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# Market Liquidity And Middle-Market M&A: Waiting For The Breakthrough

Guest Author September 22, 2025



By *Michael Mufson*

The M&A markets tend to be generally efficient and will eventually find equilibrium. Since late 2024, M&A professionals have been forecasting an improving favorable middle-market environment. As we enter the final quarter of 2025, however, that shift has yet to materialize.

Private equity continues to sit on record levels of dry powder — with well over \$1 trillion earmarked for buyouts — supported by more than \$500 billion in private credit. This level of liquidity will eventually be deployed.

Many PE portfolio companies are getting “long in the tooth” with significant holdings for seven to 10 years. With PE sponsors under pressure to generate returns and return capital to LPs, the need to exit investments is mounting.

On top of this, the “silver tsunami” looms, as owners of businesses built over the past 20 to 40 years approach retirement age and seek liquidity events.

So, what’s the holdup?

## Economic headwinds

While the M&A market shows strength at the upper end, several headwinds persist. A cooling economy has muted revenue growth and earnings, making buyers more cautious on valuation.

[Ever-shifting tariff policies](#), signs of inflationary pressures, and a wary consumer add further uncertainty.

*Michael Mufson*

Against this backdrop, the [Federal Reserve](#)’s interest rate cuts raise the question: Will lower borrowing costs be enough to restore equilibrium between capital supply and deal demand?

Despite abundant liquidity, deal activity remains selective. Buyers are concentrating on companies with recurring or re-occurring revenue models — residential HVAC, roofing, pest control, IT services and other sectors with low capital expenditures and high cash flow margins.

In contrast, capital-intensive businesses that require reinvestment of a significant portion of EBITDA into equipment and infrastructure are seen as less attractive. With less leverage available, these companies draw lower valuations, leading many owners to defer a sale in hopes of better conditions.

Looking ahead, the recent Federal Reserve rate cut may serve as a catalyst. If debt costs decline, buyers may sharpen bids, and sellers may reenter the market more actively.

Still, the bottom line is that M&A momentum hinges on more than just abundant capital. For a sustained uptick, we need a more consistent earnings environment, a known and consistent implementation of the administration's tariff policy, and some renewed consumer demand. Until then, buyers will remain selective, and sellers will continue to weigh the timing of their exit carefully.

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*Michael Mufson has almost 30 years experience as an investment banker to middle market companies. Prior to the founding of [Mufson Howe Hunter](#) in 2004, he served as the founder and head of equity capital markets for Commerce Bancorp (now [TD Bank](#)). He previously served as managing director and head of investment banking for [Janney Montgomery Scott LLC](#) and was a founding partner of the Philadelphia investment bank [Foley Mufson Howe & Co.](#), which was acquired by Janney Montgomery Scott. He started his investment banking career with [Butcher & Singer](#) (now [Wells Fargo/Wachovia](#)) in 1981. Before that he was with [Arthur Young & Co.](#) (now [Ernst & Young](#)). Mufson has completed hundreds of M&A deals, private placements, recapitalizations, IPOs, follow-on financings and advisory assignments. He has served as a director of numerous public and private companies and has acted as general partner in venture capital and private equity funds. He received his bachelor's and MBA degrees from [George Washington University](#) and is a certified public accountant.*

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