Middle Market Sentiment

August 2026

KeyBank

Commercial

Executive summary

The U.S. middle market plays an outsized role in the economy. Its roughly 200,000 companies, defined as firms with $10 million to $1 billion in annual revenue, employ about 48 million people and help drive broader growth.[1]

KeyBank's Middle Market Sentiment Survey polled 731 owners and senior executives from April 28 to May 27, 2026, and found a segment that is confident but no longer moving as one.

Company outlooks are strong while macroeconomic views remain flat, a gap that now defines the segment. Optimism for respondents is rooted in efficiency, technology, and AI, even as inflation and geopolitical concerns loom as operating pressures. More than half of firms are pursuing additional capital, largely from commercial lenders, with AI and technology leading deployment plans. Cybersecurity investment continues to rise alongside persistent threats, while buy-side M&A appetite builds steadily through 2028 among the most confident firms.

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

Q2 2026 responses

Unweighted

Industry

Manufacturing	101
Construction	114
Healthcare (Insurance)	53
Commercial Real Estate	17
Business / Professional Services	93
Technology	171
Automotive (Manufacturing, Dealerships)	26
Energy	33
Retail	78
Transportation	33

Region

Northeast	158
Midwest	133
South	230
West	210

Revenue

$10M - $25M	119
$25M - $50M	196
$50M - $100M	137
$100M - $250M	136
$250M - $500M	121

Role

Business Owners	156
SVPs / VPs / Controllers / Treasurers	256
C-Suite Execs	319
CEOs (Subset of C-Suite Execs)	217
CFOs (Subset of C-Suite Execs)	131

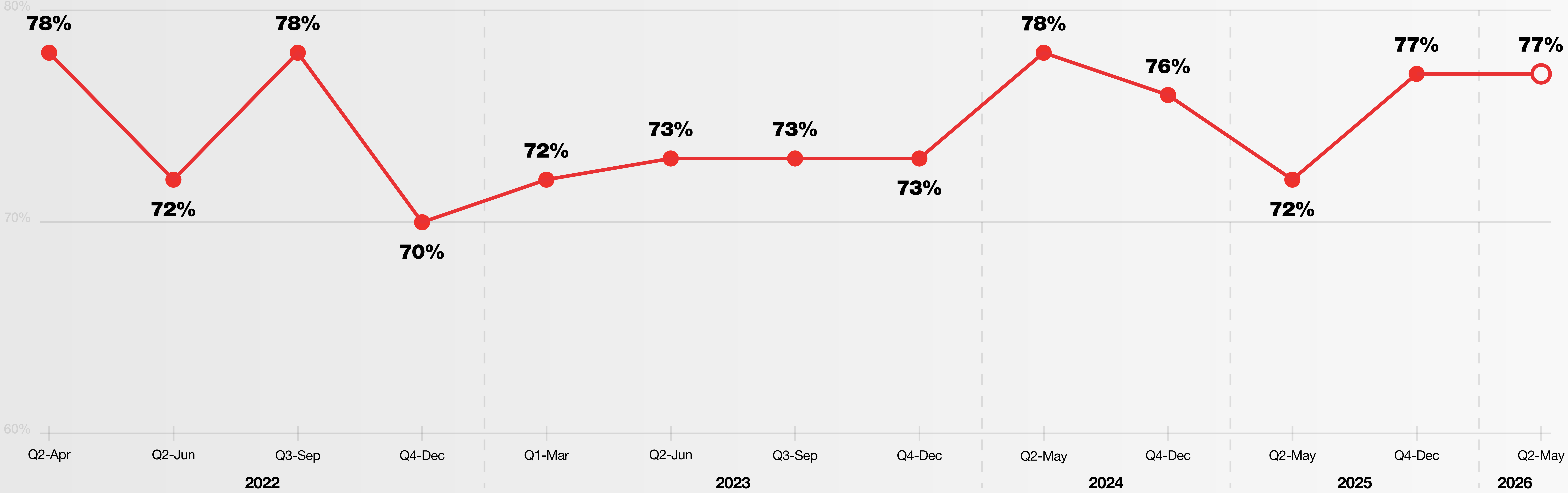
Key findings

Optimism endures because firms built it themselves

A healthy 77% of leaders rate their 12-month company outlook as excellent or very good, holding the gains made over the past year. That resilience reflects internal choices more than external conditions. Companies spent recent years sharpening operations and upgrading technology, and the payoff shows in how steadily confidence now holds through a difficult external environment.

Company outlook

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



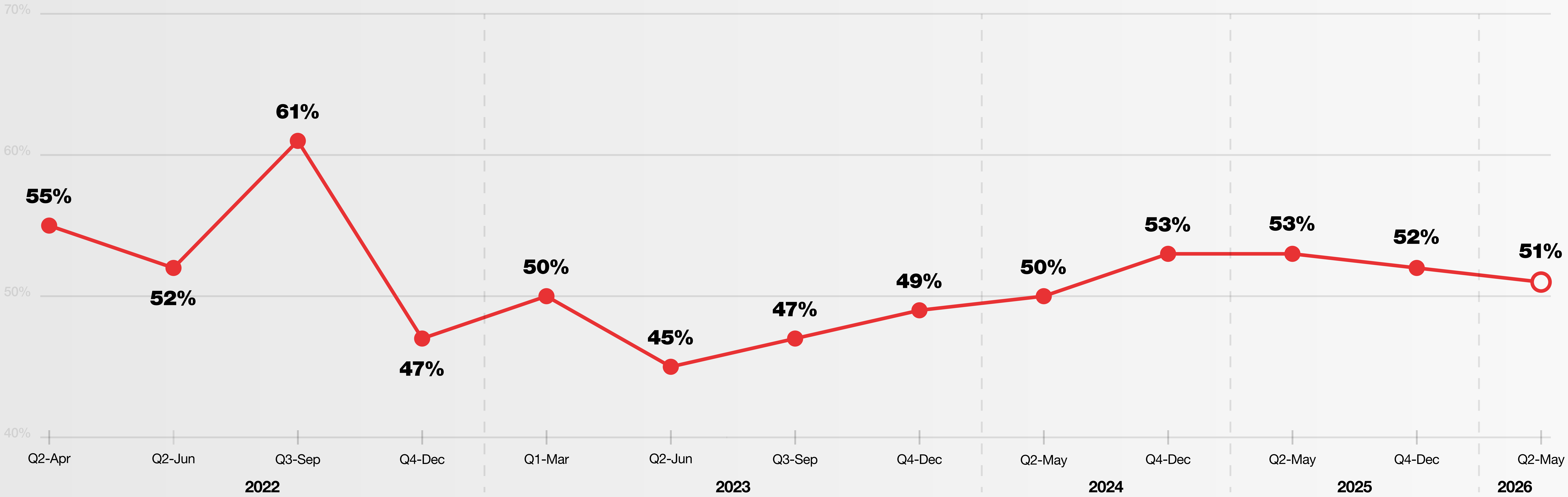
Q. How would you characterize the overall outlook for your company's financial performance in the next 12 months?

A flat topline hides a large-company shift

Economic sentiment held at 51% excellent/very good this wave. The notable shifts are underneath. Retail sentiment improved sharply while technology and professional services cooled, and the largest firms turned notably more cautious. Companies with $500 million to $1 billion in revenue dropped 23 points on the economy even as their company confidence held.

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?

Confidence still comes from the inside

Optimistic firms continue to credit the levers they control. Efficiency, technology, and AI implementation lead the list again, well ahead of external factors like interest rates or tax policy. Each driver eased from its Q4 2025 peak, suggesting firms are settling into these gains rather than accelerating them. Middle market confidence continues to rest on operational strength rather than external conditions.

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If you think about what's really driving the middle market, it's execution. Nearly eight in ten leaders are bullish on their own company while the economic read is about half. And when you sit across the table from these operators, you understand why. They point to efficiency gains, technology, AI, talent. Things they control. These businesses are resilient through cycles, and the disciplined ones build confidence that can adapt to the macro environment.

Ken Gavrity
President
Key Commercial Bank

Factors contributing to positive company outlook

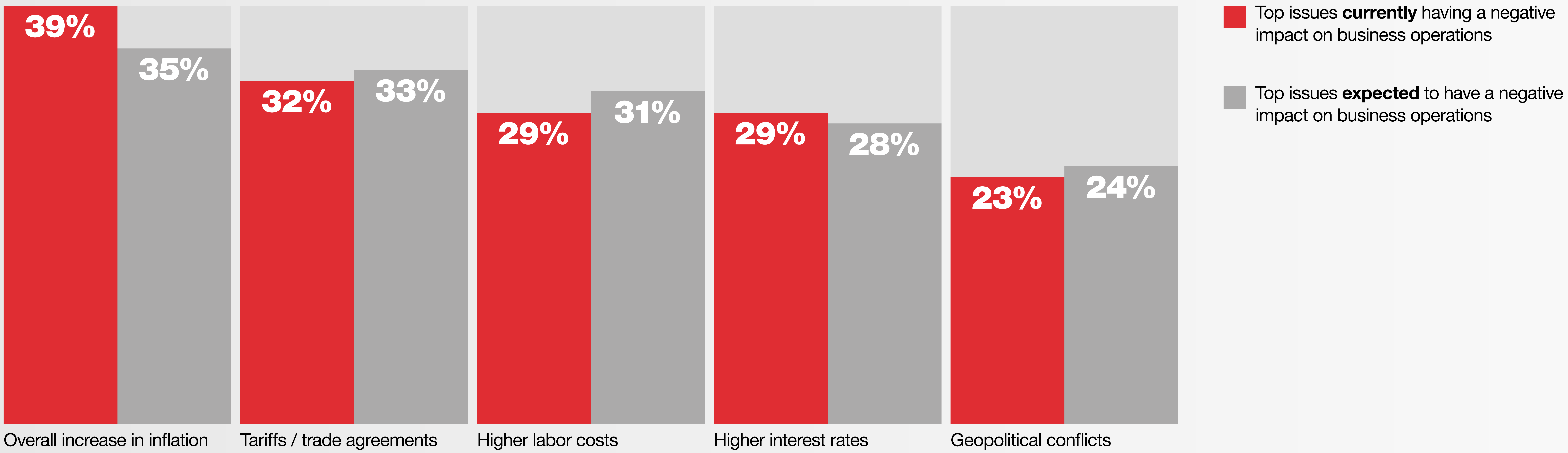
	Q4 2025	Q2 2026
Improved efficiency in business operations	**66%**	**57%**
Improvements in technology	**57%**	**51%**
Implementation of automation / AI	**51%**	**48%**
Ability to attract and/or retain talent	**47%**	**43%**
Supply chain network	**43%**	**35%**
Interest rates	**37%**	**33%**
Current business pipelines	**36%**	**29%**
Ability to raise prices	**34%**	**29%**
Tax rates	**31%**	**28%**
Tariffs / trade agreements	**29%**	**27%**
Energy costs / carbon tax policy	**27%**	**27%**
Current state of cybersecurity	**28%**	**26%**
M&A activity	**14%**	**11%**

Q. What factors are contributing to your positive overall outlook for your company's financial performance?
Base: respondents with excellent/very good company outlook.

Old risks settle, geopolitics moves up

Inflation edged higher as the top operational drag while tariff concerns eased, a reversal from Q4 2025 when the two were tied. The notable riser is geopolitical conflict, up five points since last wave. Leaders appear to be shifting attention from trade mechanics toward broader global instability, even as their day-to-day cost pressures remain familiar.

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?

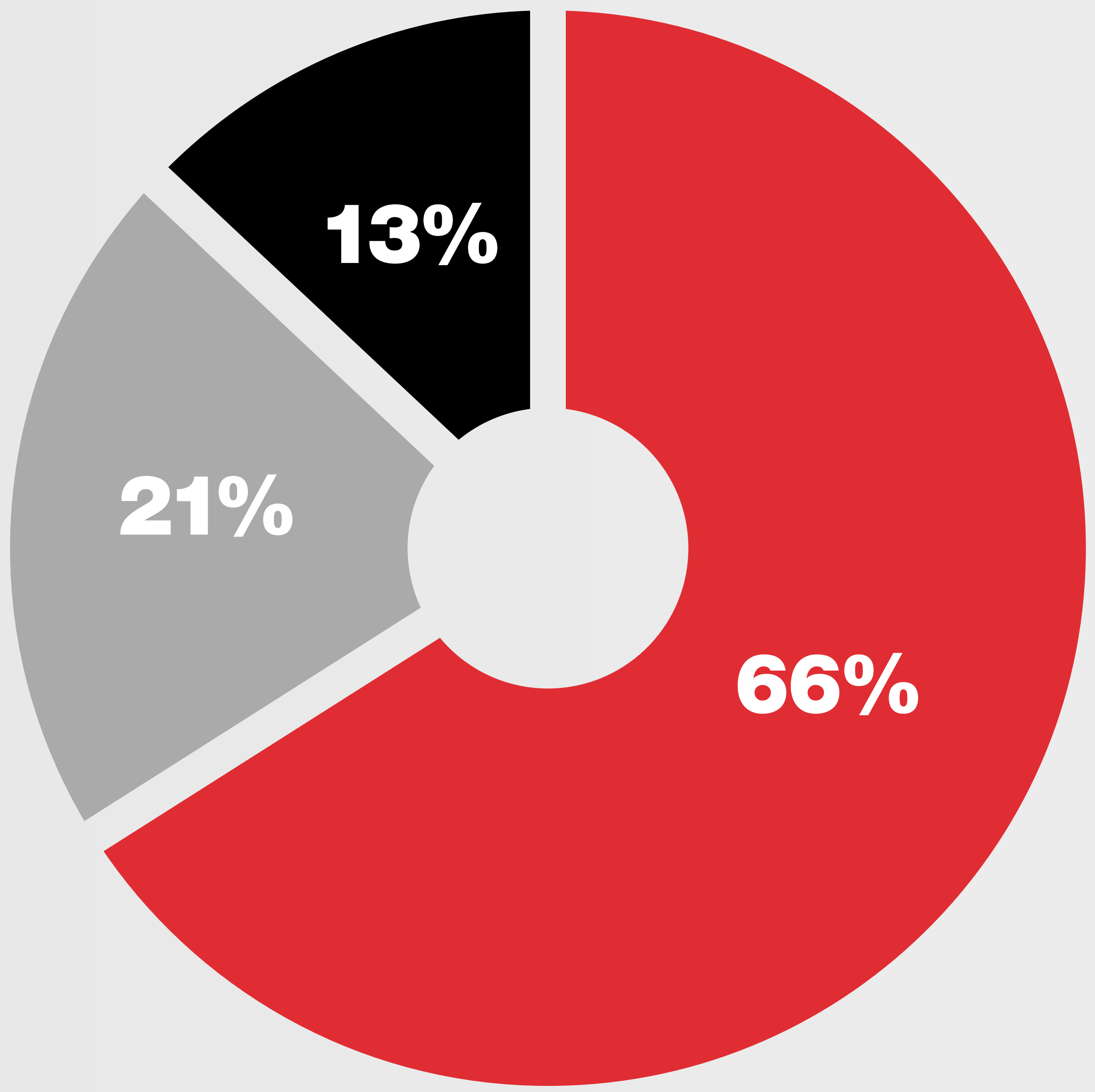


Outlook remains the strongest predictor of investment

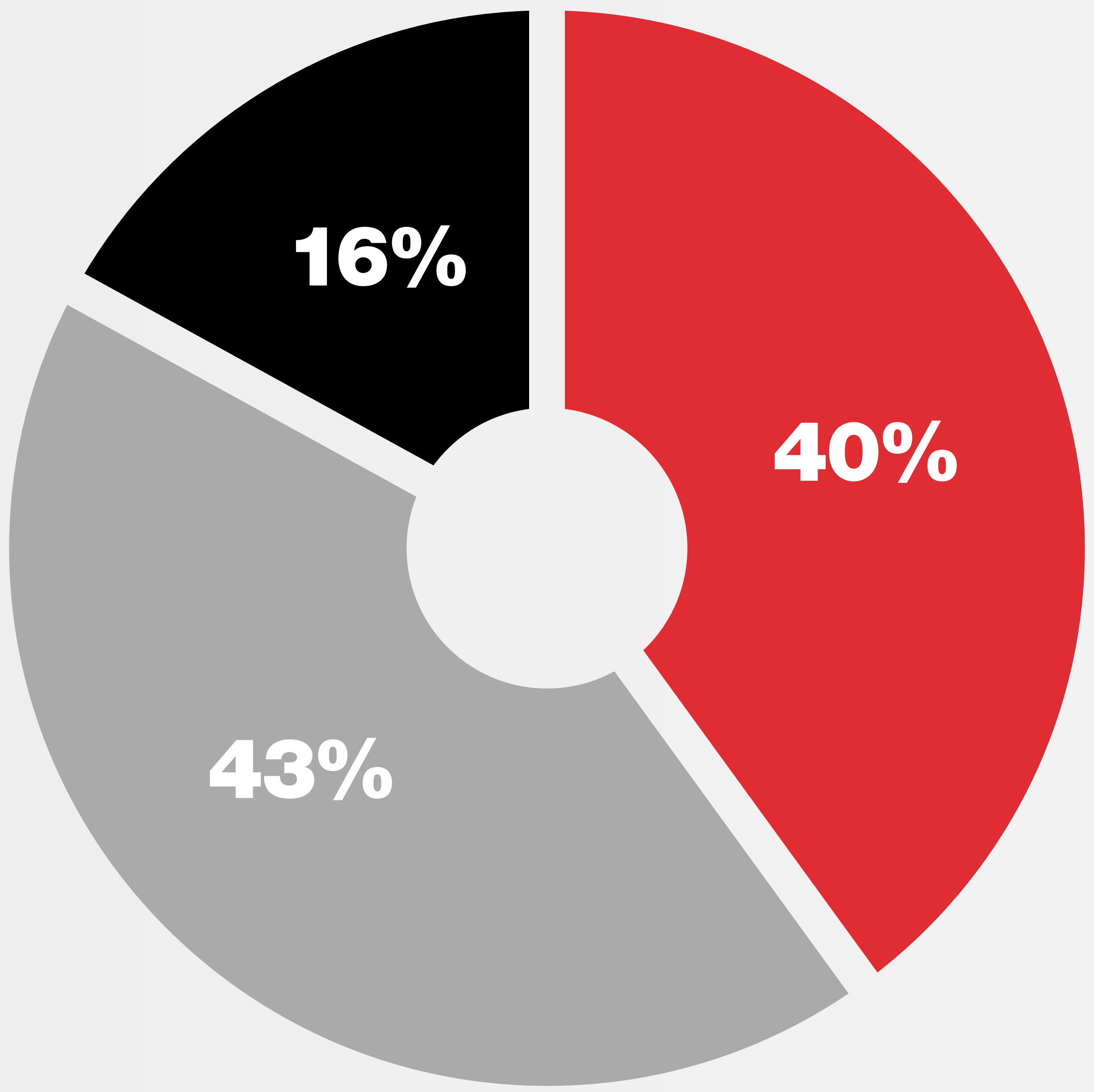
Company outlook still signals whether firms add or trim expansion funding. Two-thirds of high-confidence companies plan to increase funding, up from Q4 2025. Firms with fair or poor outlooks lean the other way and are the most likely to reduce. Overall sentiment seems to be sorting the market into offense and defense.

To what degree does your company plan to increase or reduce its funding to invest in or expand the scope of its business operations over the next 12 months?

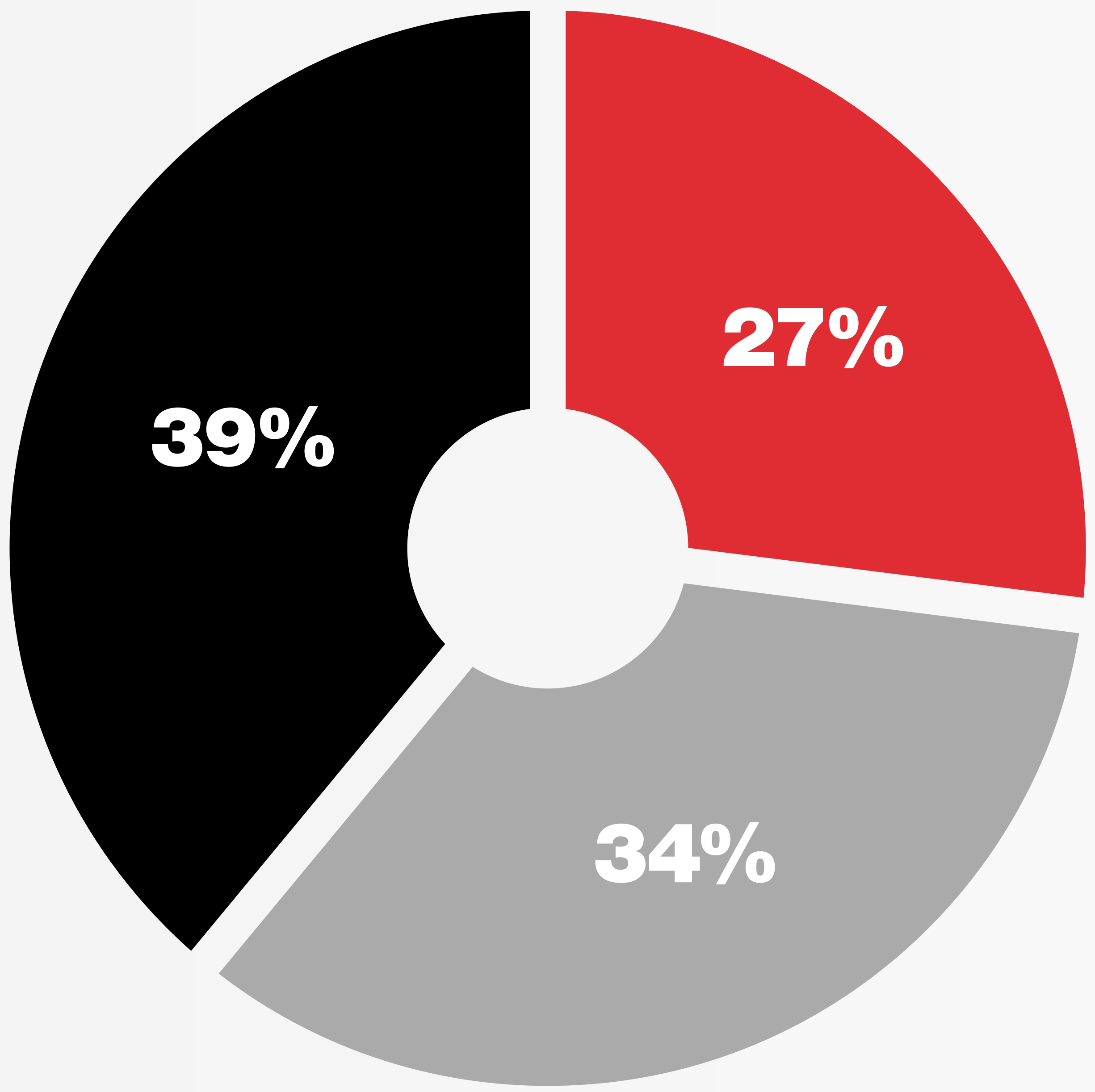
Increase funding plans | No change in funding plans | Reduce funding plans



Companies with "excellent/very good" outlook



Companies with "good" outlook



Companies with "fair/poor" outlook

Access to capital

A majority of firms are seeking capital

For the first time in recent waves, more than half of leaders say their companies are pursuing greater access to capital, up from 43% in Q4 2025. The shift is concentrated among confident firms, where 56% are building capacity. Appetite appears tied to opportunity rather than stress, which changes the nature of the conversation with lenders.

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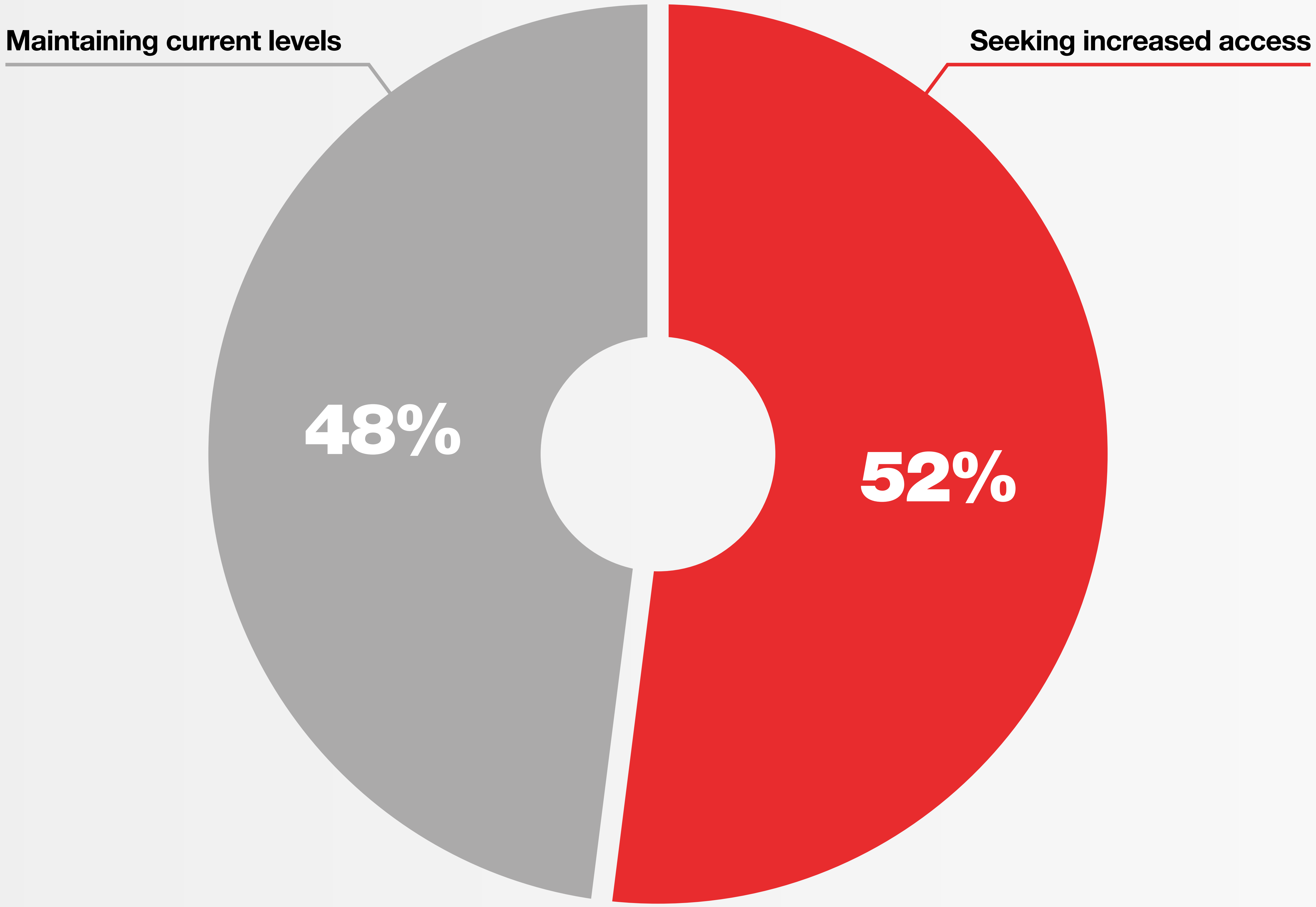
Outlook often reveals itself through investment planning. The most confident companies I speak with can articulate exactly what next year's investment dollars will fund — technology upgrades, new hires, product development, market expansion, and other growth initiatives. These are often offensive investments designed to accelerate performance and capture opportunity. More cautious organizations can be just as clear about what those investments are intended to protect — margins, resilience, market position, or operational stability. Both reflect a deliberate strategy. What the data consistently shows is that sentiment drives the distinction, and companies that understand their posture make faster, more decisive decisions than those still trying to determine which path they're on.

Laurie Muller-Girard
Commercial Executive
Key Commercial Bank

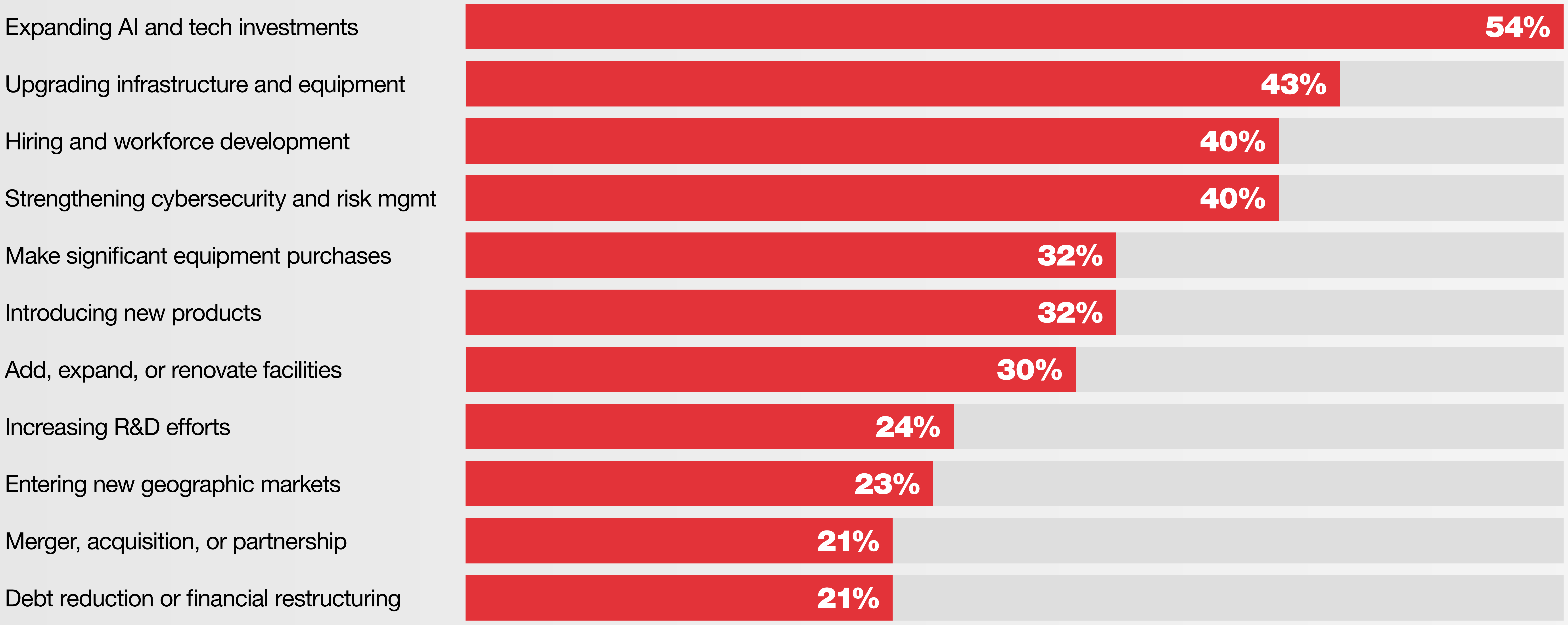
Regarding access to capital, is your company...



One priority list, two very different intents

The top uses of capital still focus on AI and technology investment at 54%. Look closer and the postures diverge. Confident firms spread capital across growth uses like new products and facilities. Cautious firms concentrate on essentials and lean toward debt reduction. The deployment list reads like a map of the market's split.

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



40%

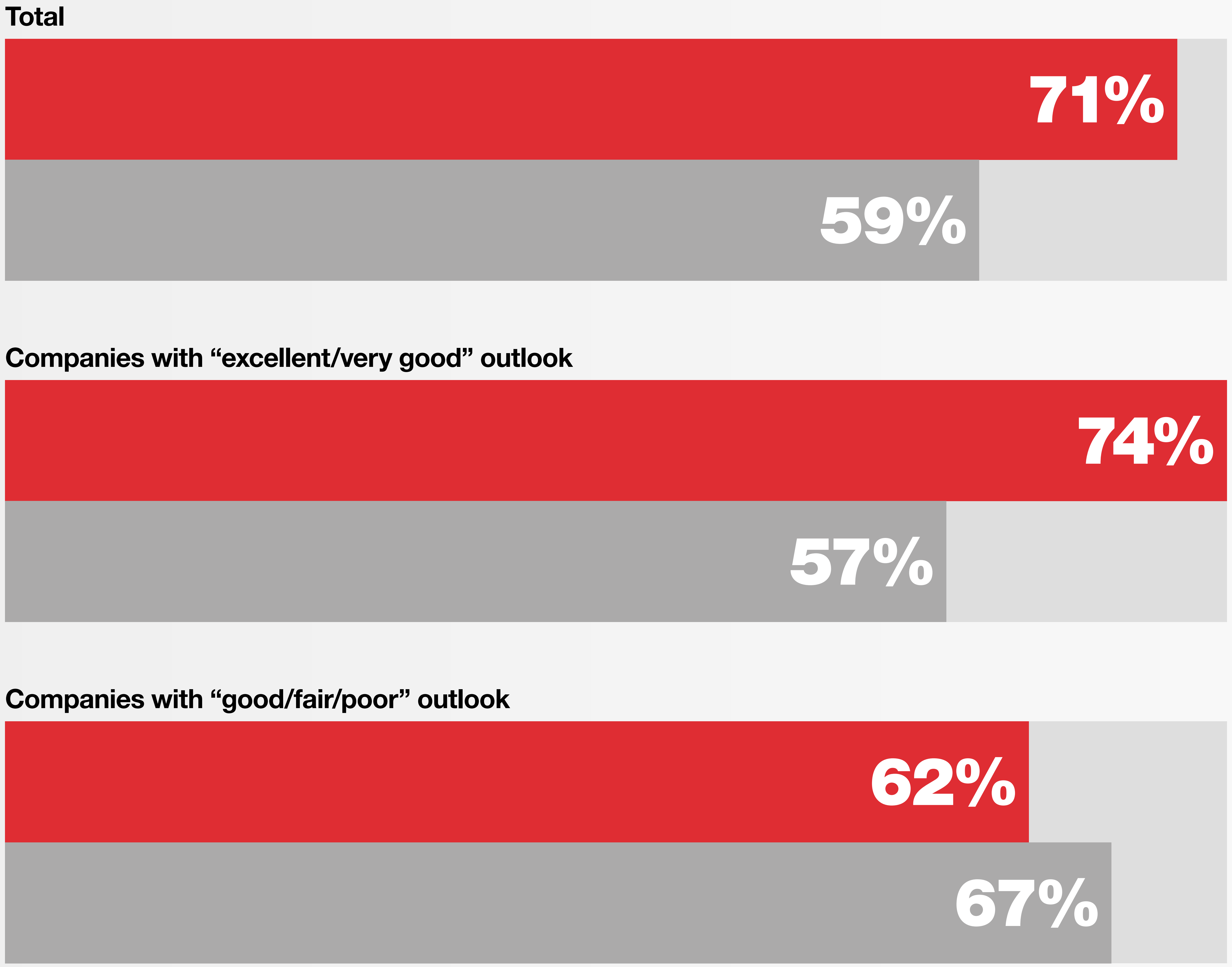
of excellent/very good-outlook firms plan to invest capital in hiring and workforce development, more than double the rate (17%) of fair or poor outlook firms.

Equity leads the plan when more capital is needed

When companies need more capital, confidence shapes the choice. Growth-minded firms reach for equity, bringing in partners or reinvesting profits while conditions favor it. Cautious firms build debt capacity, treating credit as a buffer rather than fuel for expansion. The two paths reveal different postures toward risk: equity for firms betting on upside, debt capacity for those hedging against it.

When your company needs more capital, how do you plan to obtain it?

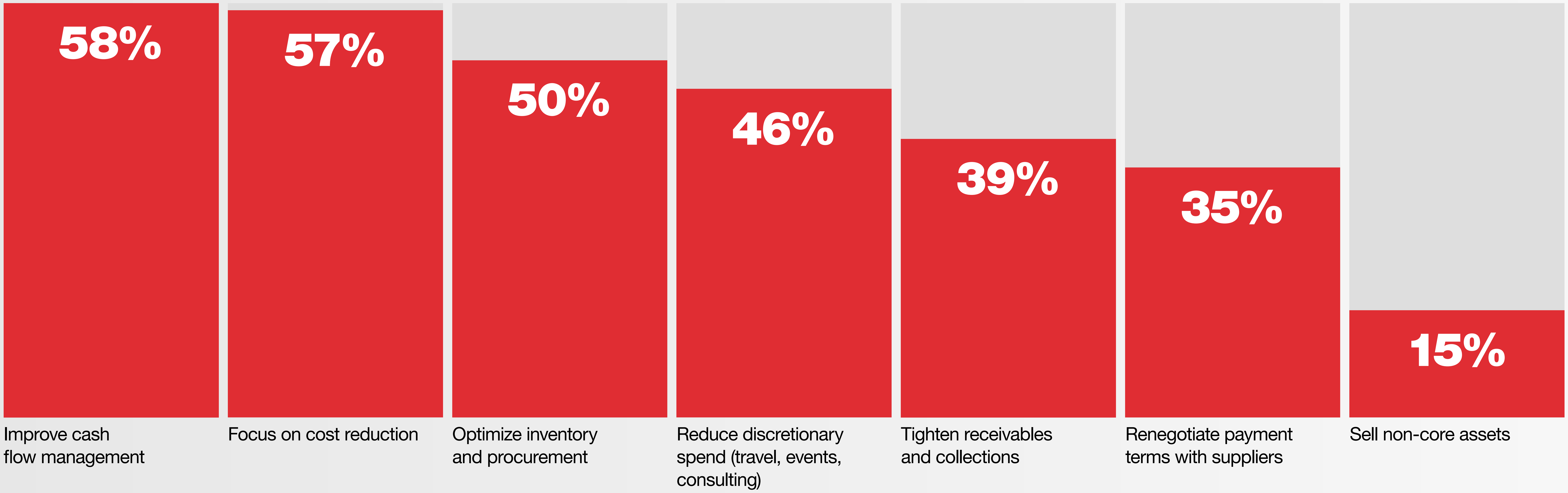
Raising equity | Increasing debt capacity



Internal levers stay the universal first move

New data this wave confirms what leaders have long practiced. Asked how they free up cash, firms across every outlook cite cash flow management and cost reduction first. Weaker-economy firms lean harder on cutting discretionary spend. Selling assets is rare. The middle market funds its plans from the inside out, then borrows or raises with purpose.

When your company needs to free up cash inside the business, what actions are you most likely to take?



The capital stack is rebalancing toward banks

Commercial lenders now lead the list of outside capital sources at 57%, as reliance on private equity fell 9 points and hedge funds declined as well. Relationship lending held steady while alternative sources cooled. The shift suggests firms are prioritizing predictable terms and integrated advice as they fund technology and workforce plans.

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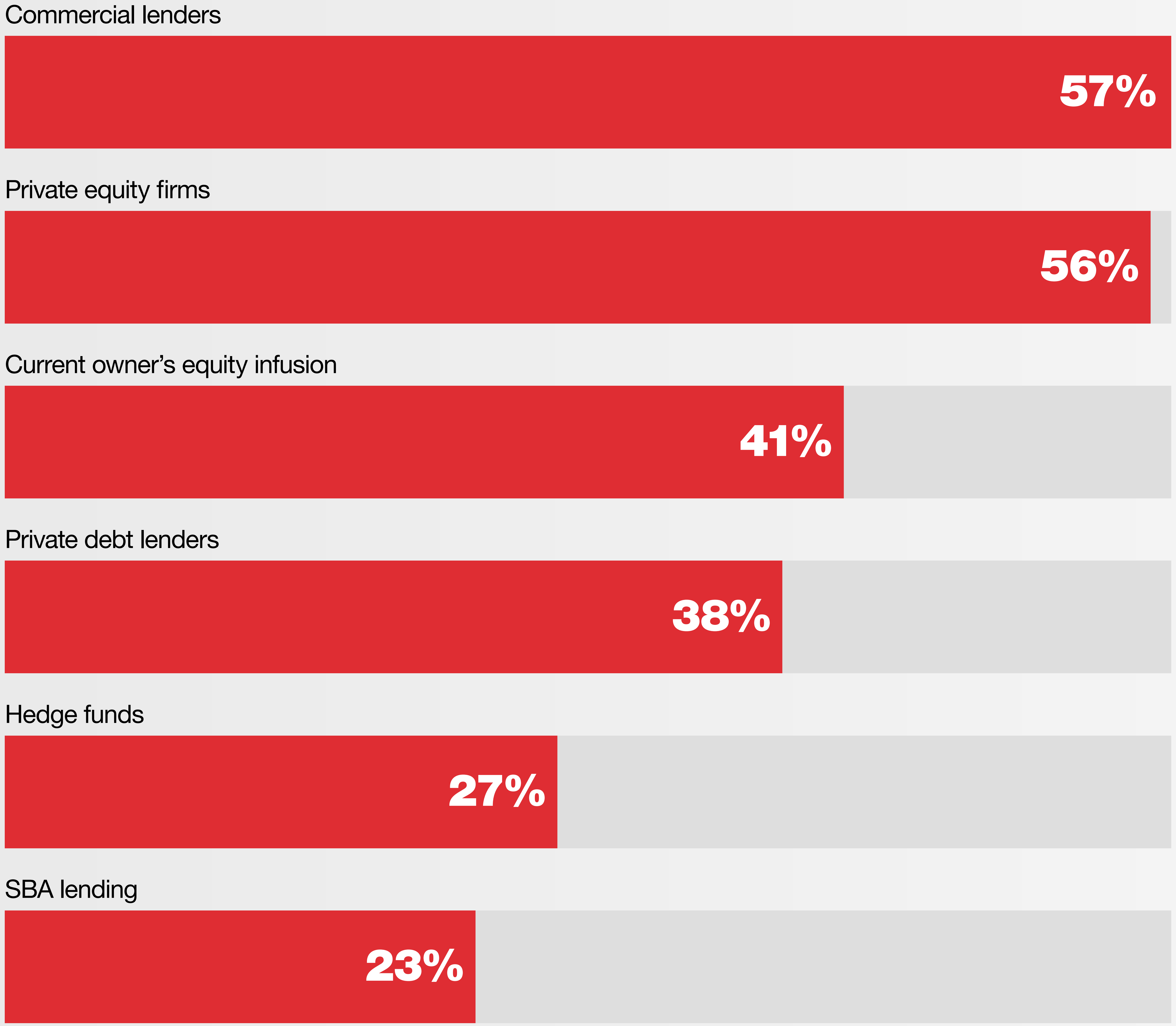
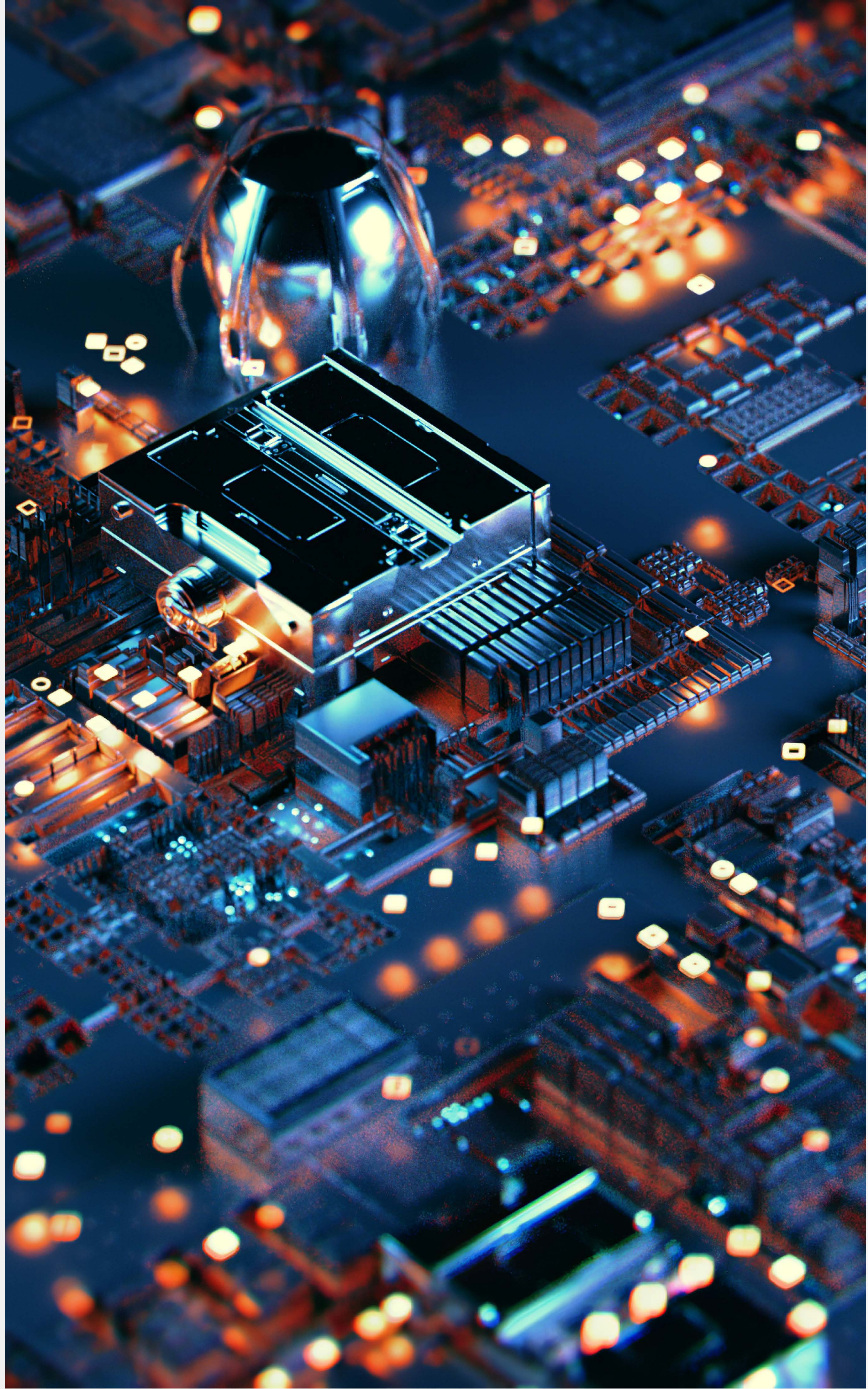
More than half of middle market companies are pursuing incremental capital this year to invest in their businesses. They are clearly turning first to their core relationship bank to provide ideas and options on an optimal capital structure and an advisor who brings guidance on working capital, risk management, and M&A. It is all about the long-term relationship instead of a specific event.

Brandon Nowac
Commercial Executive
Key Commercial Bank

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



AI implementation



AI moves from the perimeter to core operations

A year ago, cybersecurity led AI expansion plans. This wave, data analysis, employee task automation, and process automation top the list. The expected benefits shifted with it, led by productivity, decision-making, and forecasting. AI is graduating from a defensive tool into operating infrastructure, which raises the stakes on integration, data quality, and workforce readiness.

57%

of excellent/very good-outlook firms plan to use AI to monitor market conditions and spot opportunities, compared with 30% of fair or poor outlook firms.

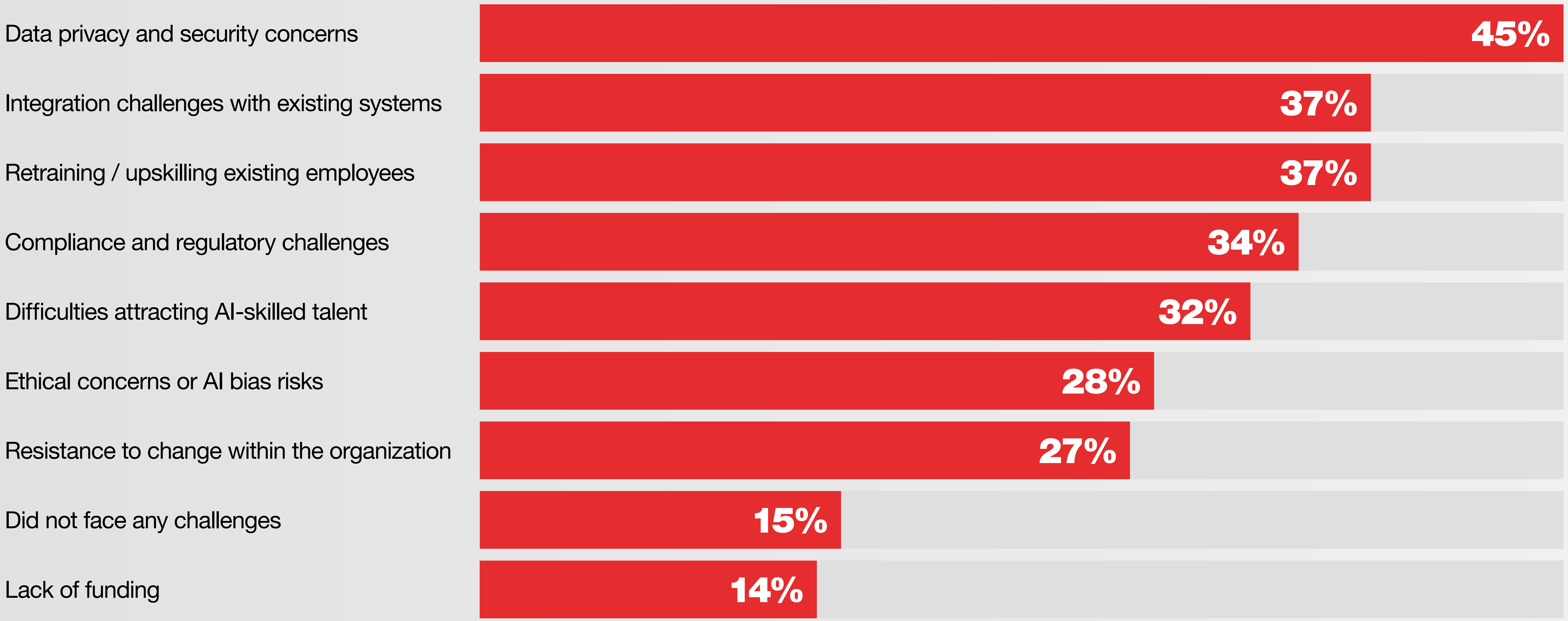
How do you plan to expand AI and technology within your organization?

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

Data privacy leads a maturing challenge list

Data privacy and security concerns top AI implementation challenges, followed by system integration and upskilling. Funding barely registers for most firms at 14%, which suggests the constraint has shifted from budget to execution. The challenge now lies in weaving AI into existing systems, policies, and workflows while bringing people along with the change.

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



44%

of fair or poor outlook firms cite resistance to change as an AI barrier.

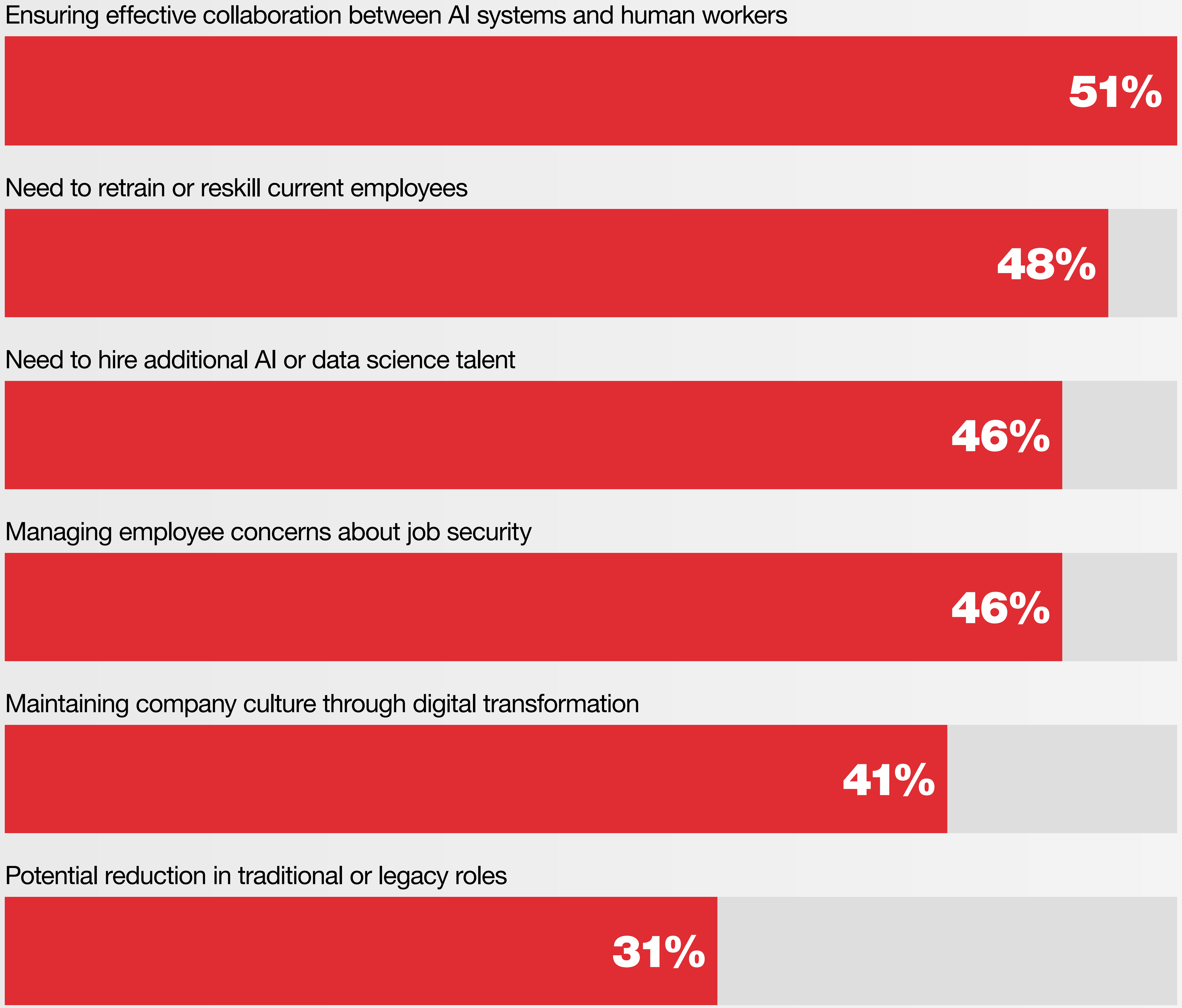
Reskilling pressure builds as AI scales

Nearly half of firms expect to retrain or reskill current employees as AI use expands, and 46% anticipate hiring additional AI or data talent. Job security concerns sit alongside both. The firms furthest along report these pressures most clearly, which suggests the more AI a company deploys, the more its people strategy matters.

31%

of firms expect AI to reduce traditional or legacy roles. The workforce challenge leaders anticipate is retraining and collaboration, not cutting jobs.

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



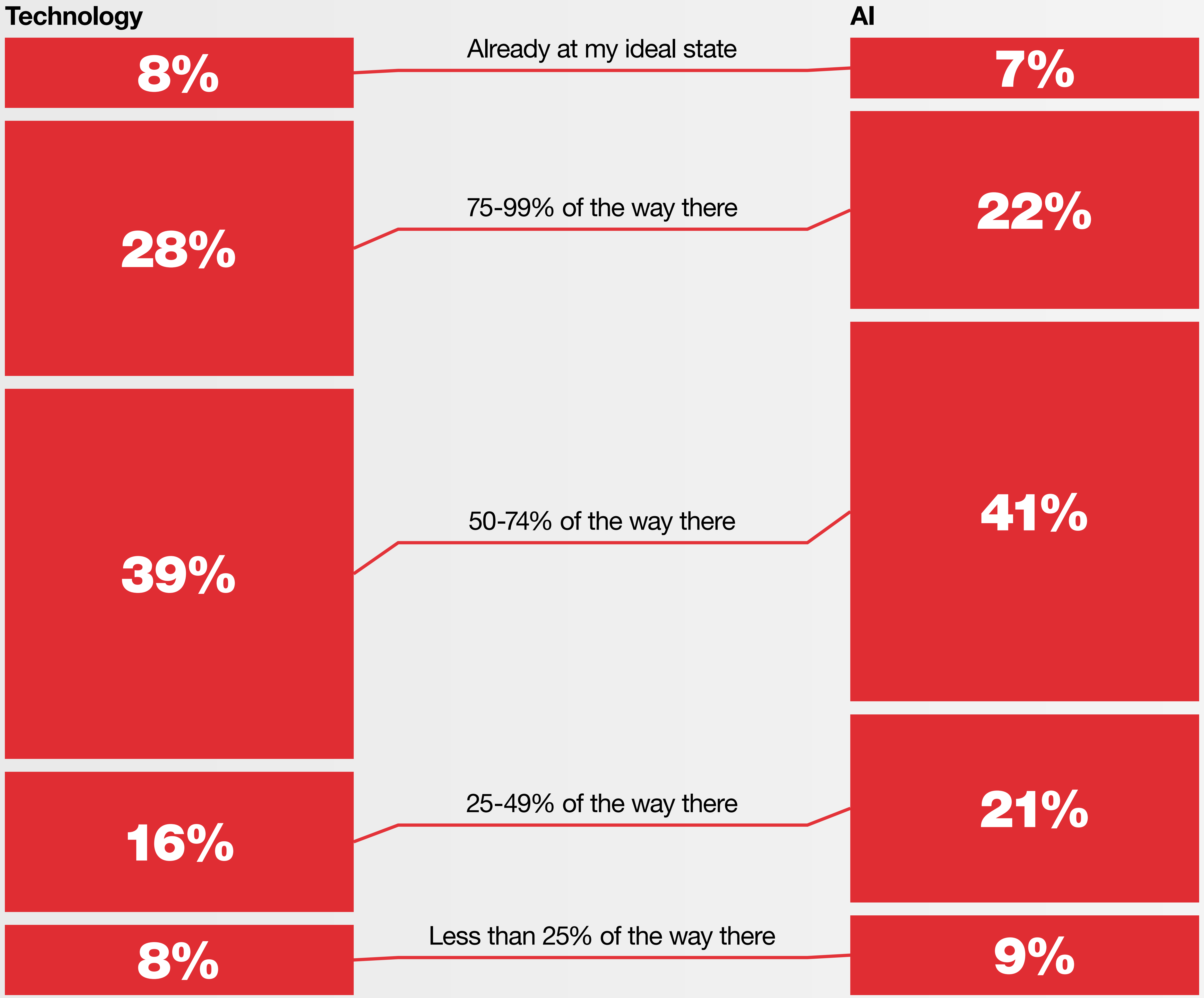
Most firms have crossed the AI halfway mark

Firms report meaningful AI progress this wave, with most past the halfway point and early-stage laggards down significantly. Very few describe themselves as finished. Only 7% say they've reached their ideal state. The work ahead sits in data, workflows, and change management. Leaders should treat this baseline as a stage in the climb, not the summit.

78%

of excellent/very good-outlook firms are at least halfway to their ideal state for AI, compared with fewer than a third of fair or poor outlook firms.

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



Cybersecurity & fraud

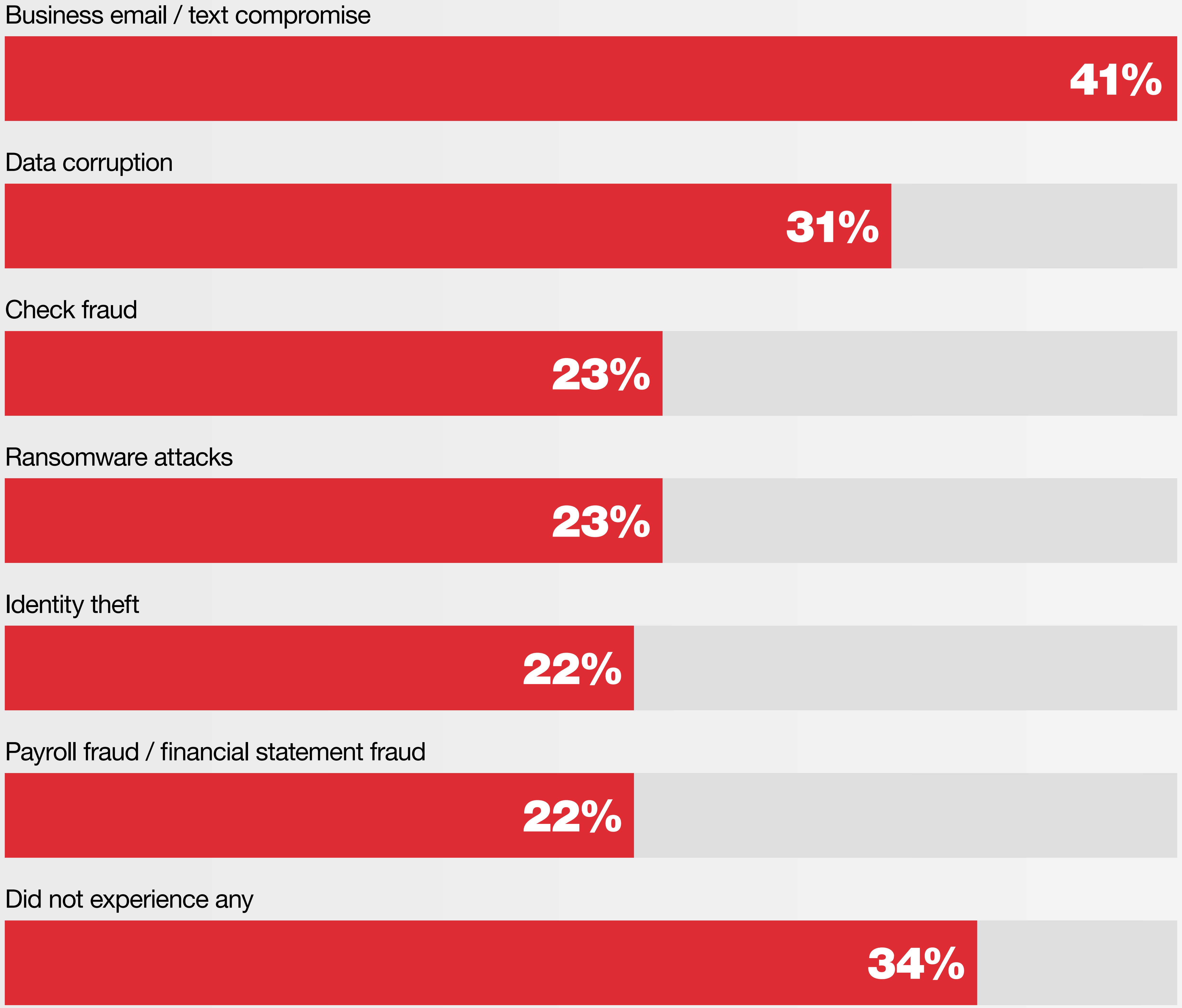
The threat landscape held, but BEC climbed

Roughly two in three firms experienced a cyber or fraud incident in the past year, consistent with Q4 2025. The movement came from business email compromise, which rose to 41% and skews heaviest in technology and professional services. Impersonation attacks target process gaps rather than systems, which keeps verification discipline at the center of any defense.

29%

of the smallest middle market firms ($10M to $25M) faced business email compromise this year, lower than the 41% across the overall segment. With fewer vendors and less payment volume, the smallest firms likely give attackers fewer openings.

Has your company experienced any of the following cybersecurity and/or financial fraud issues or occurrences in the past 12 months?

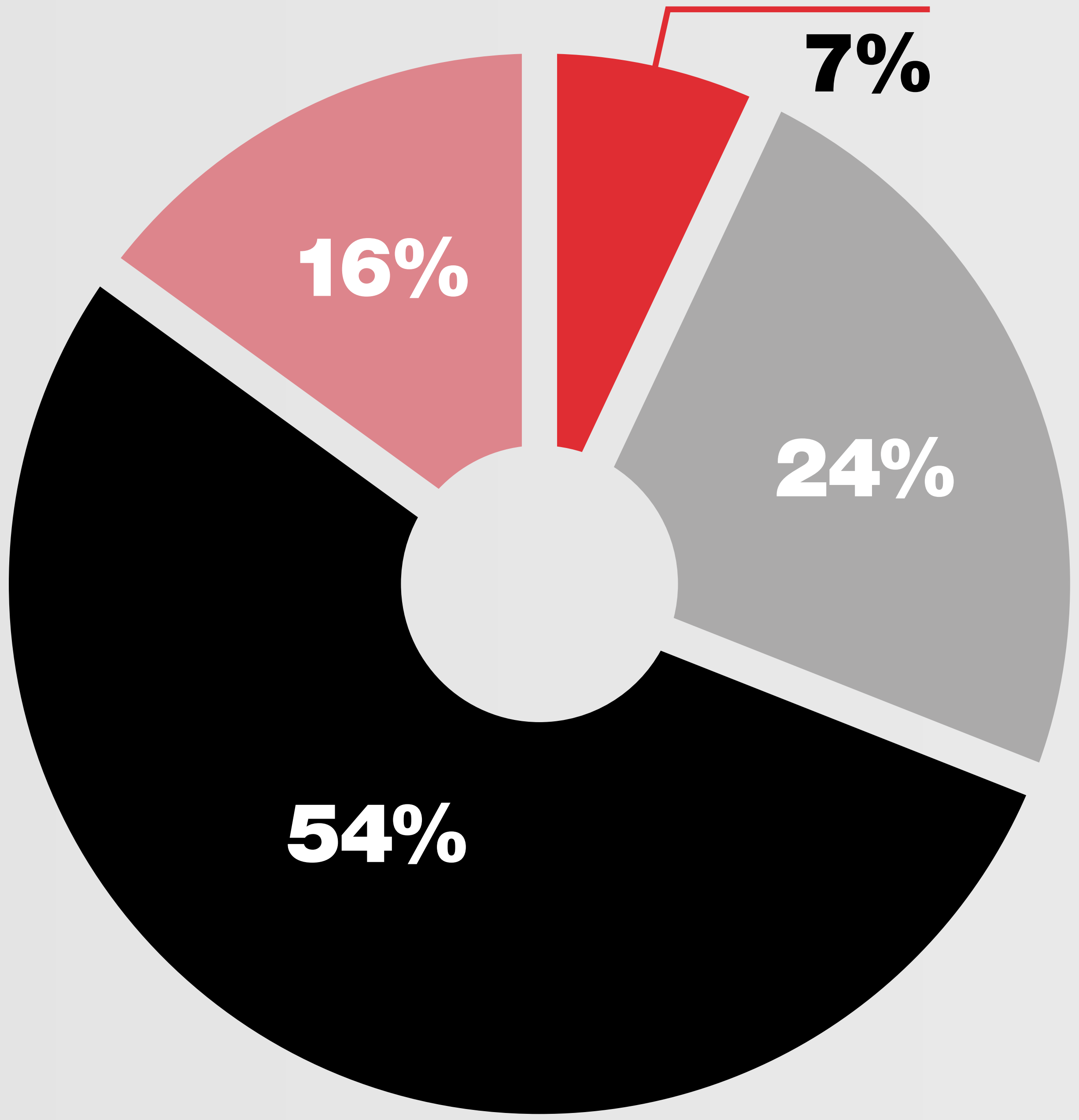


Security spend is nearly universal, ambition is not

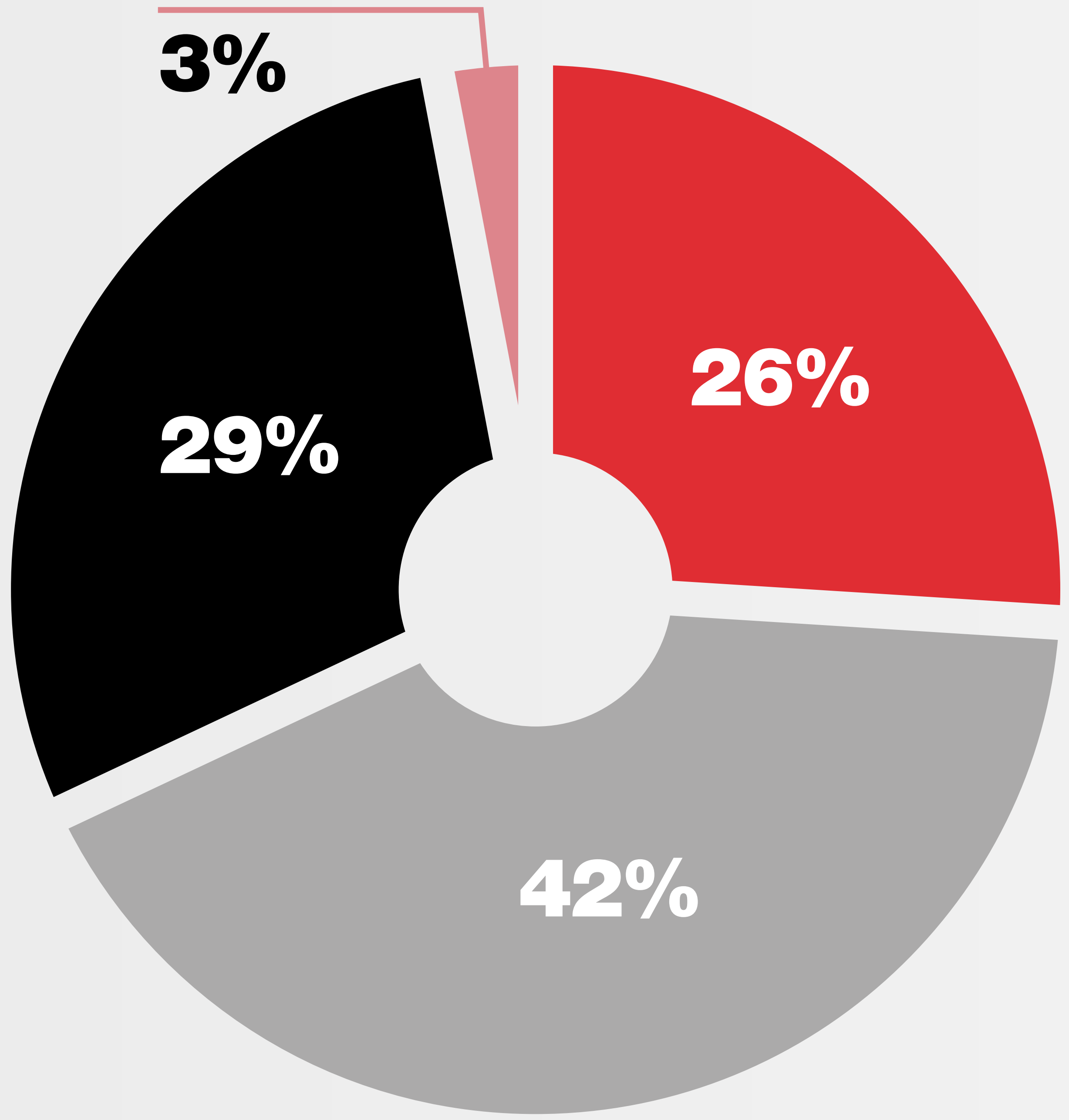
Nearly all (92%) of firms plan some increase in cybersecurity investment. The difference is the degree. Confident firms cluster at moderate and significant increases while cautious firms favor small steps or hold flat. As both groups scale AI and digitize operations, underinvesting in protection may prove more costly in the long term.

What type of investment or increase in spend do you plan to make in cybersecurity in the next 12 months?

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



Companies with "excellent/very good" outlook



Companies with "fair/poor" outlook

Consistency in tools, opportunity in behavior

Firms plan the same core defenses as prior waves, anchored by anti-virus protection and multi-factor authentication. Dual authorization for payments sits at 28% despite impersonation fraud leading all incident types. The tools list is mature. The behavioral controls that stop payment redirection, verification discipline and training, remain the clearest underused defense in the middle market.

> For most middle market companies, the real vulnerability isn't the technology, it's the human element. Fraudsters are spending less time trying to hack through hardened systems when they can simply manipulate an employee into handing over the keys. By creating a false sense of urgency, they trick people into approving payment changes, sharing login credentials, or bypassing established controls. The most effective defense is routine training, dual approval for payment changes, and regular testing to ensure employees follow the processes designed to protect the organization.

John Carney
Head of Operational Risk
Key Commercial Bank

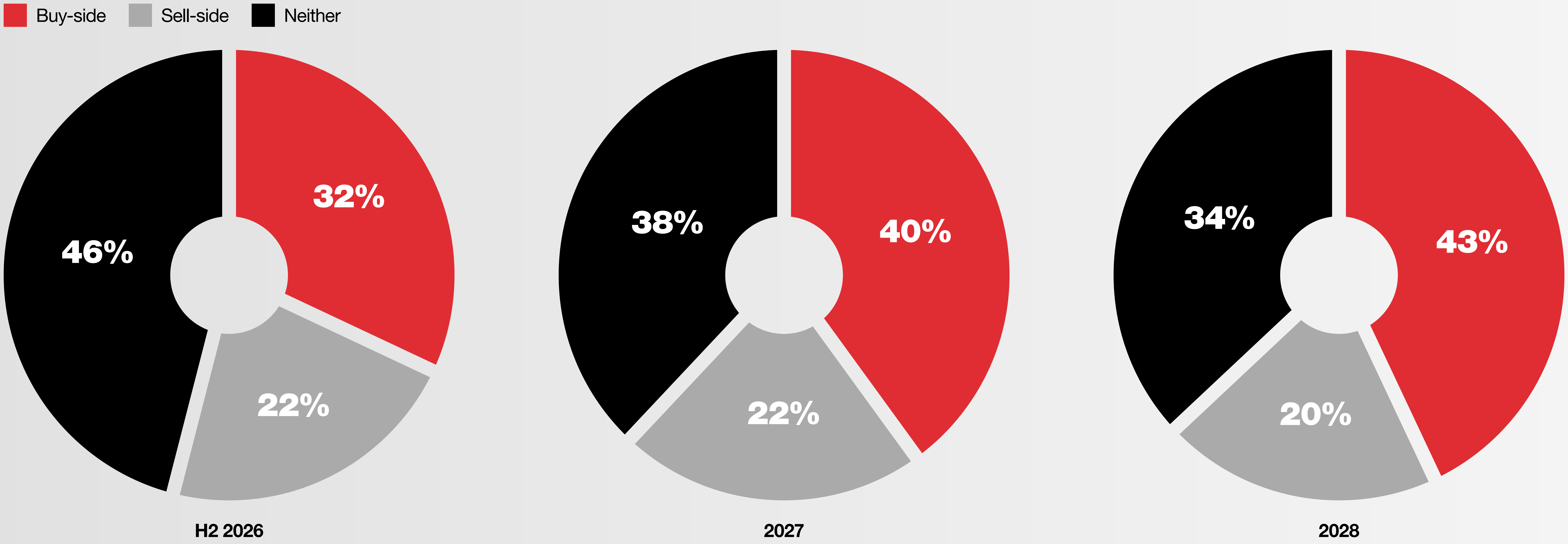
Which of the following does your company plan to implement in the next 12 months as part of its cybersecurity efforts?

Mergers & acquisitions

Buy-side appetite builds toward 2028

Buy-side intent starts at 32% for the second half of 2026 and climbs to 43% by 2028, while sell-side interest holds near 20% throughout. Near-term appetite eased compared to late 2025, but the longer horizon held firm. The pattern points to deferral rather than retreat, with buyers positioning for acquisitions once conditions and valuations clarify.

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



Culture is the challenge both sides share

Buy-side and sell-side challenges differ at the top but converge on fit. Cultural considerations rank among the leading hurdles for both, cited by 42% of buyers and 49% of sellers. Deals that clear financing and diligence can still fail on chemistry. The firms that treat culture as diligence, not afterthought, hold the advantage.

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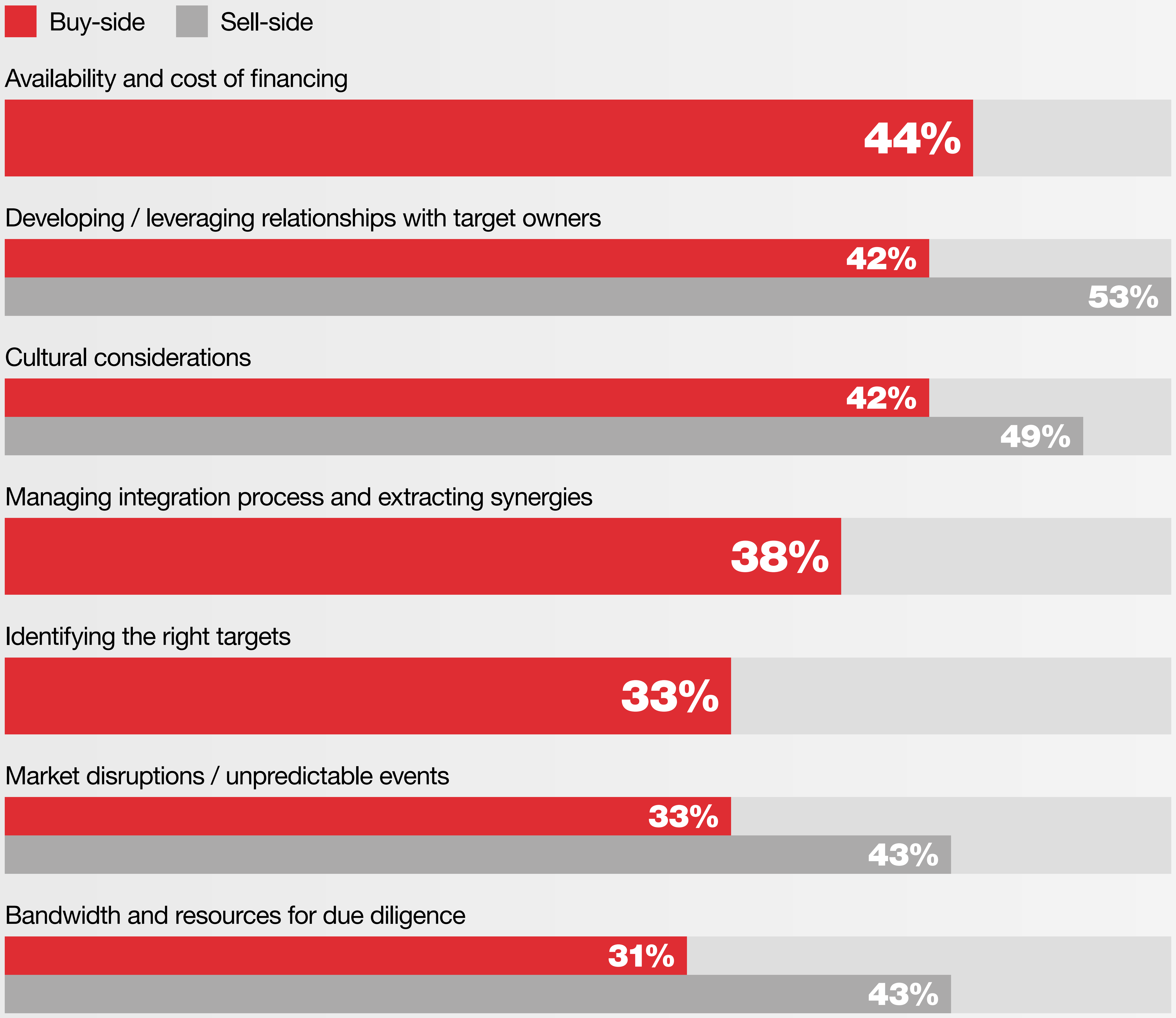
It's a volatile environment, no question, but our clients remain confident in their own businesses, and you see that in the deal pipeline. Buy-side intent builds steadily through 2028. What that tells me is buyers are extending the timeline and setting higher bars for transactions, not exiting the market. Dealmaking is not without execution risk, and buyers know it, which is why financing and integration planning matter more than ever. Sellers should use the runway to firm up their narrative and their numbers. When conditions clarify, this market will move quickly.

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

Highest across revenue | Lowest across revenue

		$10MM - $250MM	$250MM - $500MM	$500MM - $1B
% Excellent / Very Good	U.S. Outlook	49%	61%	46%
	Company Outlook	76%	81%	80%

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	57%	62%	56%
	Improvements in technology	50%	56%	50%
	Implementation of automation/artificial intelligence (AI)	45%	49%	59%
	Ability to attract and/or retain talent	42%	44%	43%
	Supply chain network	34%	33%	40%
	Interest rates	34%	30%	32%
	Current business pipelines	30%	35%	23%
	Ability to raise prices	29%	23%	38%
	Tax rates	27%	29%	31%
	Energy costs/Carbon tax policy	25%	28%	31%
	Tariffs / trade agreements	24%	33%	31%
	Current state of cybersecurity	24%	29%	27%
	M&A activity	12%	10%	8%

Summary by industry

Highest across revenue | Lowest across revenue

		Manufacturing	Construction	Healthcare Non-Insurance	Business & Professional Services	Technology	Automotive – Manufacturing/ Dealerships	Retail	Transportation & Logistics	Energy
% Excellent / Very Good	U.S. Outlook	49%	49%	39%*	40%	52%	**	65%	39%*	**
	Company Outlook	81%	73%	78%*	74%	82%	**	86%	64%*	**

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

		Manufacturing	Construction	Healthcare Non-Insurance	Business & Professional Services	Technology	Automotive – Manufacturing/ Dealerships	Retail	Transportation & Logistics	Energy
% of businesses selecting each factor as a reason for high company outlook	Tariffs / trade agreements	21%	28%	29%*	29%	27%	**	19%	**	**
	Energy costs/Carbon tax policy	27%	22%	21%*	22%	23%	**	29%	**	**
	Tax rates	29%	24%	22%*	40%	33%	**	21%	**	**
	Supply chain network	42%	37%	41%*	32%	34%	**	31%	**	**
	Interest rates	28%	46%	25%*	42%	32%	**	28%	**	**
	Ability to attract and/or retain talent	43%	33%	34%*	42%	58%	**	48%	**	**
	Current state of cybersecurity	24%	22%	27%*	21%	37%	**	24%	**	**
	Improved efficiency in business operations	54%	59%	57%*	57%	66%	**	69%	**	**
	Improvements in technology (unrelated to automation and/or AI)	52%	51%	48%*	56%	60%	**	56%	**	**
	Ability to raise prices	36%	28%	21%*	26%	33%	**	26%	**	**
	Current business pipelines	24%	40%	16%*	44%	39%	**	19%	**	**
	Implementation of automation/artificial intelligence (AI)	47%	42%	44%*	49%	64%	**	59%	**	**
	M&A activity	11%	6%	10%*	11%	13%	**	9%	**	**

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

Summary by region

Highest across revenue | Lowest across revenue

		Northeast	Midwest	South	West
% Excellent / Very Good	U.S. Outlook	50%	47%	54%	52%
	Company Outlook	79%	76%	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	22%	28%	28%	30%
	Energy costs/Carbon tax policy	25%	18%	31%	34%
	Tax rates	30%	27%	28%	27%
	Supply chain network	32%	32%	39%	38%
	Interest rates	35%	26%	35%	37%
	Ability to attract and/or retain talent	33%	37%	49%	53%
	Current state of cybersecurity	27%	21%	24%	30%
	Improved efficiency in business operations	53%	58%	53%	65%
	Improvements in technology (unrelated to automation and/or AI)	47%	50%	51%	56%
	Ability to raise prices	24%	33%	31%	31%
	Current business pipelines	29%	24%	28%	36%
	Implementation of automation/artificial intelligence (AI)	45%	44%	41%	61%
	M&A activity	9%	7%	14%	15%

With a clear view of the middle market and the forces shaping it, KeyBank helps businesses plan ahead, turning complexity into clarity and growth into lasting advantage.

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 Sentiment Survey," April 28 – May 27, 2026. KeyBank's Middle Market Sentiment surveyed more than 700 owners and executives of businesses with $10 million to $1 billion in annual revenue.

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