

ENTERING 2026 WITH MOMENTUM

Annual Commercial Market Outlook by Valley Bank



THAT'S
HOW.

Overview

Middle-market companies are entering 2026 from a position of strength, having reported strong financial performance, improved productivity, and high levels of customer and employee retention in 2025. Most business leaders remain optimistic about the future, but they are also realistic — recognizing that growth must be supported by greater efficiency, tighter cash management, and a focus on sustainable operations.

Despite these gains, businesses continue to face challenges such as cash-flow timing gaps, rising costs, and external pressures like inflation and global uncertainty. As a result, companies are prioritizing solutions that drive efficiency, improve customer loyalty, and leverage technology and data to navigate an increasingly complex environment. The emphasis for the year ahead is on practical execution and resilience, ensuring that operational improvements translate into long-term, stable growth.

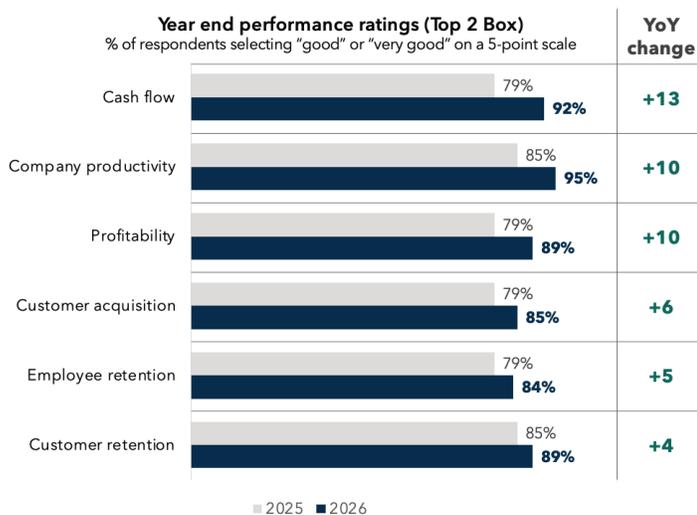




Entering 2026 with Momentum

Middle-market companies finished 2025 in a strong position. Across nearly every core measure, most firms reported positive performance. Productivity, cash flow, customer retention, profitability, and revenue growth were all rated highly, signaling that many businesses are operating from a place of stability.

Compared with last year, the performance gains are even more telling. Cash flow jumped from 79% to 92%, productivity rose from 85% to 95%, and profitability increased from 79% to 89%. Customer acquisition, retention, and employee retention saw spikes as well. These gains show that many firms entered 2026 from a healthier financial and operational position than they held a year earlier.



At the same time, the market is becoming harder to navigate. A larger share of business leaders now say inflation and interest rates are difficult to manage, rising from 45% to 57% year over year. Concerns about geopolitical tensions and trade policies also grew, from 41% to 52%. Even productivity, which saw a strong improvement from previous years, feels harder to sustain, with difficulty rising from 38% to 29%. In short, businesses are performing better but are doing so in a more demanding landscape.

The three-year outlook captures this balance between confidence and pressure. Optimism remains extremely high at 93%, essentially unchanged from last year's 92%, with 52% of business leaders saying they are very optimistic. This suggests companies still believe in their direction and their markets. However, external factors like inflation and global uncertainty are challenging that optimism.

What this means:

While internal operations have become more stable, external challenges like inflation, interest rates, and global uncertainty are increasing, making the business environment tougher to navigate. Business leaders should recognize that while their organizations are healthier, the main risks now come from outside the company, requiring continued vigilance and adaptability.



The 2026 Priority List

When business leaders are forced to choose which initiatives matter most, their priorities become very clear. Six key initiatives stand out as major areas of focus.

- 01 Financial & Operational Efficiency:**
Businesses are laser-focused on running leaner and smarter, making sure cash is managed well and processes are streamlined.
- 02 Customer Retention & Loyalty:**
Keeping customers happy and coming back is almost as important as efficiency.
- 03 Pricing Strategy & Cost Efficiency:**
Companies want to get their pricing right and control costs.
- 04 AI & Machine Learning Adoption:**
More firms see the value in using artificial intelligence to spot fraud, forecast trends, and handle exceptions automatically.
- 05 Data Analytics & Business Intelligence:**
Companies want better tools to understand their financials and make faster, smarter decisions.
- 06 Technology-Driven Efficiency:** Automating accounts receivable and payable, and integrating these with other business systems, is a growing focus.

What this means:

The next year is about execution. Efficiency, retention, and cost discipline are not side projects. They are the core agenda. The companies that do well will choose a few priorities and build systems that support them, rather than spreading effort across too many initiatives.





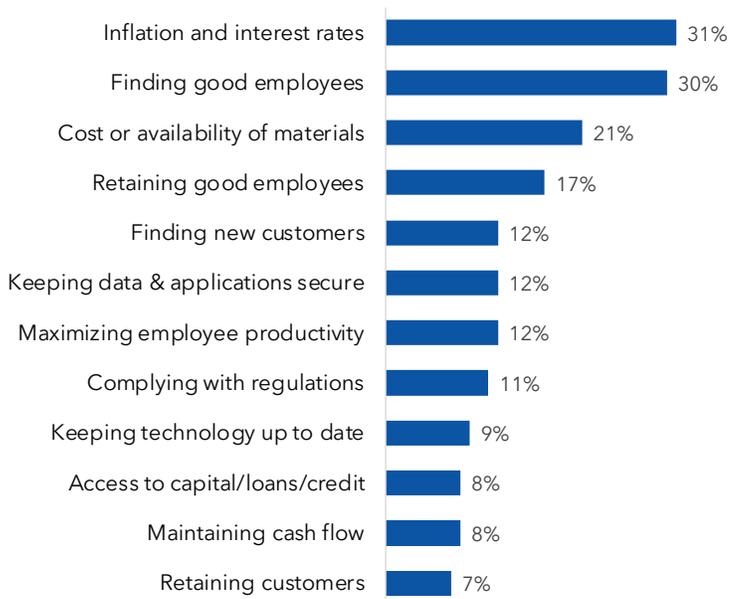
The Barriers Slowing Progress

Even after a strong year, many companies are still fighting daily friction. The most common pressure comes from inflation and interest rates, with 31% describing it as difficult. Talent remains another source of strain. 30% say hiring good employees is difficult, and 17% say retaining employees is difficult. These are not abstract problems. They show up in slower execution, higher costs, and more time spent solving issues that pull attention away from growth.

Operational challenges are present too, though they affect a smaller share of firms. 12% say keeping data and applications secure is difficult, 9% say keeping technology current is difficult, and 8% say maintaining cash flow is difficult. These issues may be less widespread, but when they hit, they tend to be disruptive. They create delays, increase risk, and often require quick decisions with limited visibility.

Difficulty Experienced Reaching Performance Goals

(Bottom 2 Box: difficult or very difficult on 5-point scale)



What this means:

Strong performance does not eliminate operational drag. It raises the stakes. When costs are moving and talent is hard to secure, the businesses that win are the ones that tighten execution. That often means removing manual steps, shortening cycle times, and creating clearer visibility into cash and risk so surprises do not derail plans.



Execution Gaps that Matter Most

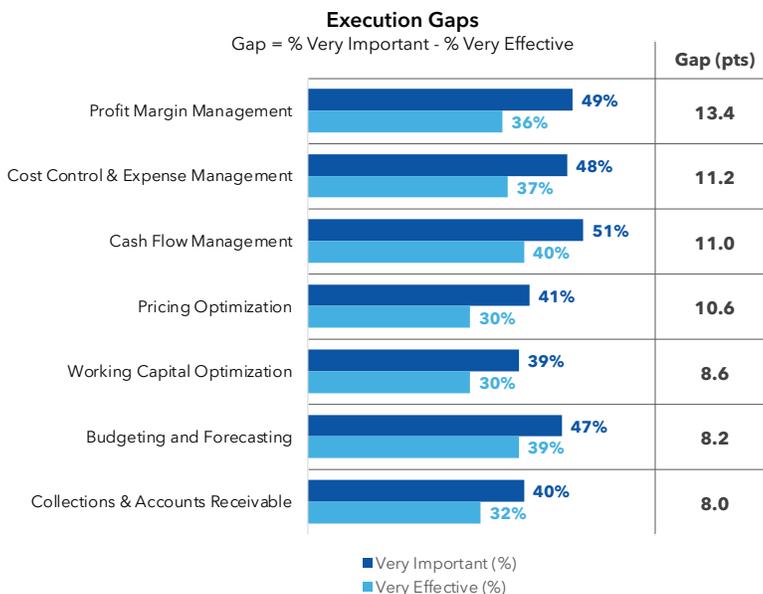
Business leaders are clear on what matters; what they need to do is execute consistently. Only 40% say they are very effective at cash-flow management, 39% at budgeting and forecasting, 37% at cost control, 36% at profit-margin management, 35% at integrating financial technology, and 30% at working-capital optimization. These self-ratings underscore that the disciplines most tied to resilience and scale still aren't where many want them to be.

These rating also revealed a gap between what's deemed critical and how well it's delivered today. The largest gaps show up in profit margin management (+13.4 points), cost control (+11.2), cash flow management (+11.0) and pricing optimization (+10.6). These are meaningful gaps because they influence both profitability and the cash cycle.

Left unaddressed, these gaps quietly slow growth. Teams may compensate for fragmented processes with manual workarounds that keep things moving but don't scale, which can create a hidden tax on productivity, add operational risk, and blur visibility when decisions need to be faster and better informed.

What this means:

The biggest opportunity may not be setting new priorities. It is strengthening the basics. Improving cash discipline, tightening forecasts, and simplifying financial systems can free up time and reduce stress across the organization. It also gives leadership more confidence in decisions, especially in uncertain conditions.





Why Cash Flow Still Feels Tight

Cash flow is a good example of why strong performance can still feel fragile. 92% rate their cash flow as good or very good, yet 54% report cash flow shortages at least annually. 27% experience shortages annually, 22% quarterly, and 5% monthly or more. This is not a contradiction. It is a timing problem. Revenue and profitability can look strong while cash arrives later than expenses demand.

These gaps create pressure in the moments that matter most. They can delay hiring, slow purchasing, and force business leaders to choose between protecting liquidity and pursuing growth. Even short disruptions can ripple across operations, especially for teams that are already lean.

Two-thirds (66%) of decision makers acknowledge the need for better cash management options, yet less than half (43%) currently use any formal cash management services. This disconnect highlights a significant opportunity for improvement and suggests that current solutions may be perceived as too complex, costly, or difficult to implement.



Fraud Protection and Confidence in Controls

Fraud risk is rising faster than many companies' defenses. 68% agree they need better options for fraud protection, but only 39% say they use fraud mitigation services today. Security also shows up as a core driver of bank choice. 57% include data security among their top selection factors.

This creates clear tension. Business leaders feel the risk. They want protection. Yet adoption lags, often because tools feel complex, time consuming to set up, or unclear in their value. When security controls are hard to activate, they often get postponed until something happens.

What this means:

Cash flow strain is often about predictability, not performance. The goal is not just more cash. It is better timing and clearer visibility. Faster collections, smarter disbursement control, and short horizon forecasting can prevent otherwise strong businesses from getting caught in avoidable squeezes.

What this means:

Fraud protection is no longer just a checkbox. It is part of operational stability. The best controls are the ones that a lean team can actually use. Simple safeguards, clear alerts, and predictable response steps can reduce both financial loss and downtime.



The Advisory Gap with Banking Partners

Many companies still treat banking relationships as transactional, missing out on the broader value that advisory partnerships can offer. While a significant majority of business leaders (76% T2B) consider banks to be important sources of advice, only 22% actually use their banker as a trusted advisor for major financial decisions. This wide gap between perceived importance and actual usage highlights a critical disconnect in how advisory services are delivered and experienced.

This underutilization is a missed opportunity on both sides. Businesses are making high impact decisions about cash, risk, and investment priorities, often without a partner who can pressure test scenarios or help anticipate tradeoffs. At the same time, banks cannot become trusted advisors if their engagement is limited to transactional interactions or reactive problem-solving.

What this means:

Banking should make the business run smoother, not add friction. The most valuable partners are the ones who are transparent, secure, responsive, and easy to work with. If services are hard to adopt or unclear in cost, the burden falls back on internal teams.

The Bank Experience Businesses are asking for

What middle-market businesses want from their banking partners is shaped directly by the challenges and frustrations they have encountered.

- The importance of **transparent fees** is a result of widespread frustration about hidden costs, showing a direct connection between what clients want and what often goes wrong.
- **Security** is both a top selection factor and a significant challenge, indicating banks may be falling short of client expectations in this area.
- Service **customization and responsiveness** are highly valued but are also cited as unmet needs, suggesting a shortfall in current offerings.
- The lower incidence of complaints about **customer service** versus the high value placed on expertise and communication implies that while most banks are performing adequately here, there is little tolerance for lapses.

What this means:

A stronger advisory relationship can help reduce blind spots, improve working capital management, and provide insight into payment flows and risk exposure. When banks and clients are proactive and collaborate frequently, business leaders can move faster and make better-informed decisions, with the confidence that their partner understands their goals.

Conclusion

Middle-market companies are entering 2026 with strong momentum and clear intent. Many are performing better than they were a year ago, and optimism remains high. Still, the path forward is not without some challenges. Costs, risk, and uncertainty are pushing business leaders to run tighter operations and make smarter decisions with less time and fewer resources. The goal is not just growth; it is resilient growth. When execution is clean, cash is visible, and risk is controlled, business leaders can focus on customers and strategy instead of constant firefighting.

The mandate for the year ahead is straightforward: protect the fundamentals, improve efficiency, strengthen retention, and maintain visibility around cash and risk. The companies that do these things well will be better prepared to grow, even when conditions shift.



Methodology

This report is based on a national online survey of 500 middle-market business financial decision-makers conducted December 8-29, 2025, by Bellomy. To qualify, respondents had to be responsible for, or play a leading role in, financial decisions at a U.S. company with annual revenue between \$5 million and \$249 million. The sample spans a wide range of commercial and industrial sectors, with certain categories (for example, government and banking/insurance) excluded by design.

To determine which business initiatives matter most to respondents, the survey included an Anchored MaxDiff exercise including 19 initiatives. In each task, respondents chose the most and least important initiative among rotating sets. At the end of the exercise, they also marked any initiatives that are “must haves.” This yields two complementary signals: relative priority (which initiatives consistently win when respondents are forced to choose) and absolute necessity (how many say each initiative is non-negotiable). The MaxDiff data was analyzed with standard choice-modeling techniques to estimate respondent-level preference scores and then summarized results at the total level.

About Valley Bank

At Valley Bank, we don't just invest in your business. We power your ambitions: how to focus them, grow them, and most importantly, make them resilient for the future. We're the leading relationship bank built for growth—with over \$62 billion in assets and more than 200 consumer branches and commercial banking offices in communities across the U.S. With more than 3,800 employees across real estate, commercial & industrial, healthcare, nonprofit, government contracting and more, we help you focus your vision and then prioritize the solutions you need to achieve it. It's how we've been working since 1927, and what makes us the partner you can turn to confidently, to power your tomorrow.



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