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The Activism Double-Edged Sword

Activists are forcing sales, demanding breakups and blocking deals, all at once. A corporate finance analysis of how shareholder campaigns became the most powerful uninvited force in M&A.

Cristian Pavoni

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1. The Paradox

In November of 2024, Elliott Investment Management filed with the SEC disclosing a $5 billion stake in Honeywell International Inc. The filing also included an "activist letter" where Elliott's investment firm demanded the breakup of one of the very few remaining large industrial conglomerates in America. Three months later, in February 2025, Honeywell's Board of Directors approved plans to split the company into three separate business segments. [6, 14] Separately, after announcing in 2024 that it would purchase AZEK through a merger, James Hardie found itself at odds with activist shareholders who opposed the terms of the deal and subsequently forced the removal of three members of the James Hardie Board of Directors at the company's 2025 annual meeting. [12] On one hand, activist investors were able to create a transaction; on the other, they punished a Board of Directors for attempting to complete a transaction.

These two conflicting dynamics defined the year 2025. According to research from Diligent Market Intelligence, approximately 72 U.S. corporations received pressure from activist investors to sell off assets, divest themselves of certain businesses, or engage in break-up transactions as part of the largest wave of activist activity in five years (an increase of 29% over the previous year). At the same time, more than 30 companies received push-back from activist investors regarding announced or proposed M&As during 2025 (up from 19 in 2024). [5]

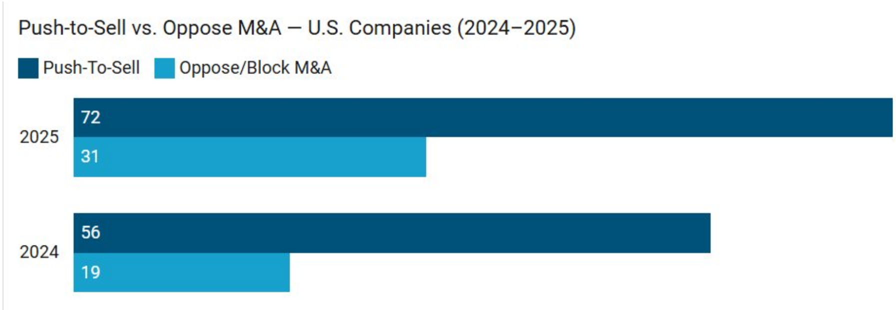

Figure 1: Push-to-Sell vs. Oppose M&A — U.S. Companies (2024–2025). Source: Diligent Market Intelligence, Shareholder Activism Annual Review 2026.

Since then, Barclays' Shareholder Advisory Team has begun referring to activism's influence over M&A activity as a "shadow dealmaker," citing that roughly half of all activist campaigns initiated during H2 of 2025 involved M&A related issues. [2] What sets this current wave apart from previous waves is that both opposing mechanisms are driven by the exact same type of investor and most likely within the same fund. As noted above, for example, Elliott alone engaged in 18 separate activist campaigns during 2025. Furthermore, according to Barclays, Elliott deployed a total of $19 billion across those campaigns. [3] Some campaigns focused on breaking up a corporation while others focused on restructuring acquisitions that had previously failed.

2. Activism's Record Year and the M&A Connection

In the past three years, shareholder activism has been growing steadily. According to a recent report from Lazard, in 2025 there were 297 activist campaigns globally. For the third year in a row, this represents the largest number of activist campaigns. Lazard reported that in both the Q1 and the Q3 of 2025, the numbers of activist campaigns represented the largest quarterly totals ever recorded. [10] Additionally, according to Barclays' data (which applies a $500 million market cap threshold), there were 255 campaigns. This total exceeded the previous high of 249 campaigns in 2018. [3]

One area that has seen disproportionate growth is the M&A dimension of shareholder activism. As of Q4 2025, 61% of all activist campaigns included an explicit M&A component, the largest percentage in five years. [4] The rise in the M&A component of activist campaigns occurred during the same time as the overall M&A market increased in size during the latter part of the year. Global M&A deal values totaled approximately $4.7 trillion for 2025, a 43% increase over 2024 levels. Bain & Company estimated a 2025 M&A deal value of approximately $4.9 trillion. [1] An increasing M&A market provided activist groups with both the strategic ability to advocate for the sale of a company and the basis upon which to evaluate the quality of a potential deal.

Significant expansion also occurred in the amount of capital supporting these activist campaigns. Collectively, the top 50 activist groups had over $200 billion in equity assets under management by the end of 2024. In 2025, 142 different activist groups initiated activist campaigns. 29% of the 142 activist groups were new entrants to the activist community and therefore did not adhere to the traditional activist campaign models developed by wellknown activist groups such as Starboard or Elliott. [3] The new entrants used non-traditional approaches to advocating for corporate action making their threats harder for boards to anticipate. Approximately one in five of all S&P 500 companies are now known to be owned by activist investors with ownership positions exceeding 1%. However, the actual number of S&P 500 companies being targeted by activist investors is likely higher because some activist investors use derivatives to maintain anonymity. [4]

3. How Activists Force Deals That Boards Won't Make

In 2025–2026, the most financially significant manifestation of M&A activism was the push for de-conglomeration. The underlying premise for de-conglomeration has been extensively developed in corporate finance literature. When the market values a diversified firm at less than the total value of the individual business units, a conglomerate discount exists. This occurs because the manner in which capital is allocated among divisions that are not related to one another distorts an investor's ability to assess the performance of each division, it causes management to be distracted from their primary responsibilities, and it reduces the valuation multiples that investors are willing to assign. Activists have increasingly argued that de-conglomeration allows for the release of trapped shareholder value by allowing each division to trade as a "pure play," with each division having its own focused management team, capital structure, and sector-appropriate multiples.

3.1. The Honeywell Case

Honeywell International represents the definitive case study for this cycle. On November 1, 2024, Elliott Investment Management revealed a $5 billion stake in Honeywell and published an open letter to the board that stated a separation of Honeywell's aerospace and automation businesses could increase the share price by 51% to 75% within a two year time frame. [6] Elliott made a simple capital markets argument, which is that when businesses become separate entities, they will have more streamlined strategies, better focused management, better capital allocation and better oversight. These are all benefits that had already been demonstrated by GE, UTC and 3M's own breakups. [6]

The board responded quickly and within two months, Honeywell announced that it would separate itself into three publicly traded companies: Aerospace, Automation and Advanced Materials, and the separation would take place in the second half of 2026. [14] The Advanced Materials segment, now known as Solstice Advanced Materials (Nasdaq: SOLS) spun off from Honeywell in October 2025. It served as the first operational pilot for the eventual separation of Honeywell Aerospace. [9] On March 1, 2026, Honeywell submitted its Form 10 filing for the aerospace segment spinoff which will be known as Honeywell Aerospace (Nasdaq: HONA). A public offering is expected in the third quarter of 2026. [9]

GE's breakup between 2022 and 2024 provides a quantitative example of what Honeywell shareholders hope to achieve. The combined market value of the three successor companies to GE: GE Aerospace, GE Vernova, and GE HealthCare Technologies, now exceeds four times the pre-breakup value of GE. [14] Both GE Aerospace and GE Vernova reached all-time high stock prices in early 2025. This 4x multiple expansion in total value, achieved solely through disaggregation of segments with different growth rates and capital needs, is the valuation model being applied by Elliott and other activist investors across the entire industrial sector.

3.2. How the Breakup Wave Broadens

Even though Honeywell's case served as the primary example, the activist-driven breakup thesis has expanded across other industry groups. For instance, Elliott (the most aggressive fund in 2025) engaged in 18 campaigns and had a total of $19 billion of capital deployed through those campaigns. [3] Elliott also has applied pressure on both BP and Shell to divest their capital-intensive renewable energy businesses in order to focus on higher margin core oil and gas business. [8] Additionally, Elliott's approximately $4 billion investment in PepsiCo has resulted in the demand for PepsiCo to refranchise the bottling portion of their business and divest underperforming food assets. Finally, there are examples of boards of various industrial companies that have initiated proactive or pre-emptive spin-off activity, in other words, before campaigns are launched.

The reason why activist campaigns can be successful is that there is a persistent gap in valuation between publicly traded companies that are focused versus publicly traded conglomerate-type companies. According to PwC's 2026 Global M&A Outlook, the current global M&A transaction market is characterized as K-shaped, where large transactions in the best capitalized buyer pool drive the majority of the deal activity and all other transactions (mid-market, small cap etc.) continue to experience muted levels of activity. [13] Activist investors capitalize on this difference in valuation by identifying companies that are diversified, which would trade at higher multiples as standalone companies than the conglomerate entity that owns the diversified companies is trading at. In essence, an activist campaign is primarily a capital allocation argument, and it is based on the premise that the way the company's capital is allocated, due to the nature of its corporate structure, results in a blended multiple valuation for investors' capital.

4. The Brake: When Activists Block, Oppose and Reverse Deals

There were over 30 such instances in 2025 when US-based companies had investors pushing back against either an announced (or proposed) deal; this represents a 58% increase from the previous year. [5] Deal opposition uses the same principles as those driving push-to-sell campaigns (capital allocation discipline), but in the opposite direction. When activists find a deal that they believe is destroying shareholder value via over-payment, lack of strategic coherence, or poor integration planning, they will use their resources to oppose the deal.

Deal opposition may be done in a variety of ways. The most direct method is to engage in "bumpitrage", which involves buying stock in a target company, then agitating for a higher acquisition price than what has been offered by stating that the price paid is too low. Less direct methods include trying to persuade shareholders to vote against the deal, or to pressure the Board of Directors to abandon the proposed deal. A less traditional type of activism includes the increasing call for reversing previous M&A failures that did not produce the expected synergies. For example, after the difficult integration of Terminix with Rentokil Initial, activist attention was placed upon reversing a deal that was expected to provide benefits but ended up burdening the balance sheet. [8]

Both the Push-to-Sell Campaign and Deal-Opposition Campaign are asking essentially the same question of Management: Is the capital being allocated to maximize the Risk-Adjusted Return on Equity?

In 2025, the James Hardie case showed just how far Deal Opposition can go. When the Building Materials Company announced its plans to purchase AZEK, the shareholders who believed the deal would destroy value voted to remove three members of the Board of Directors at the company's annual meeting. The vote essentially turned the Shareholder Ballot into a referendum on the deal itself. [12] Paul Weiss has subsequently informed Boards that the Governance Process and the discussions surrounding deal making are under intense review, and that the Annual Meetings can act as a binding referendum on the announced transactions. [12] As a result, M&A Due Diligence is no longer a private Board matter, but rather is a process that is evaluated, judged and punished by Shareholders if the financial logic supporting the deal fails.

5. Settlements, Withhold Campaigns and the Quiet Revolution

SEC's adoption of universal proxies in 2022 drastically changed the power dynamics between activist investors and boards; with compounding effects over each of the last three proxy seasons. In 2025, 89% of activist wins of board seats resulted from negotiated settlement agreements (up from 84% in 2024). [4] Of the 57 proxy fights filed in the first 10 months of 2025, only 8 were voted upon, and companies prevailed in 5 of them. [15] With the universal proxy, activist investors are able to win individual board seats in a contested election, which makes it rational for boards to settle early and more frequently so they do not run the risk of a potentially unpredictable vote.

Some of the settlements that occurred in 2024 and 2025 were remarkably fast and quiet. There were many instances where the first time the general public found out about an activist's involvement with a company was when a settlement announcement was made, meaning the activist had achieved its objectives through entirely private negotiations. [4]

As such, the campaigns being tracked in publicly available databases, are only representative of the visible portion of what is likely a much greater volume of private engagement and strategic influence exerted by activist investors. Any analysis that only tracks public campaigns will be biased toward substantially understating the actual level of activist-driven change in corporations.

In addition to settlements, withhold/vote-no campaigns have become a highly effective and inexpensive tactic. Rather than fielding a complete slate of competing board candidates, activist investors seek votes against incumbent directors, a process that requires little to no expenditure but sends a clear message to the board and shareholders as a whole.

In 2025, the number of withhold campaigns reached record levels, and many led to changes in the board and/or executive staff. [4] CEO turnover due to activism also reached a new high of 32 resignations within one year of the commencement of an activist campaign, a 60% increase from the prior four-year average. [4] The growth of CEO-targeting campaigns by itself illustrates the growing rate of change: there were five such campaigns in 2018, four in 2019, 16 in 2022, 24 in 2023, 21 in 2024, and a record 39 in the first ten months of 2025. [15]

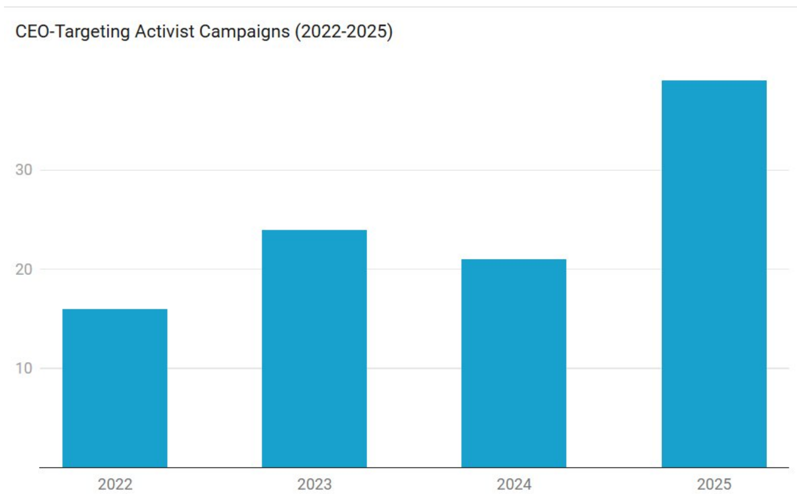

Figure 2: CEO-Targeting Activist Campaigns (2022–2025). Source: The Conference Board, Harvard Law School Forum on Corporate Governance, December 2025.

Shareholder expectations have shifted, and CEOs are increasingly being held accountable for thrir strategic errors. Combining the 89% settlement rate, with the trend of targeting CEOs, means that an activist investor gaining significant interest in a company can now credibly threaten both the composition of the board, and executive leadership within months, and very possibly without ever engaging in a public campaign.

6. The Global Divergence

Shareholder activism is rapidly changing and developing in ways that can significantly affect cross border M&A. In 2025, the US accounted for 55% of all global shareholder activism, however, Asia Pacific has quickly emerged as the fastest growing region. [3] Japan stands out in particular, with a record number of 56 campaigns, 22% of all global activity. [3] This is also sign of a more general cultural change within Japan, where historically, engagement in confrontational activism was considered to be socially unacceptable. With an increasing willingness to take these types of issues to the shareholder vote, Japanese investors are creating new opportunities for activist investors.

Conversely, Europe has trended in the opposite direction. In 2025, Europe experienced a decline of approximately 7.5%, with fewer than 100 companies that experienced activist activity. [5] Due to tighter EU foreign direct investment (FDI) screenings and the Carbon Border Adjustment Mechanism, Europe's regulatory environment has become more complex. Additionally, the relatively high level of ownership concentration in Europe limits the ability of outside shareholders to exert influence. As a result, multinational corporations have differing levels of activism risk. Companies listed in the US with significant business operations in Asia are facing activism risk on two fronts. On the other hand, companies listed in Europe are experiencing a less contentious but highly regulated environment.

7. What Comes Next

Morgan Stanley predicts that M&A activity will continue an upward trend through 2026. This growth in M&A activity can be attributed to three main factors: AI infrastructure investment, the urgency of private equity firms to monetize long held assets, and the favorable US regulatory climate. [11] According to EY-Parthenon's January 2026 data, although mid-market deal volume has decreased compared with last year, there was a 10% increase in mega-deals ($1B+). [7] An increase in the total number of deals expands the pool of targets on both ends of the activist sword.

As mentioned previously, the conditions that created the current wave of activism have become self-reinforcing. BlackRock, Vanguard, and State Street now own approximately 25% of all shares of major stock indexes. [2] Their investment preferences are also shifting toward portfolio simplification and capital efficiency - which are the very arguments made by activist hedge funds when they launch a campaign. When Elliott or Starboard creates a position and releases a thesis supporting a company breaking up into smaller companies, it is marketing to an existing shareholder base that is already sympathetic to the idea. It is the alignment between the strategic goals of activist funds and the investment preferences of passive owners that has given this current wave of activism such strength. So long as the Big Three continue to reward focus and penalize complexity in the companies they own, the incentives driving activist funds will continue to exist.

However, there is a potential limitation built into these dynamics. Both activist-driven breakups and opposition to deals rely on the assumption that the capital markets are undervaluing focus-based companies and overvaluing complex conglomerates. If the post-breakup results of Honeywell Aerospace do not meet expectations in terms of performance relative to General Electric's post-split performance, then the underlying premise supporting breakup campaigns will decrease in validity. Similarly, if boards begin to act proactively in order to avoid activist criticism by imposing stricter standards regarding M&A activity, then the amount of transactions that could potentially damage shareholder value will diminish and activist funds will experience decreasing returns from opposing deals.

In addition to either of those scenarios being possible, it is much more likely that activism continues to escalate before it begins to recede. The first-time activist fund managers from 2025 will gain more experience, the high success rate of 89% among settled campaigns will provide additional encouragement to use activist strategies, and Honeywell's separation in Q3 2026 will serve as a significant referendum on whether the breakup thesis will ultimately prevail. If the combined value of Honeywell's three successor entities validates Elliott Investment Management's estimated 51–75% upside for the pre-breakup share price, then subsequent waves of campaigns targeting conglomerates will increase. Conversely, if the separation fails to deliver on those estimates, activist capital may shift towards alternative methods of engaging in M&A activity, including but not limited to deal opposition, bumpitrage, and reversing prior acquisition failures, where the financial justification does not rely solely on one valuation model.

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