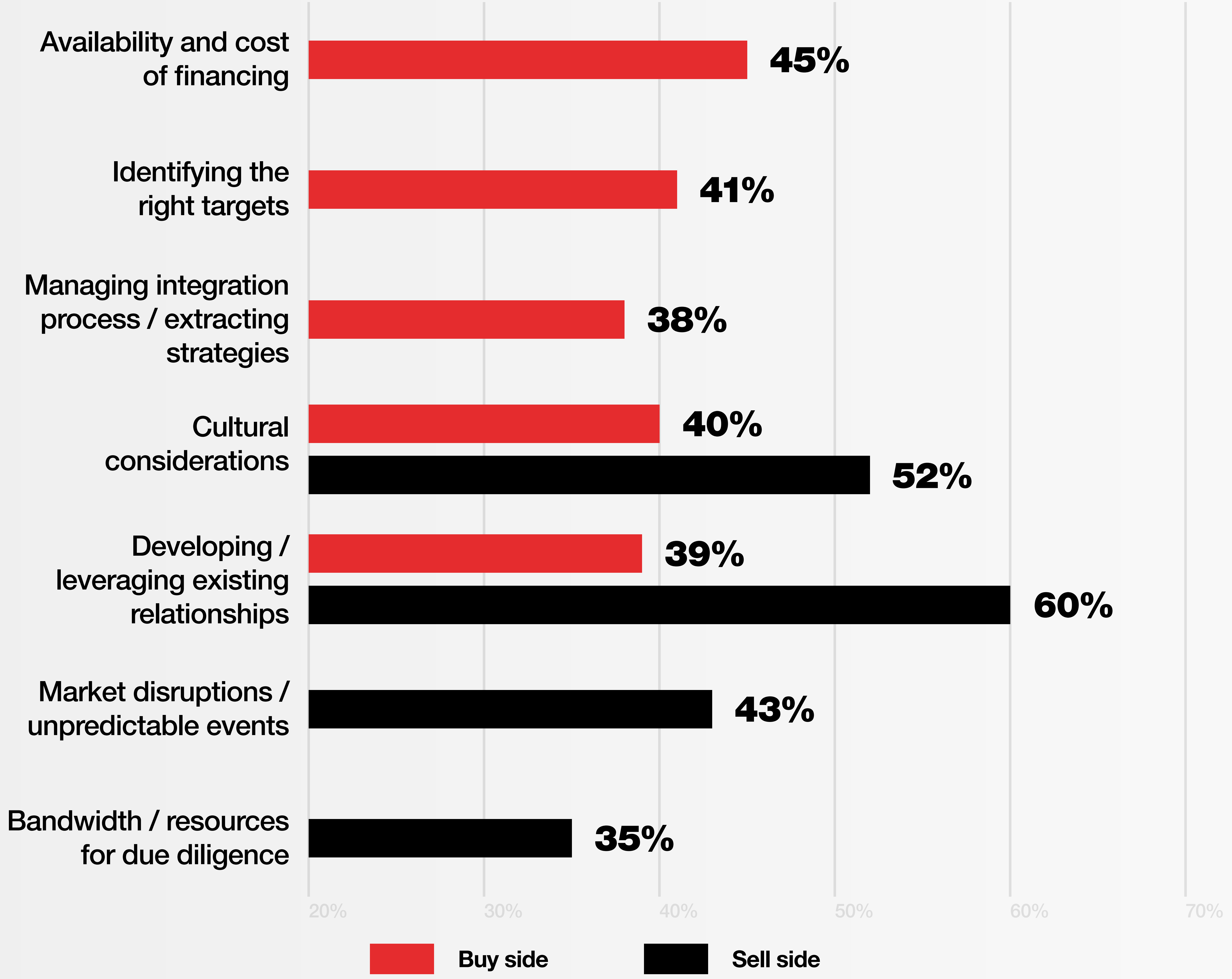
2026 is expected to be an active year for M&A, with large-cap transaction activity continuing and an expected meaningful pickup in mid-cap activity. While encouraging for sellers and buyers, we see continued buyer cautiousness, requiring sellers to reverse diligence business plans and market assessments to successfully navigate buyer due diligence processes.

Randy Paine
President
KeyBanc Capital Markets & Key Institutional Bank

What are the main challenges your company would face when pursuing any M&A activities?



Summary by demographic

Summary by annual revenue

		$10MM - $250MM	$250MM - $500MM	$500MM - $1B
% Excellent / Very Good	U.S. Outlook	47%	58%	69%
	Company Outlook	75%	80%	81%

Factors contributing to high company outlook (Among Businesses with Excellent/Very Good Company Outlook)

		$10MM - $250MM	$250MM - $500MM	$500MM - $1B
% of businesses selecting each factor as a reason for high company outlook	Improved efficiency in business operations	63%	67%	72%
	Improvements in technology	54%	62%	60%
	Implementation of automation/artificial intelligence (AI)	48%	52%	63%
	Ability to attract and/or retain talent	46%	46%	55%
	Supply chain network	41%	50%	44%
	Interest rates	37%	38%	38%
	Current business pipelines	34%	38%	43%
	Ability to raise prices	33%	32%	38%
	Tariffs / trade agreements	28%	25%	34%
	Tax rates	27%	37%	38%
	Current state of cybersecurity	26%	29%	38%
	Energy costs/Carbon tax policy	22%	32%	37%
	M&A activity	14%	15%	16%

Highest across revenue   Lowest across revenue

Summary by industry

% Excellent / Very Good

	Manufacturing	Construction	Healthcare Non-Insurance	Business & Professional Services	Technology	Automotive – Manufacturing/ Dealerships	Retail	Transportation & Logistics	Energy
U.S. Outlook	57%	46%	41%*	51%	63%	**	50%	48%*	**
Company Outlook	80%	80%	69%*	71%	86%	**	81%	65%*	**

Factors contributing to high company outlook (Among Businesses with Excellent/Very Good Company Outlook)

% of businesses selecting each factor as a reason for high company outlook

	Manufacturing	Construction	Healthcare Non-Insurance	Business & Professional Services	Technology	Automotive – Manufacturing/ Dealerships	Retail	Transportation & Logistics	Energy
Tariffs / trade agreements	31%	30%	16%	34%	25%	**	22%	**	**
Energy costs/Carbon tax policy	36%	23%	17%	21%	30%	**	19%	**	**
Tax rates	34%	27%	29%	29%	33%	**	32%	**	**
Supply chain network	49%	48%	38%	34%	38%	**	51%	**	**
Interest rates	30%	40%	31%	46%	35%	**	42%	**	**
Ability to attract and/or retain talent	44%	57%	41%	48%	45%	**	42%	**	**
Current state of cybersecurity	30%	25%	29%	38%	42%	**	22%	**	**
Improved efficiency in business operations	68%	66%	56%	65%	69%	**	63%	**	**
Improvements in technology (unrelated to automation and/or AI)	50%	63%	63%	65%	65%	**	47%	**	**
Ability to raise prices	41%	37%	32%	22%	31%	**	29%	**	**
Current business pipelines	45%	32%	35%	42%	35%	**	18%	**	**
Implementation of automation/artificial intelligence (AI)	38%	64%	43%	62%	57%	**	49%	**	**
M&A activity	18%	14%	26%	9%	15%	**	6%	**	**

*Base size greater than or equal to 30, but less than 50; interpret results with caution
**Base size too small to report (n<30)

Highlight across industry — **Lowest across industry**

Summary by region

		Northeast	Midwest	South	West
% Excellent / Very Good	U.S. Outlook	53%	54%	50%	51%
	Company Outlook	75%	78%	77%	77%

Factors contributing to high company outlook (Among Businesses with Excellent/Very Good Company Outlook)

		Northeast	Midwest	South	West
% of businesses selecting each factor as a reason for high company outlook	Tariffs / trade agreements	30%	26%	31%	28%
	Energy costs/Carbon tax policy	33%	24%	21%	26%
	Tax rates	30%	30%	28%	34%
	Supply chain network	37%	40%	40%	55%
	Interest rates	34%	42%	34%	37%
	Ability to attract and/or retain talent	52%	37%	47%	53%
	Current state of cybersecurity	31%	22%	27%	33%
	Improved efficiency in business operations	68%	62%	66%	66%
	Improvements in technology (unrelated to automation and/or AI)	59%	53%	51%	61%
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	Current business pipelines	40%	35%	31%	38%
	Implementation of automation/artificial intelligence (AI)	59%	44%	46%	56%
	M&A activity	18%	12%	13%	13%

Highest across region

Lowest across region

KeyBank has the industry expertise, insights, and solutions to help your business manage growth and identify opportunities in an evolving economic environment.

Our banking teams offer integrated solutions and strategic expertise to help your business raise capital and manage payments, liquidity, and cash flow. To learn more about KeyBank's middle market capabilities, contact a KeyBank Relationship Manager or visit key.com/commercial.

"KeyBank Middle Market Business Sentiment Survey," November 1 - December 15, 2025. KeyBank's Middle Market Sentiment survey asked more than 700 owners and executives of businesses with $10 million to $1 billion in annual revenue about their outlook for the year, the challenges currently affecting their businesses, and their growth plans for 2026.