Chart of the Week

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Let's Make a Deal

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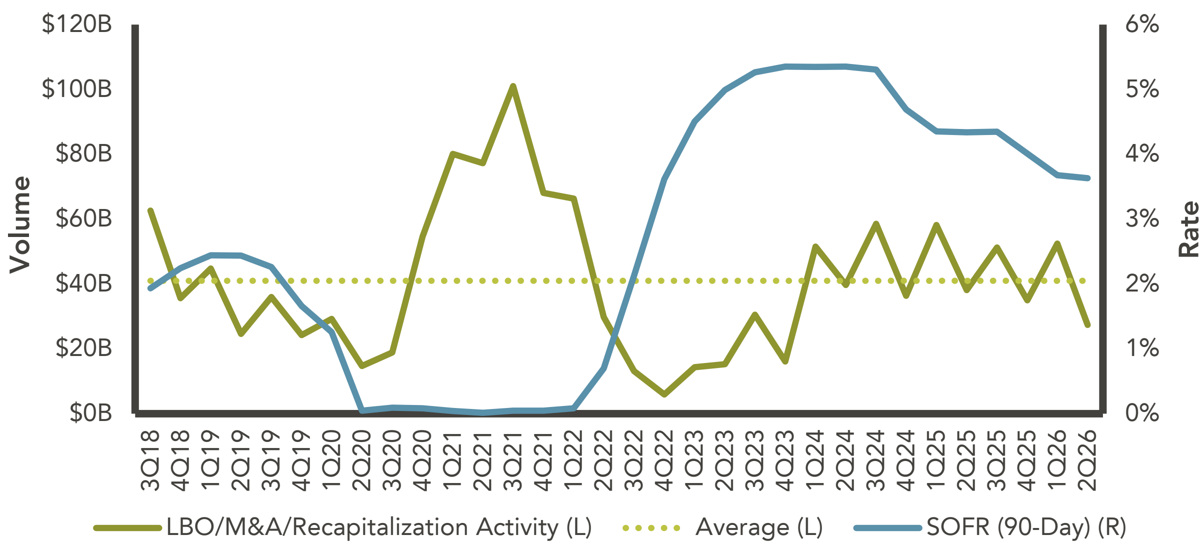
Dealmaking activity remains solid despite a slight decrease last quarter, but disciplined underwriting is critical in a higher rate environment



Source: Federal Reserve Bank of St. Louis, PitchBook as of June 30, 2026

For much of the past several years, the conventional view has been that higher interest rates and stretched valuations would keep buyers and sellers apart within private markets. While elevated base rates did indeed slow transaction activity as the market adjusted to a higher cost of capital, this dynamic did not lead to a structural freeze in dealmaking. To that point, average leveraged buyout, merger, acquisition, and recapitalization volume from the beginning of 2024 through the first half of this year was roughly $44.9 billion, only modestly below the $49.2 billion average exhibited from the third quarter of 2018 through the first quarter of 2022. These data points suggest that buyers and sellers are increasingly finding ways to bridge valuation gaps and transact within a higher cost of capital environment. It is important to note that dealmaking activity declined last quarter due to renewed uncertainty surrounding trade policy, geopolitical risks, and concerns regarding potential disruptions that artificial intelligence may cause within various industries. However, given that deal activity typically varies meaningfully from quarter to quarter, this decline could simply be a function of normal cyclicality rather than evidence of a coming slowdown.

For investors, the current environment presents both opportunities and risks. For instance, elevated base rates continue to support attractive gross yields for direct lenders, while higher debt-service burdens place

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greater pressure on borrowers and limit the ability of fund managers to financially engineer returns. As a result, underwriting discipline, downside protection, and operational value creation are likely to become increasingly important drivers of investment performance, particularly relative to the low-rate environment during which inexpensive leverage and multiple expansion played a more significant role in generating returns. Going forward, disciplined fund selection will be critical for investors, with manager performance dispersion potentially widening across both the private equity and private credit spaces.

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