The Force Awakens – Churchill 2Q Private Equity Survey (Part One)

THE LEAD | July 14, 2025

Life happens at inflection points. This goes for capital markets as well. Whether changes in interest rates (high to low), or economic cycles (growth to recession), being alert to those subtle shifts allows astute asset managers to lean into investment strategies more effectively.

The challenge today is unpredictable trade policies have created false signals, particularly in liquid markets where traders can pivot on a dime. Headline risk increases the whipsaw effect of rapidly changing prices in a confused environment. “As good as our stats are, they just weren’t made for these kinds of very large moves in policy that cause a knee-jerk reaction,” KPMG’s chief economist, Diane Swonk, reports. “It makes it even harder to read the tea leaves.”

Private capital, with fewer facets exposed to macro dynamics, has been a boon to institutional and wealth investors for price and valuation stability. But visibility on what exactly moves the asset class is less public and therefore invites suspicion.

A good example of this is private equity dealmaking. The slowdown in global M&A since 2021 was real, with financing costs hampered by central banks’ rate hikes. But its comeback is real as well. Slowly, as rates peaked in 2024, corporate buying and selling is recovering. PE transactions, especially in the middle market, are less about investment bank auctions and more about strategic acquisitions by operating partners with deep knowledge in niche markets.

Being an LP in over 400 (and on advisory boards of 300) middle market private equity funds provides a unique window on the investing environment. Our recent survey of 164 PE executives revealed new confidence in both their deal activity and returns. One-quarter believe M&A will resume to normalized levels as early as the second half of this year. Over half think that will happen sometime in the first half of 2026.

All M&A is not created equal. The best middle market PE investors don’t rely on large investment bank-generated auctions. Their operating partners have decades of experience searching for industry niches ripe for growth and consolidation. Then they work to develop an “angle” or “edge” to give them at a competitive advantage. This includes years of strategic planning and conversations with company founders and management teams. So when the seller does hire an advisory firm, the PE firm is already the favored buyer.

What kind of businesses qualify for this type of investing? Not coincidentally they are often US-centric and service-oriented with proven, stable growth through the last decade of multiple macroeconomic and market gyrations. Good examples showing up in our pipeline this year include accounting firms, insurance agencies, pest control, and commercial landscaping.

In each case, smaller companies find themselves at a growing disadvantage relative to larger peers. Having an experienced PE partner provide capital for organic growth and add-on acquisitions as well as advisory support allows founders and management to be successful in an increasingly challenging world. It can result in a higher sales multiple when the sponsor eventually exits down the road.