Middle Market Sentiment

July 2025

Executive summary

When the 200,000 companies that power one-third of America's economy speak, it pays to listen. Defined as firms with $10 million – $1 billion in annual revenue, the U.S. middle market employs 48 million people and sets the tone for nationwide growth.[1]

KeyBank's latest Middle Market Sentiment Survey captured that voice, surveying 762 senior executives between late-April and mid-May 2025. The main takeaway is that optimism endures.

Seventy-two percent still rate their 12-month company outlook as excellent or very good, even as inflation, tariffs and rising rates loom. Capital is flowing toward AI, automation and cybersecurity, and nearly half expect to pursue buy-side M&A. All of these signals show disciplined yet forward-leaning intent.

1. Year-End 2024 Middle Market Indicator, National Center for the Middle Market

Q2 2025 responses

Base size (unweighted)

Industry

Industry	
Manufacturing	100
Construction	92
Healthcare (Insurance)	6
Healthcare (Non-insurance)	54
Commercial Real Estate	27
Business / Professional Services	103
Technology	148
Automotive (Manufacturing, Dealerships)	32
Energy	33
Retail	103
Transportation	56

Region

Region	
Northeast	155
Midwest	181
South	232
West	194

Revenue

Revenue	
$10M - $25M	111
$25M - $50M	104
$50M - $100M	173
$100M - $250M	148
$250M - $500M	109
$500M - $1B	117

Role

Role	
Business Owners	156
SVPs / VPs / Controllers / Treasurers	269
C-Suite Execs	337
CEOs (Subset of C-Suite Execs)	224
CFOs (Subset of C-Suite Execs)	126

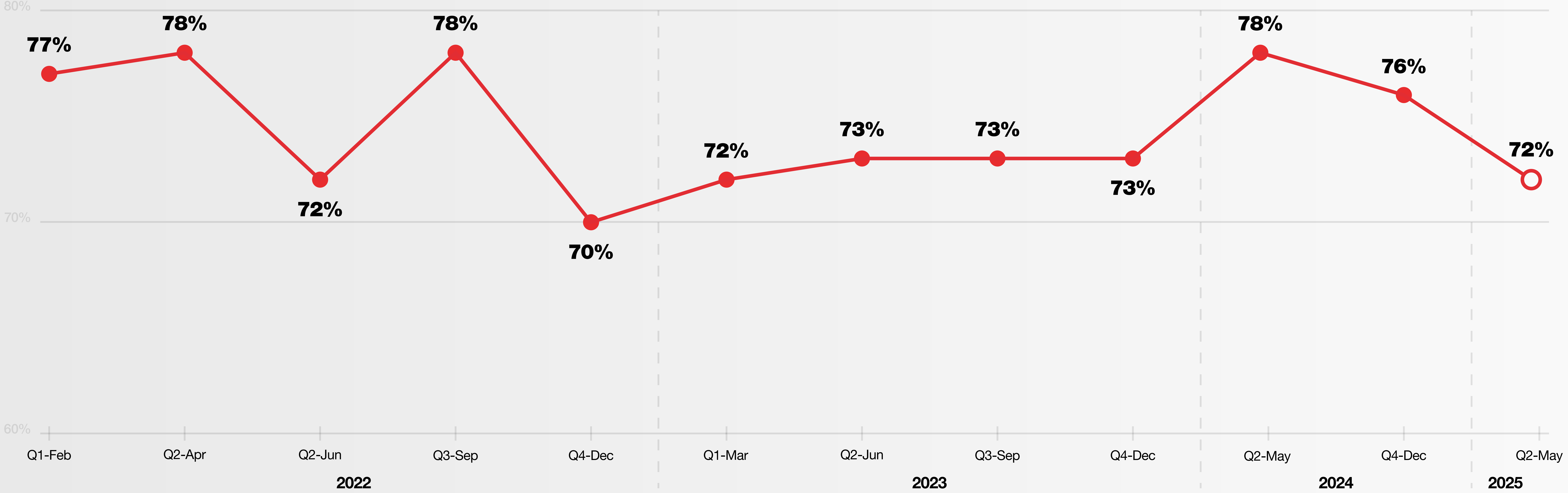
Key findings

Organizational confidence holds despite external pressures

Company confidence remains solid as 72% of respondents have a favorable outlook over the next 12 months, though some steam has come off since this time last year. Sentiment now aligns with 2023 levels, suggesting businesses still see a clear runway. Tariffs, inflation, and higher borrowing costs are the headwinds. The response? Leaner operations, smarter tech, and tighter cyber defenses to keep momentum moving forward.

Company outlook

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



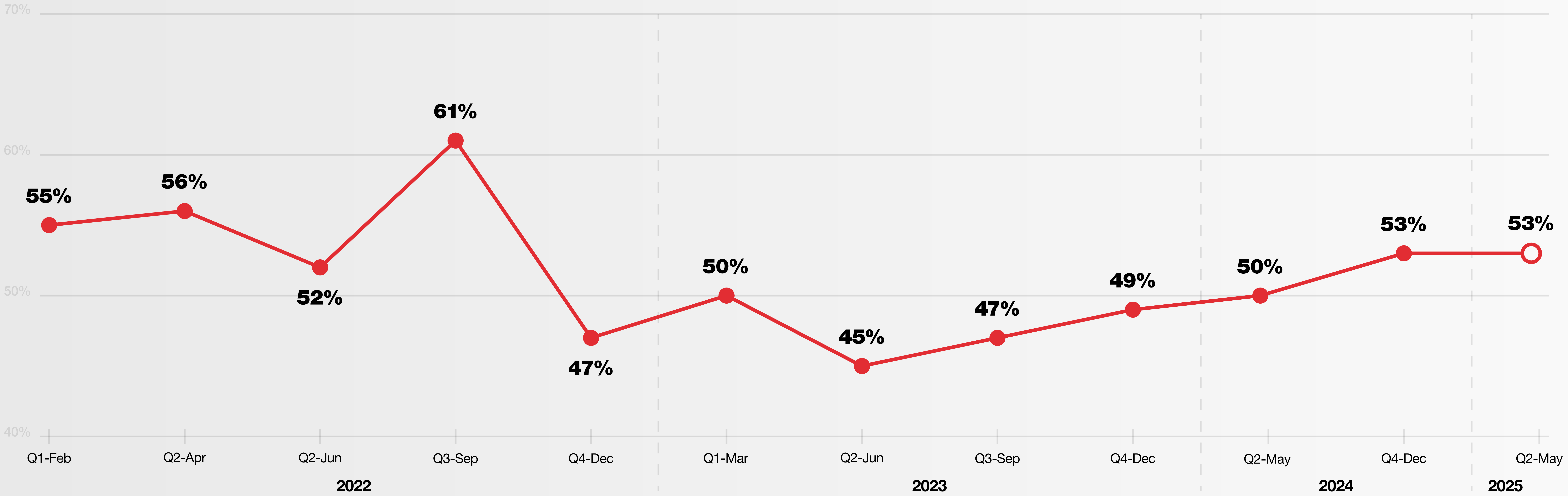
Q. How would you characterize the overall outlook for your company’s financial performance in the next 12 months?

Economic outlook steady despite policy and tariff volatility

Just over half of executives (53%) still view the year ahead favorably, matching the confidence we saw late last year and edging above spring-2024 levels. Even with shifting policies, tariff unknowns, and mixed market signals, leaders appear ready to ride out turbulence. The mood feels cautious yet resilient, underpinned by solid planning and liquidity.

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?

Tariff tailwinds, currency swings join efficiency as boosters

Leaders who feel upbeat about next year point to the fundamentals they control: leaner processes, smarter technology, and tighter cyber defenses. Those levers promise productivity gains even if demand plateaus. Meanwhile, anticipated tariff benefits — from reshoring incentives to pricing power — coupled with currency gains for exporters are edging into the positive column. Together they sit alongside tech upgrades and cyber hardening as 2025 growth catalysts.

> Many are transforming policy uncertainty into competitive advantages by leaning into operational efficiency, focusing on productivity of their teams, and strategically using pricing levers. Disruption always creates opportunity, and those middle market companies with strong balance sheets and operational agility are showing a willingness to act in this environment.

Ken Gavrity
President
KeyBank Commercial

Factors contributing to positive company outlook

	Q2 2024	Q4 2024	Q2 2025
Improved efficiency in business operations	64%	53%	51%
Improvements in technology	60%	51%	48%
Improved cybersecurity	41%	34%	40%
Ability to attract and/or retain talent	44%	34%	36%
Ability to raise prices	35%	33%	30%
Potential lower tax rates	23%	31%	29%
Better timeliness of receiving materials/commodities	35%	27%	28%
Anticipated decrease in overall inflation	30%	29%	28%
Lower costs of raw materials/commodities	28%	30%	27%
Current business pipelines	–	–	27%
Potential impact from tariffs	–	14%	25%
Lower labor costs	18%	21%	21%
Potential changes in trade agreements	23%	21%	25%
Lower energy costs/carbon tax	18%	22%	24%
Political landscape	17%	29%	20%
Currency volatility	10%	9%	17%
Lower healthcare costs	15%	16%	17%
Potential for deregulation	–	–	17%

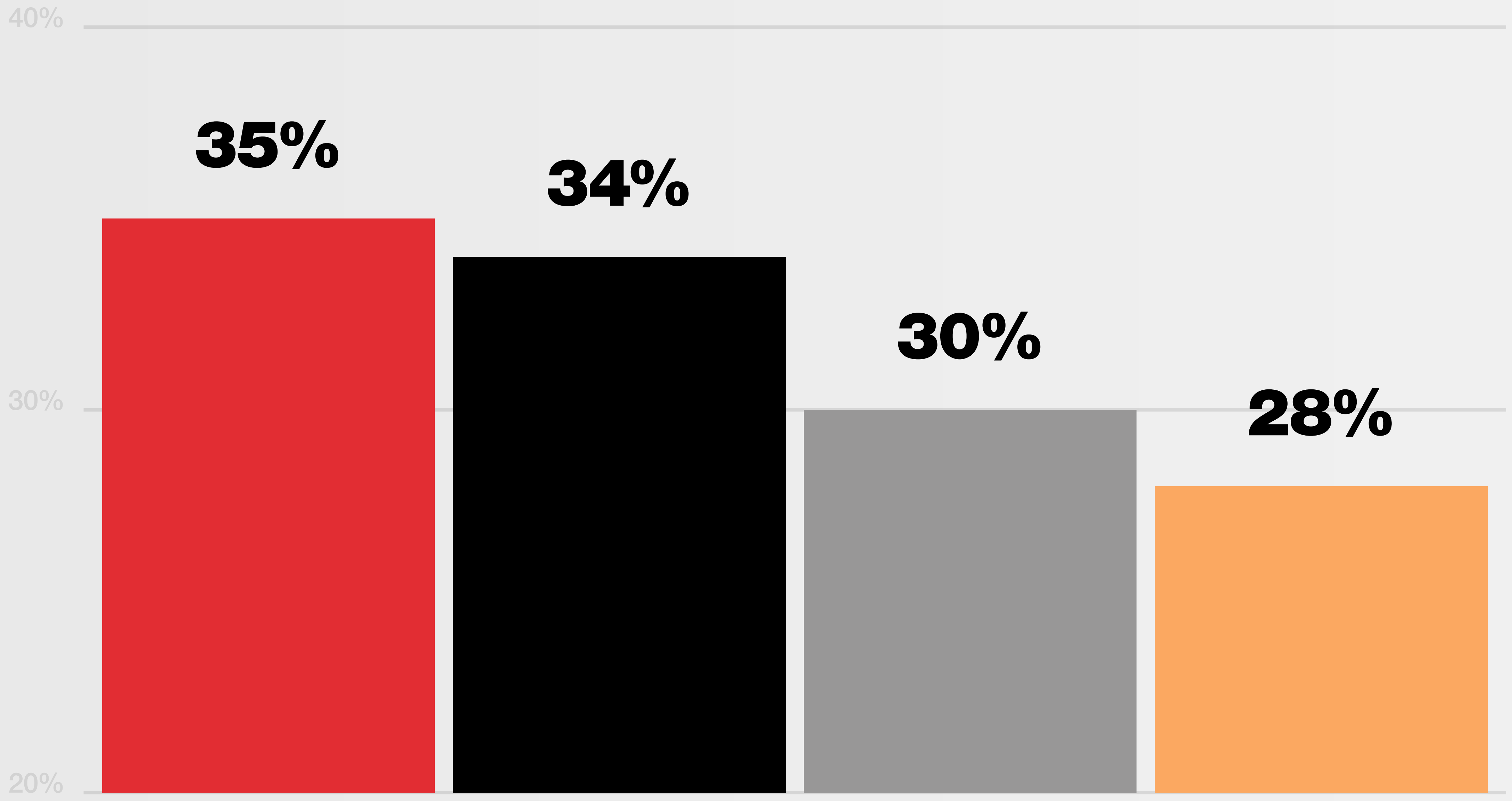
Q. What factors are contributing to your positive overall outlook for your company's financial performance?

Inflation and tariffs remain top business concerns

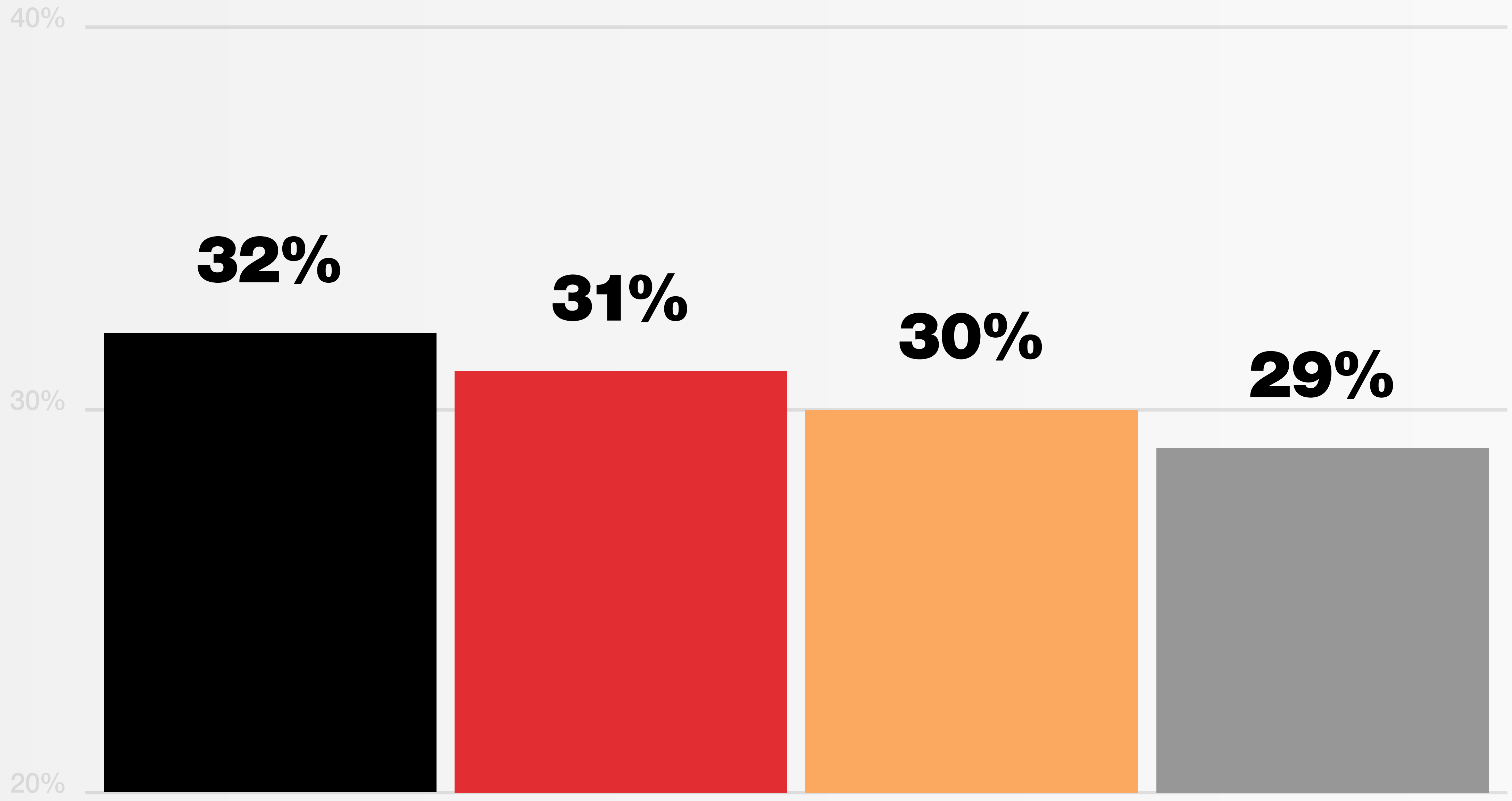
Middle market leaders still rank inflation, tariffs, labor costs, and interest rates as the biggest operational drags, but fewer expect the pain to intensify over the next 12 months. Many are banking on calmer policy moves, and their own pricing, sourcing, and productivity plays to blunt the impact. The message: headwinds persist, yet proactive actions can temper those threats down the line.

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



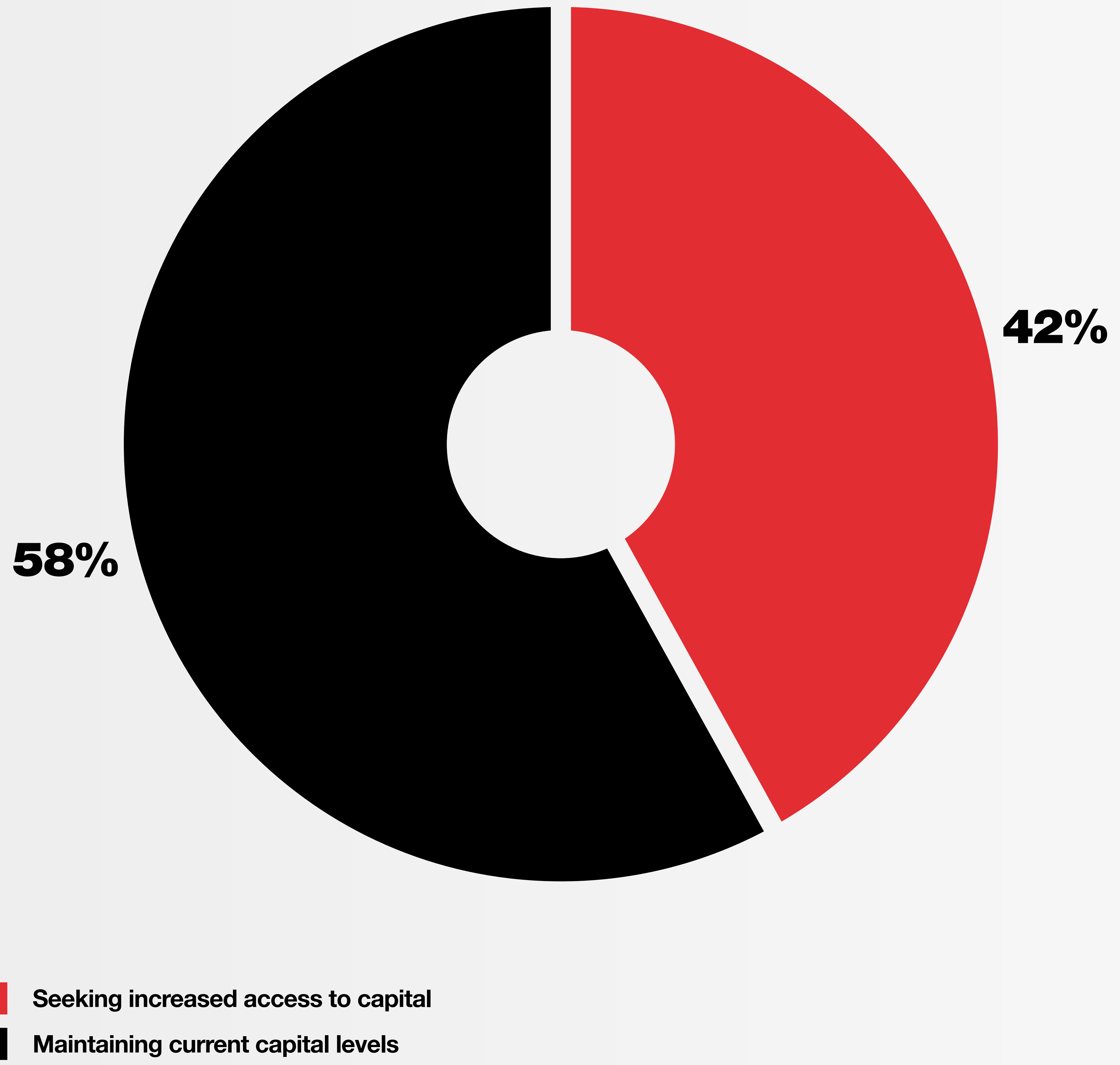
Overall increase in inflation | Potential impact from tariffs | Higher labor costs | Higher interest rates

Access to capital

Capital stance: Holding steady or gearing up to borrow

Most firms are comfortable with the cash and credit they already have, betting disciplined balance-sheet management will carry them through a choppy rate environment. Yet a sizeable 42% are actively opening new pipelines to fund expansion, M&A, or tech upgrades before borrowing costs climb again. Two camps, one shared aim: strategic growth on prudent terms.

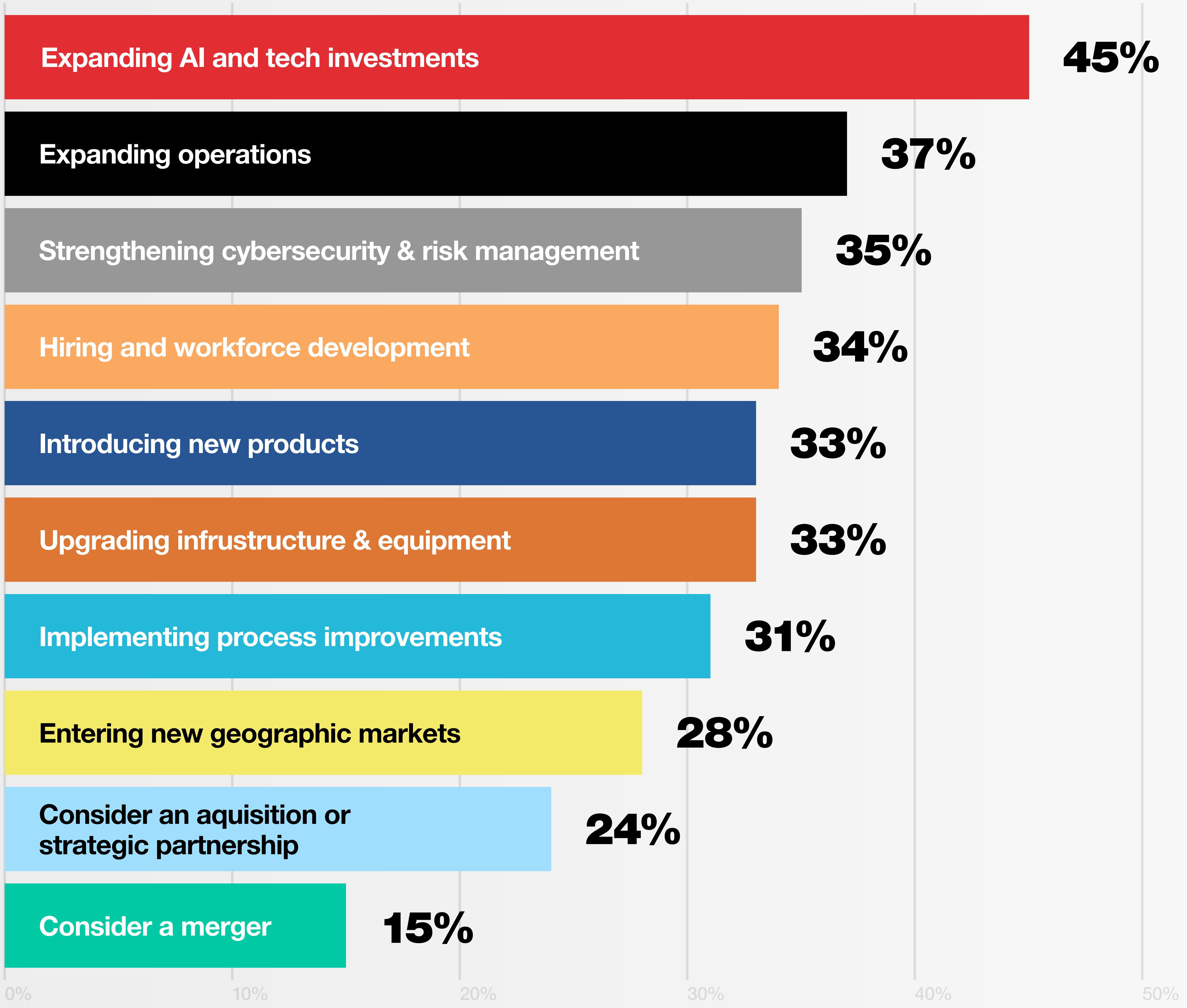
Regarding access to capital, leaders are ...



Capital fuels AI ambitions, operational upgrades lead agenda

Fresh capital is earmarked first for sharpening digital capabilities — think AI pilots, automation, and smarter analytics — followed closely by operational expansion and fortified cyber defenses. Talent growth, new-product pipelines, and infrastructure refreshes round out the shopping list. Few executives see M&A as the next move; suggesting organic upgrades promise quicker, more controllable returns.

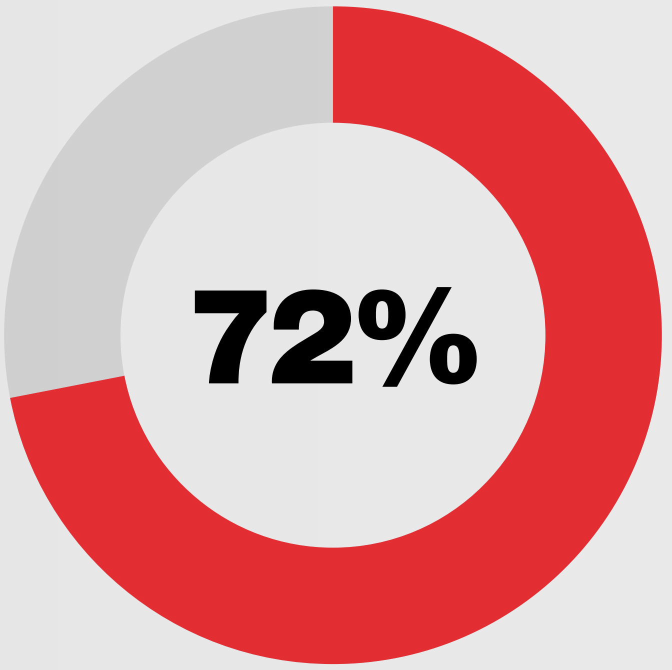
How will your company plan to use capital in the next 12 months?



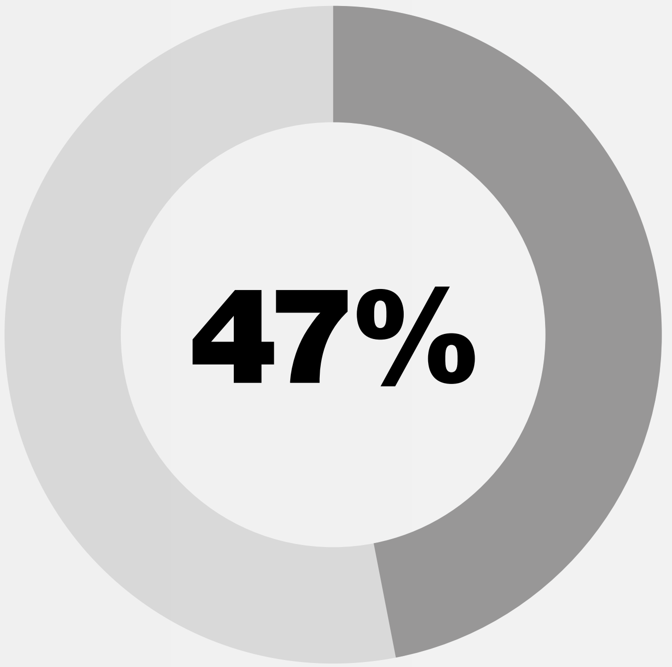
Tapping capital starts with better cash flow discipline

Most finance leaders will squeeze more from the dollars they already touch before knocking on lenders' doors. Sharpening receivables timing, inventory turns, and payment terms are the go-to levers, paired with targeted cost cuts. Only after internal slack is freed do plans shift toward fresh equity or bigger credit lines to fuel growth.

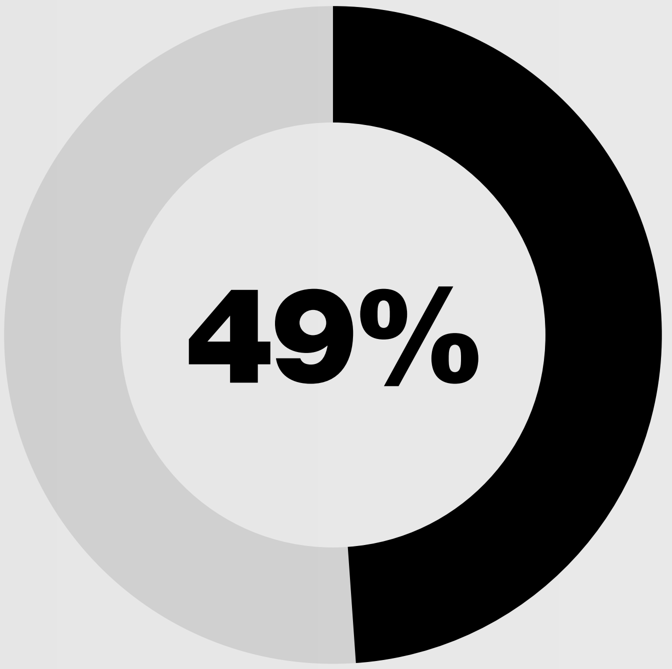
When needed, how do you plan to obtain more capital?



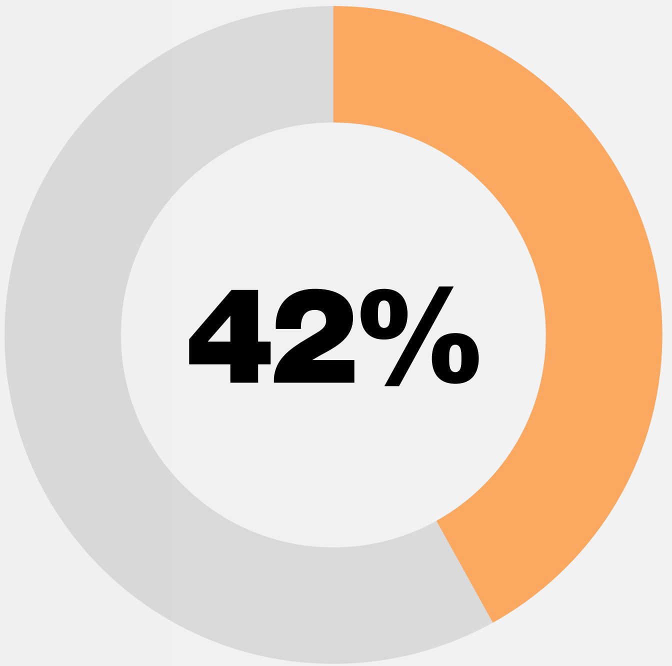
Improve cash flow management



Raising equity



Focus on cost reduction



Increasing debt capacity

Private equity and banks dominate external funding preferences

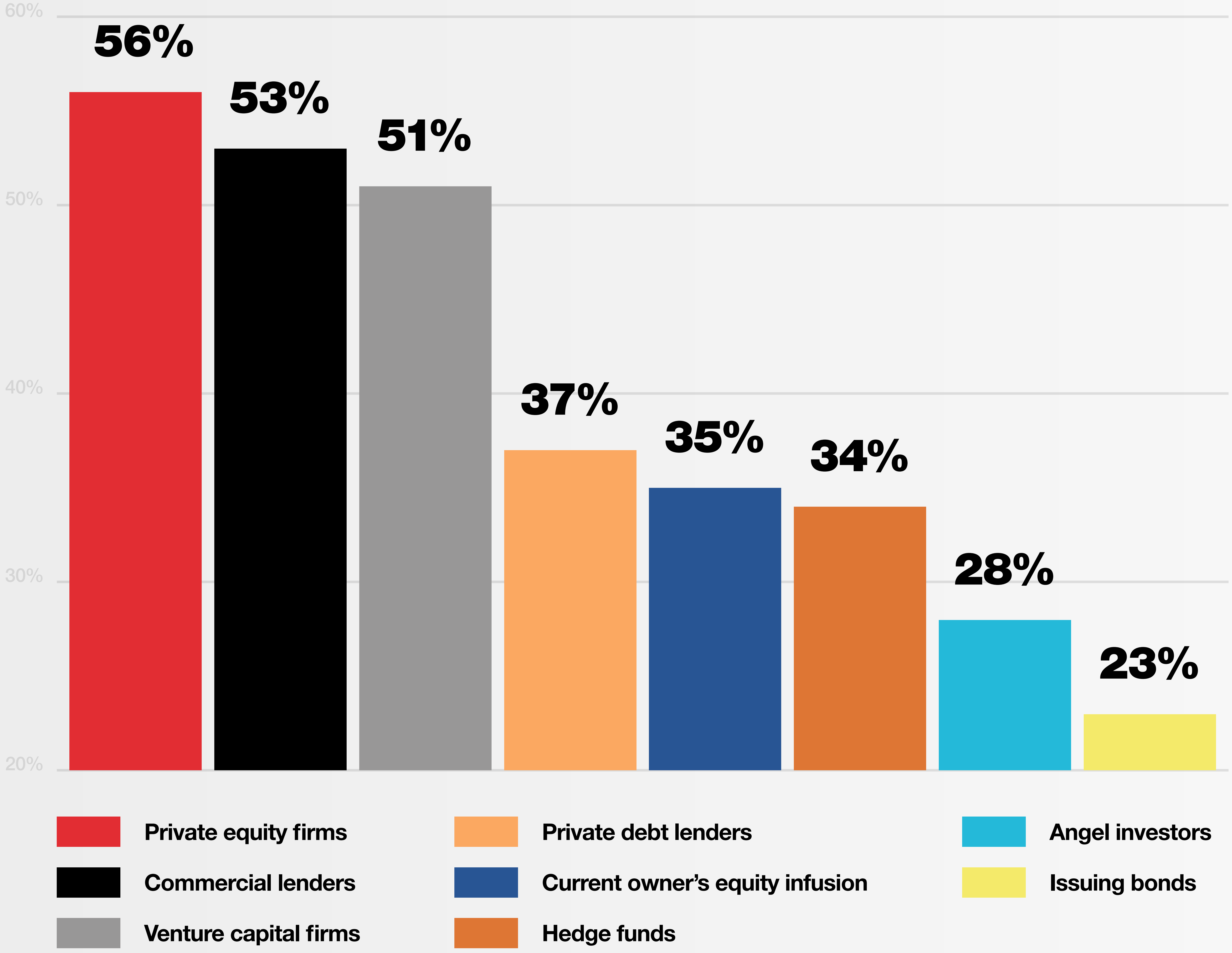
Executives split their playbook: When additional borrowing power is required, long-standing commercial banking relationships dominate — valued for flexibility, integrated treasury services, and lower borrowing costs. Private debt lenders play supporting role to fill narrower, higher-priced gaps. For fresh equity they often turn first to private-equity and venture-capital partners, prized for sector expertise and growth capital.

> The data confirms what we observe in the field: companies still value commercial lenders for senior debt, appreciating predictable pricing, high-touch service, integrated payments, and relationship-driven, value-added banking solutions. At the same time, private equity is the go-to for transformational equity injections. Each source plays a distinct role, and using both creates a balanced, durable capital stack.

Laurie Muller-Girard
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



Cybersecurity & fraud

Cyber threats, fraud touch 7 in 10 companies

Incidents are no longer outliers; they're the norm. Phishing emails and data corruption top the leaderboard, but identity theft, check fraud, and ransomware are close behind. With 72% of businesses hit in the past year, gaps anywhere in the finance-IT chain can turn costly fast. Proactive monitoring, employee training, and layered controls are now table stakes, not just luxury add-ons.

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

33%	Phishing/email spoofing	21%	Financial statement fraud
32%	Data corruption	21%	Ransomware attacks
24%	Identity theft	28%	Did not experience
23%	Check fraud		

Check fraud

Check fraud, once fading, is resurging as criminals exploit physical mail theft and sophisticated alteration techniques. Finance teams are tightening controls, accelerating digital payment adoption, and training staff to spot irregular endorsements before funds leave accounts.

> Paper checks are a weak link. Check fraud rivals ransomware claims for some mid-sized companies. The fix isn't flashy — fewer checks, daily reconciliation, and proactive fraud detection products — but can help save real dollars and preserve client trust.

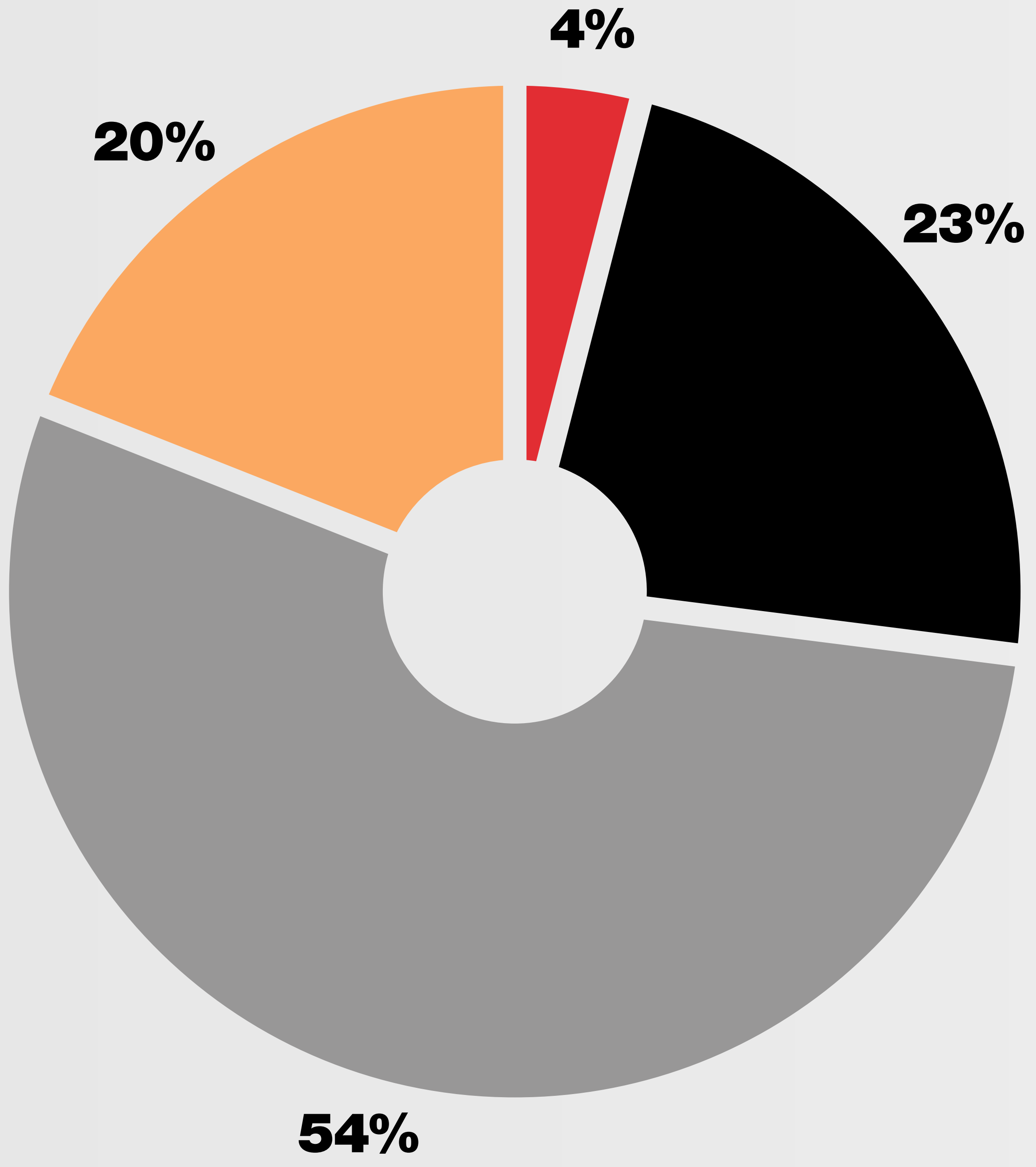
John Carney
Head of Operational Risk
KeyBank Commercial

High-confidence companies double down on cybersecurity spending plans

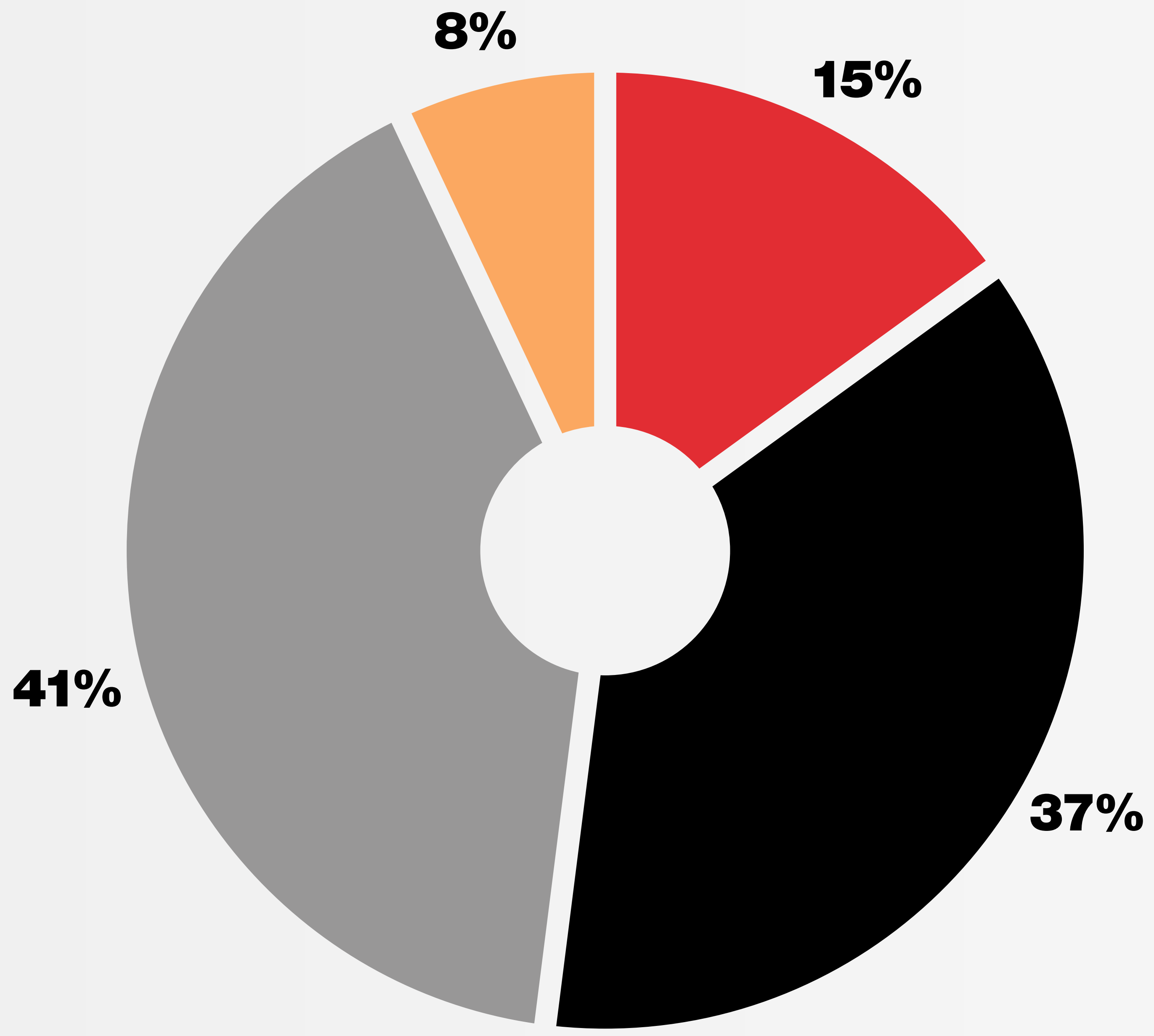
Cyber risk keeps climbing, and most organizations expect at least a moderate budget bump to keep pace. Yet companies with the healthiest outlooks are markedly more aggressive: almost none are freezing spend and one in five plans 20% growth or more. Less optimistic firms are likelier to inch forward, possibly prioritizing immediate cost restraint over long-term resilience.

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 5%)

Moderate increase (5-20%)

Significant increase (over 20%)

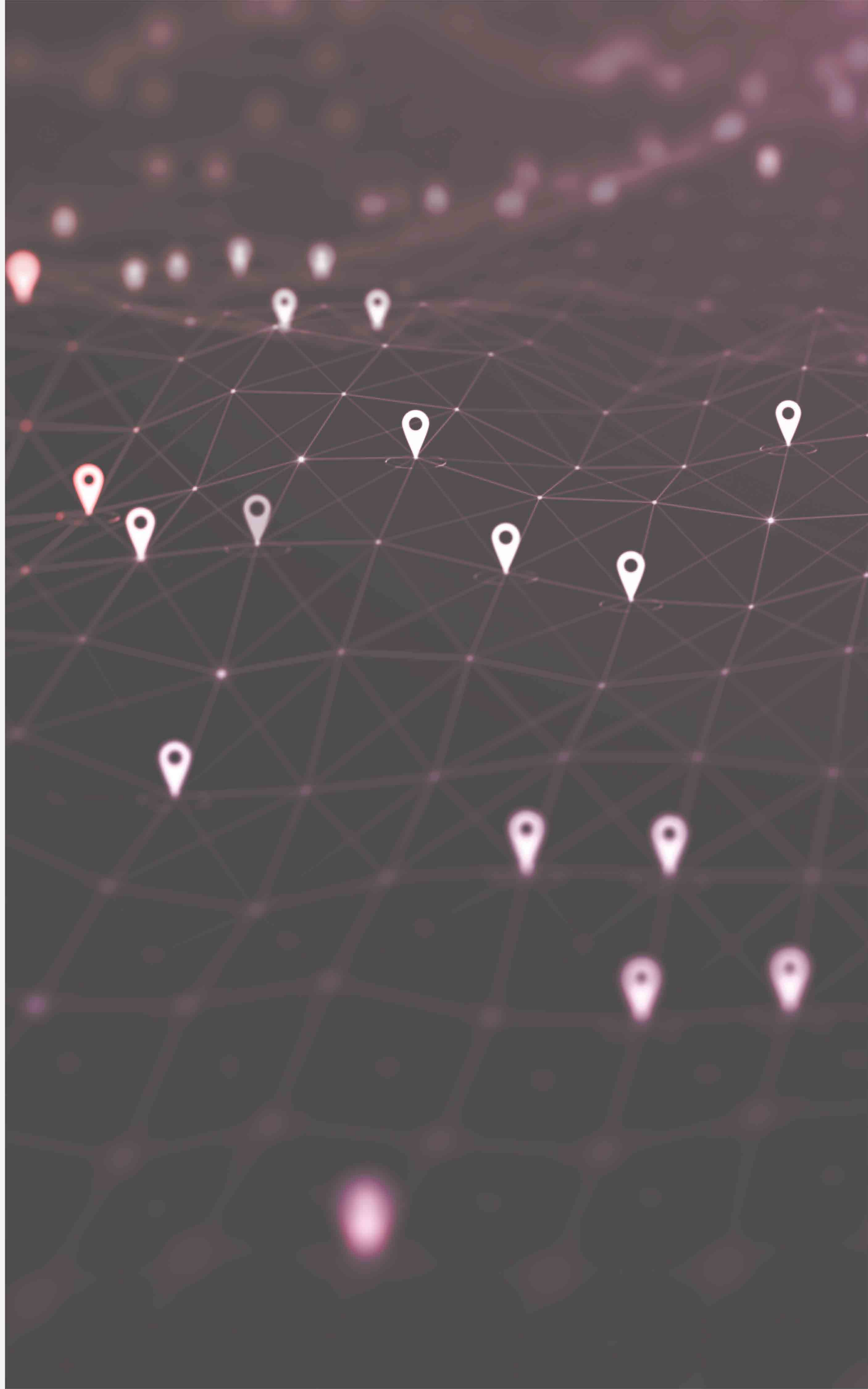
Planned defenses skew toward tools over training

Planned security upgrades lean heavily on technical controls including anti-virus, multi-factor authentication, and stronger passwords. Yet, few firms are investing in the human layer that stops breaches before they start. Fewer than one in four will formalize written policies, and barely one in five intends social-engineering training, leaving a critical gap in overall resilience.

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

40%	Anti-virus protection on all business computers
40%	Multi-factor authentication
36%	Anti-malware protection on all business computers
33%	Requiring strong passwords
31%	Security measures on computers to prevent users from connecting unauthorized devices, such as USB sticks
31%	Managed detection and response (MDR) to monitor computer environments
31%	VPN required to access company resources from outside the network
30%	Dual authorization for outgoing payments
24%	Written information on security policies and procedure
18%	Social engineering training

AI & expansion



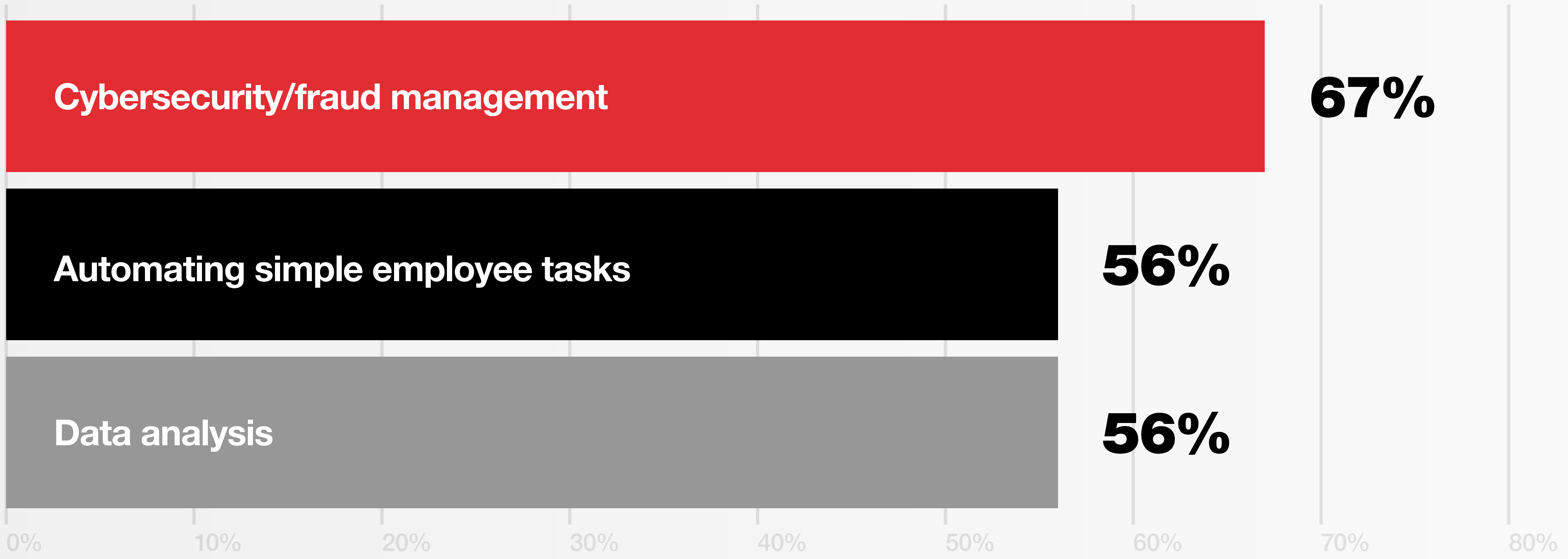
AI investment targets security, automation, and better decisions

Asked where new AI dollars will land, executives prioritize shoring up cyber defenses, freeing staff from repetitive clicks, and extracting sharper insights from their data. The payoff they're chasing is just as clear: leaner workflows, faster decision-making at the helm, and forecasting that anticipates what's ahead. In short, productivity gains driven by smarter, safer, and more predictive operations.

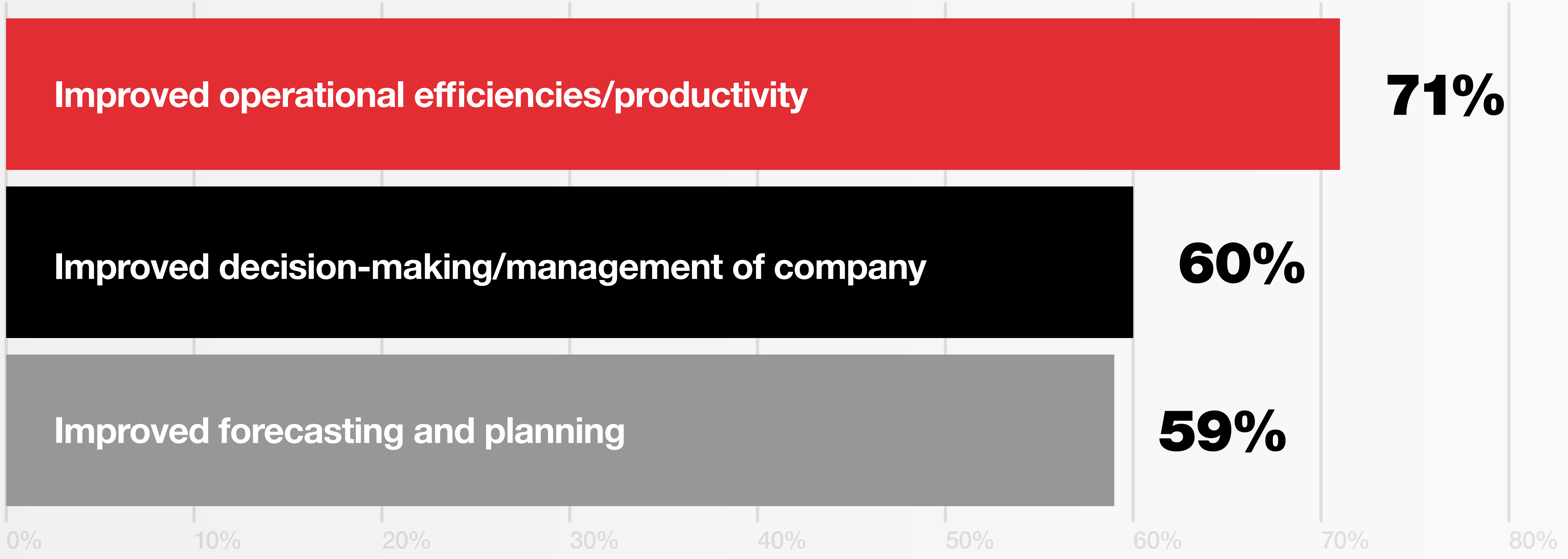
> “
>
> The best AI projects are relatively simple, start small and scale fast: secure the payments rails, streamline a repetitive workflow, prove the efficiency, then reinvest. That rinse-and-repeat cycle is how middle market companies outpace larger rivals without outspending them.

Brandon Nowac
Commercial Executive
KeyBank Commercial

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



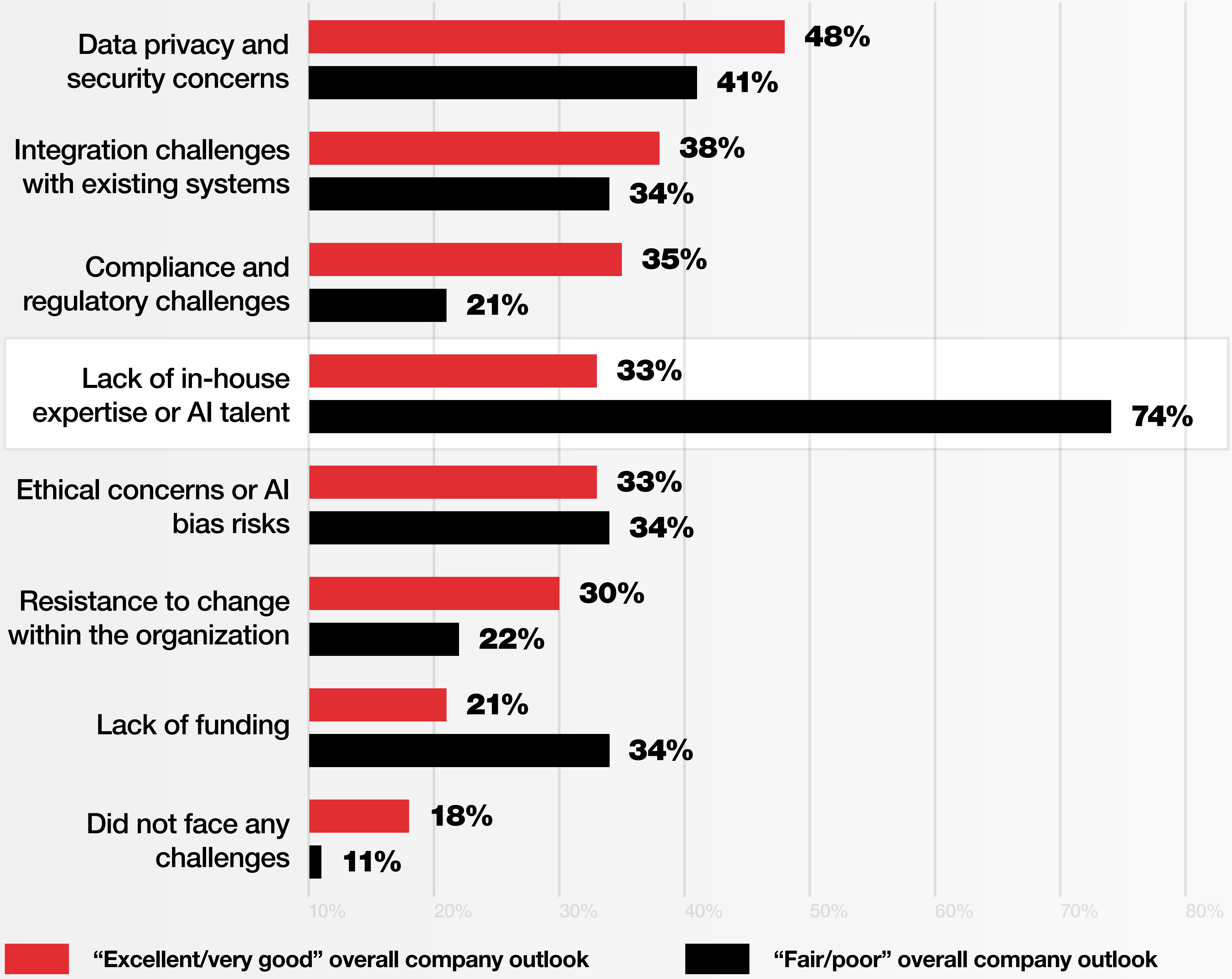
What business or economic benefits do you expect to obtain through expanding AI and technology?



Data privacy tops AI rollout hurdles; Talent gap widens

Nearly half of executives put data privacy and security at the top of their AI challenges list, edging out integration headaches and legacy-system fit. But the real fault line is talent. Confident companies tend to have specialist benches already, while those with a gloomier outlook are more than twice as likely to report an AI skills shortfall.

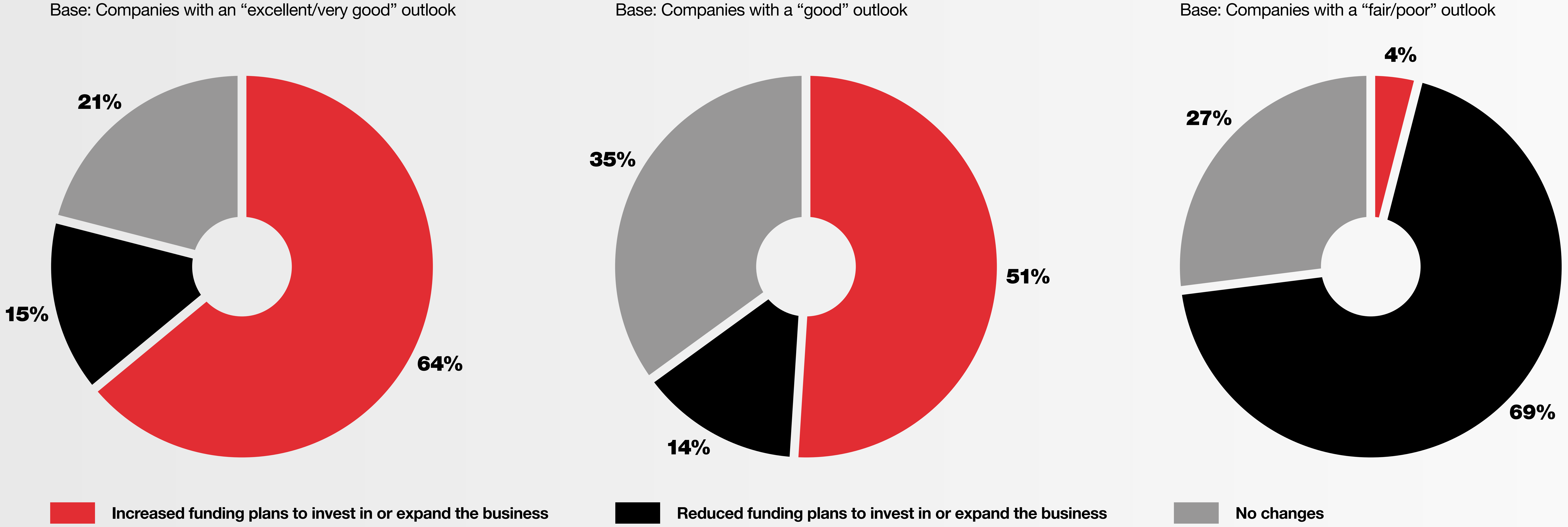
What challenges has your organization faced when implementing/planning to implement AI within your business?



Outlook splits expansion funding strategies

Expansion plans increasingly hinge on sentiment. Firms with strong outlooks mostly stay on offense — 64% are upping growth budgets while few (15%) pull back. Those with fair or poor views flip the script: nearly seven in 10 plan to trim internal funding, yet 59% simultaneously will seek fresh capital. Caution and capital-hunting replace self-funded growth.

To what degree have your company's plans to invest in or expand the scope of its operations changed in the past 6 months?

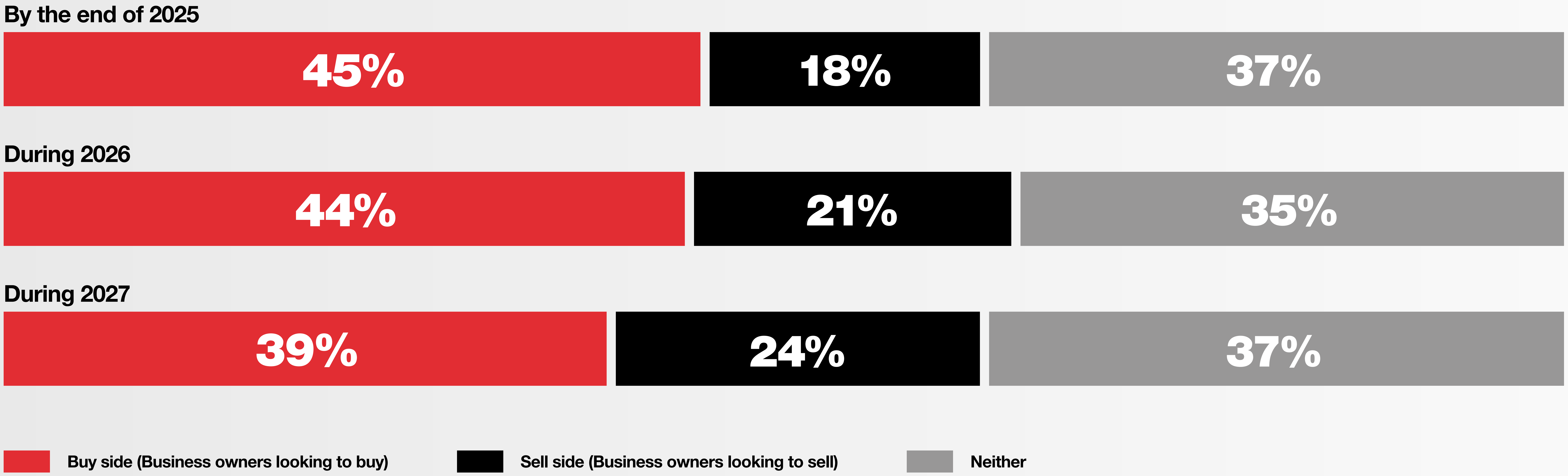


Mergers & acquisitions

Buy-side appetite holds, sell-side intent edges higher through 2027

Nearly half of middle market firms still plan to be buyers within two years, with positivity correlating to greater deal appetite. Sell-side intent remains lower but edges higher the further out we look. This might suggest some owners are grooming assets for 2027 exits while buyers position for near-term growth.

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



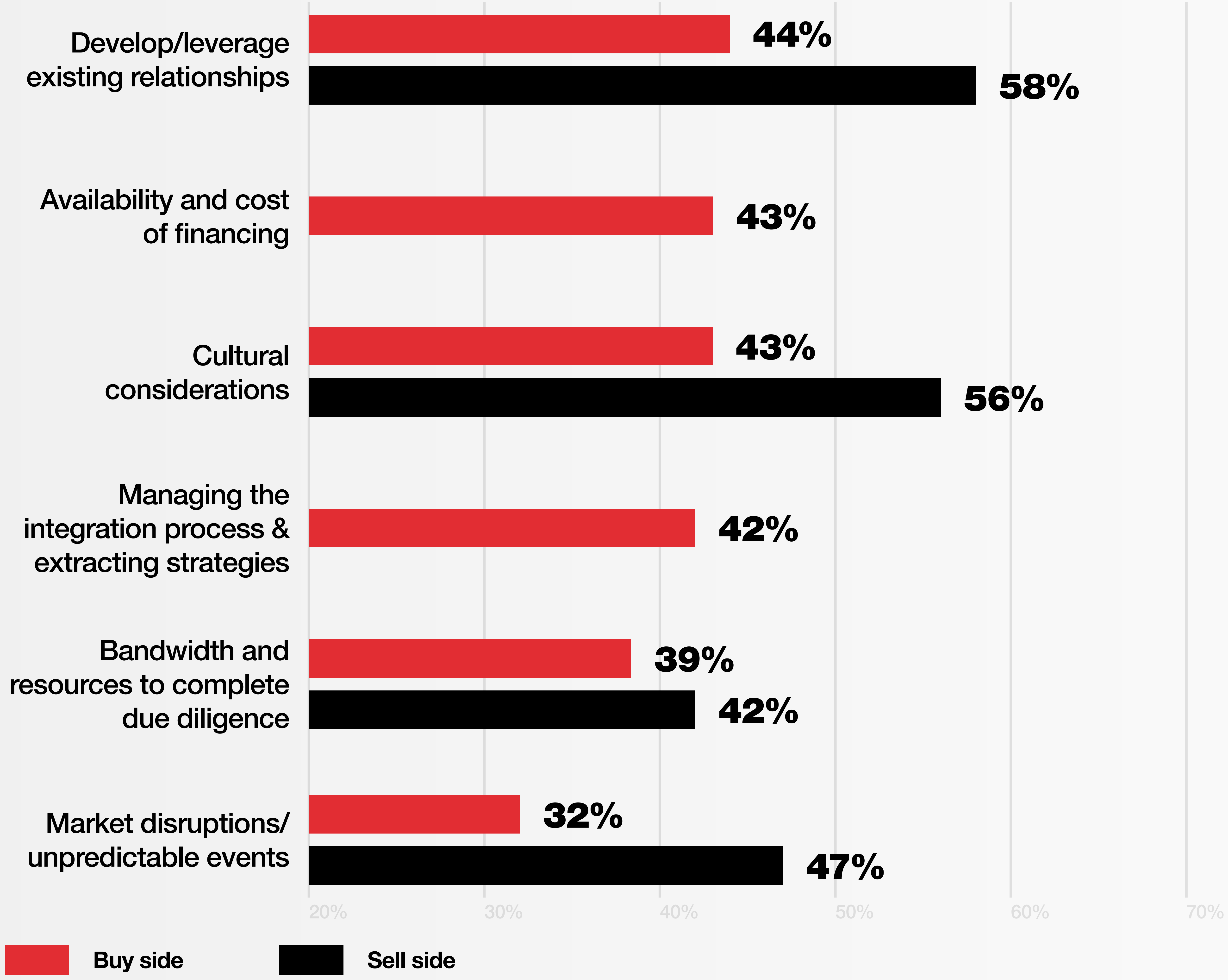
Financing and fit dominate M&A challenge struggles

Whether buying or selling, relationships and culture are the first hurdles. On the buy side, scarce and pricier debt now rivals integration headaches for top billing, alongside the hunt for targets that actually fit. Sellers, meanwhile, fear unpredictable markets and tight diligence bandwidth. In both cases, lining up capital and people's chemistry remains mission critical.

> Elevated rates haven't cooled ambition. Middle market leaders are simply sharpening pencils, structuring capital creatively, and demanding integration plans that pay back fast. With capital costs elevated, success will hinge on tighter diligence, integration discipline, and partnerships that unlock synergy faster than rates can erode returns.

Randy Paine
President
KeyBanc Capital Markets & Key Institutional Bank

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



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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," April 15 – May 30, 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 2025.