

A WORD FROM J.P. MORGAN

Our views on venture

Record quarterly investment amid shifting venture landscape

Recent trends in venture include record levels of capital deployment across fewer deals and significant sector concentration. Mega-rounds in AI & machine learning startups have been the primary driver behind the investment surge. According to PitchBook, in the first quarter of 2026, the top five deals (for OpenAI, Anthropic, xAI, Waymo, and Databricks) garnered roughly three-quarters of the total venture investment. This level of concentration is without precedent in modern venture history. The market's bifurcation is also reflected in a widening gap in valuation premiums between AI and non-AI companies.

In this environment, early-stage and first-time financings have been steady but relatively subdued. Stable investment activity across lower deal counts suggests that the discerning approach by VCs over the past couple of years continues to hold with a clear preference for category leaders with strong unit economics. Outside of AI, sectors receiving significant investor interest and increased levels of funding include defense tech and cybersecurity as geopolitical tensions remain elevated.

AI remains the central theme, but the narrative evolves

In recent months, the prevailing narrative around AI has evolved from the technology's ability to broadly benefit the economy and business productivity to a heightened focus



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on sectors most at risk of disruption. For software-as-a-service specifically, rapid advancements in models and agents shifted the focus from AI as a productivity tool and sector tailwind to an existential threat of disintermediation. This has caused jitters throughout both private and public markets, sending public software equity multiples to 10-year lows.

While the functionality of agentic AI has improved exponentially, history tells us that adoption and business model disruption will likely occur over time rather than abruptly as accuracy and safety standards are considered. Nonetheless, there are some early signs of AI affecting the business landscape and labor markets specifically. According to the February Challenger Report, AI was cited as the cause of 8% of job cut plans in the first quarter of 2026, up from 5% in 2025 and 3% in 2023.¹ In the technology sector specifically, announced job cuts YTD are up 51% over the prior year and account for more than 20% of US economy-wide layoffs.

These factors challenge software sector investment sentiment in the near term, especially as investors have become acutely focused on return profiles amid the build-out of AI. We expect startups with mission-critical platforms and clear AI road maps will continue to get a strong reception while risks stay elevated for companies with less differentiated offerings.

Geopolitical and tariff developments complicate the macroeconomic outlook

While the Supreme Court ruling against International Emergency Economic Powers Act (IEEPA) tariffs in February was anticipated, the duration and extent of the conflict in the Middle East has unsettled markets as the surge in energy prices adds downside risk to the economic outlook. Both developments have the potential to affect the path of inflation with implications for consumer affordability and the Federal Reserve's (the Fed's) approach to interest rate policy.

Given the effective closure of the Strait of Hormuz for several weeks—the key shipping channel out of the Persian Gulf through which 20% of global oil and gas trade volumes transit—oil prices have spiked to four-year highs. In addition to energy supply disruption, the availability of certain chemicals such as helium and industrial metals critical for technologies has also been constrained. This supply shock emphasizes the importance of maintaining a diversified supply chain to support business continuity and limit overall cost pressures.

The path forward for tariffs also remains in flux following the Supreme Court's ruling against IEEPA. The Trump administration's subsequent enactment of 10% global tariffs under Section 122 of the Trade Act of 1974 is set to expire in July, after which it is widely expected that the previous tariff regime will be reconstructed by other legal authorities.

The US Trade Representative recently announced Section 301 investigations into the “acts, policies, and practices” of several economies related to structural excess capacity in manufacturing sectors, including technology.² The investigation will assess whether these actions are “unreasonable or discriminatory and burden or restrict US commerce.” The economies under review include China, the European Union, Singapore, Korea, Vietnam, Mexico, Japan, and India. With the investigation potentially resulting in more targeted tariffs on technology imports, some pull forward of shipments could occur over the next few months.

Leading up to the conflict in the Middle East, data on economic activity had been broadly consistent with our

expectation for steady GDP growth in the 2% area, sticky inflation, and labor market stabilization. Given recent geopolitical developments and energy supply shock, we see downside risks to our growth forecast and upside risks to inflation. With these crosscurrents, we expect the Fed will hold rates in the 3.50% to 3.75% range over the course of the year.

From a founder perspective, there is a growing level of uncertainty caused by the state of geopolitics and the change taking place across industries, most notably from AI. This could slow strategic decision-making across products and services in addition to affecting how founders run and fund their operations.

The IPO and M&A outlook navigates another patch of volatility

Coming into the year, our constructive macro and market outlook reflected reduced policy uncertainty, fiscal tailwinds from tax refunds, and continued easing from the Fed. These drivers were coming together to create benign conditions for increased IPO volumes, M&A, and capital raising broadly.

Geopolitical events and AI-disruption concerns have increased equity market volatility and clouded the near-term outlook for IPOs. However, according to David Bauer, head of Americas Equity Capital Markets for J.P. Morgan, the US IPO forward calendar still looks positive. There is a healthy pipeline across sectors, particularly consumer, energy, industrials, and technology. Within the tech sector, it is worth noting that this may mean only the largest private companies are realistically evaluating a listing in the near term.

In an environment with increased volatility and headline risk, issuers are taking a more cautious approach to testing the market.

M&A activity across the tech sector has also experienced a pause in momentum. Small tuck-in deals by sponsors are still happening, but until software valuations see a more sustainable recovery, activity could remain subdued.

Bauer advises boards to continue prioritizing readiness and valuation discipline to mitigate execution risk when an exit opportunity presents itself. Market sentiment could quickly shift, as seen in the months following the “Liberation Day” dislocation. Plus, the Securities and Exchange Commission continues to alleviate its review-process bottleneck caused by the six-week government shutdown at the end of last year.

We are seeing elevated engagement among investors, and conversations around the near-term calendar continue to be productive. It will be important to watch how companies take advantage of the issuance windows when they open. These listings can potentially serve as a benchmark for the remainder of the year, in terms of the liquidity generated and whether a positive feedback loop is created for others to test the market.

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