

UK and European M&A: Predictions for 2026

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In 2025, the deal environment in the UK and Europe re-established a firmer footing, with values improving even as volumes lagged pre-2021 highs. If macro stability and rate normalization persist, we anticipate a more active 2026. Periods of falling inflation and reduced volatility last year created capacity for dealmakers to re-engage, and we expect that dynamic to carry forward into 2026, with greater confidence around financing, valuation bridges and buyer appetite. Against that backdrop, we set out below six themes we expect to define UK and European mergers and acquisitions (M&A) activity in 2026.

Two-speed market dynamics

We anticipate a continued divergence between headline megadeals, which buoy aggregate value, and a steadier recovery in the mid-market, where volumes are likely to normalise gradually through 2026. In the last cycle, deal values in the UK rose even as volumes softened, underscoring how large-cap transactions can lift totals despite a thinner base of activity — an effect we expect to persist. At the same time, mid-market sellers and buyers work through pricing and diligence frictions. Improving financing conditions, driven by lower benchmark rates and more competitive debt markets, could accelerate a mid-market rebound by easing leverage constraints and narrowing bid-ask spreads. That said, historical experience since 2021 suggests value recovers faster than volume, and mid-market M&A can take longer to fully regain momentum even as sponsors face pressure to deploy capital. On balance, we expect 2026 to feature a handful of outsized strategic and sponsor-backed deals alongside an incremental increase in mid-market transactions, aided by improving debt appetite and lender competition.

Heightened regulatory review

We expect regulatory timetables to continue lengthening in 2026, requiring earlier and more intensive workstreams on antitrust and foreign investment review, from heads of terms through signing. In the UK, due to recent updates to competition laws expanding the breadth of the powers held by the Competition and Markets Authority (CMA), we will likely see the CMA's powers used more frequently

to intervene in deals and, as digital markets continue to grow, we may see the CMA paying closer attention to acquisitions involving data-rich companies.

National security scrutiny under the UK's National Security and Investment (NSI) regime will remain a prominent consideration for transactions in sensitive sectors and for acquirers from higher-risk jurisdictions, reinforcing the need for NSI strategies from the outset. We also expect foreign investment review to remain a critical path item in certain cross-border transactions, particularly where critical supply chains or strategic assets are implicated.

Portfolio reshaping accelerates

We anticipate that corporate boards will continue to prioritise balance-sheet resilience and future-proofed business models, and that corporates will accelerate their efforts to streamline operations and focus on core competencies. This is likely to catalyse a further wave of spin-offs, carve-outs and divestitures in 2026, even where valuation signals are mixed, as businesses look to shed non-core units and unlock value.

With financing becoming more available and strategic acquirers sitting on cash, we expect buyer demand for focused assets to increase. Lower borrowing costs should also facilitate separation-ready capital structures, enabling carve-out buyers to stretch on price and terms, which may help bridge valuation gaps that may have previously hampered activity.

AI and digital infrastructure drive deal flow

We anticipate that technology and data-rich assets will remain priority targets for venture capital firms, strategics and financial sponsors, reflecting the outperformance of digital-first models and the desire to acquire capabilities that accelerate product roadmaps.

We also anticipate sustained investment in digital infrastructure across a range of companies from start-ups to more mature businesses, supported by comparatively stronger US buyer appetite and favourable currency dynamics that enhance transatlantic purchasing power. Transactions in sensitive tech verticals should assume deeper merger control and national security scrutiny, with deal-makers planning for clearance-driven sequencing and remedy design early in the process.

From a deal-process perspective, we expect the broad adoption of generative AI and data-driven workflows to compress certain aspects of the diligence timeline.

Cross-border capital flows re-accelerate

We expect US bidders to remain active in the UK and Europe in 2026, supported by relative US macro strength, a firm US dollar and valuation spreads that make European assets comparatively

attractive. 2024 and 2025 already saw an uptick in US inbound activity and a greater prevalence of US-style terms in UK acquisitions, a pattern we anticipate will persist. Conversely, international buyers are likely to keep targeting US assets where domestic growth and scale economics remain compelling, although foreign investment controls will continue to shape deal selection and structuring. For UK sellers, heightened US engagement should help clear processes and bolster competitive tension across both mid-market and large-cap auctions.

Distressed and special situations uptick

We anticipate a modest increase in distressed M&A and lender-led restructurings through 2026 as maturities on 2021 – 2022 debt packages bite into constrained borrowers and as incremental rate relief only partially offsets refinancing costs. Lower rates should ease some pressure, but not uniformly or immediately, and credit fund competition, while lowering borrower costs, may not fully bridge coverage gaps for stressed credits, prompting consensual sales, amend-and-extend solutions and selective enforcement. Sponsors with dry powder and sector expertise are likely to lean into complex special situations, including carve-outs from leveraged corporates and rescue structures, supported by increasingly creative financing packages.

Outlook

Despite ongoing geopolitical risk and policy uncertainty in parts of Europe, we are cautiously optimistic that 2026 will be a busier year for UK and European M&A than 2025, supported by a friendlier rate environment, greater regulatory predictability on conditional clearances and strong transatlantic buyer interest. As ever, careful planning around regulatory pathways, separation readiness and financing optionality will be decisive in securing execution certainty at attractive valuations.

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