

## A WORD FROM J.P. MORGAN

# Our views on venture

*"With the acceleration in deal activity in recent months, the tone across venture is looking up. Strong performance of the latest wave of tech IPOs is bolstering confidence for others in the pipeline, and M&A activity is also rebounding. While there is still a long way to go in some areas of the market, recent developments are encouraging to see."*

### Carly Roddy

Co-Head of Venture Capital Relationships

### The gears are starting to shift in venture

There is cautious optimism that the improved market environment for venture-backed exits can ease the pressure that's been building in the ecosystem for resumed recycling of capital. This is an important light at the end of the tunnel after VCs have spent much of the last three years triaging portfolios amid challenged exit markets. While more markdowns are expected this cycle, improved clarity on current market valuations is providing a better decision-making framework for both investors and founders.

VC mindsets appear to be shifting, and activity is picking up. AI and related industries continue to lead the market and reshape capital flows across all stages of the venture capital lifecycle. For example, a mere 10 companies in the sector garnered 41% of all venture investment dollars year-to-date.<sup>1</sup> While implications of this dynamic will take time to play out, history tells us significant market concentration carries risks.

Investment activity in other sectors reflects prevailing geopolitical considerations and national security priorities: cyber, supply chain resilience, defense tech, and robotics.

### The fog of market uncertainty is lifting

Heading into the final months of the year, businesses, consumers, and investors appear to be successfully navigating the rapidly evolving policy and macroeconomic backdrop. Resilient consumer spending and corporate earnings, clarity on tax policy, and lower interest rates have all bolstered investor sentiment and business confidence in recent months. While some areas of trade policy remain fluid, the range of potential outcomes has narrowed. There is less concern an all-out trade war will drag the US into recession.

Our US macroeconomic forecasts have improved since the aftermath of Liberation Day but remain below our initial full-year outlook as higher tariffs have been headwinds to growth. Estimated GDP growth of roughly 2% for full-year 2025 would be in line with long-term trend but the slowest since the pandemic.

The resumed easing cycle and lower interest rate outlook are also helping market sentiment and supporting the acceleration of IPO and M&A activity. After the Federal Open Market Committee lowered the federal funds target rate by 25 basis points at its September meeting, we expect two more rate cuts before year-end and an additional cut in January 2026.



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Questions remain about Federal Reserve (Fed) independence and how fiscal deficits may influence longer-term rates, which are more relevant for market activity and valuations, over time. So far this year, 10-year Treasury yields have moved lower and directionally in line with the Fed's expected easing path. A stable- to lower-interest-rate environment should provide further support to the macro environment, investor sentiment, and equity valuations. Meaningful small-cap outperformance since July has demonstrated how lower interest rates can benefit company valuations and improve market breadth.

### The latest wave of tech IPOs has delivered strong debuts

Momentum in the IPO market accelerated post-Labor Day, further

<sup>1</sup>: "41% of All VC Dollars Deployed This Year Have Gone to Just 10 Startups," PitchBook, Rosie Bradbury and Jacob Robbins, August 8, 2025.

opening the window for issuers. Deal counts and volumes are tracking at the highest levels since 2022, with a diverse set of issuers from various sectors and growth profiles. Pricing outcomes have been sequentially strengthening, with most deals in August and September pricing above the midpoint of marketed ranges. September was the most active month for IPOs since 2021.

Tegh Kapur, a managing director and co-head of JPM's Technology Equity Capital Markets team, expects the IPO calendar to stay active in coming months, provided the macro backdrop remains supportive. There is a large pipeline of scaled, profitable, and/or high-growth companies that are encouraged by the recent performance of IPOs, and readiness activities are the highest in four years.

Kapur notes strong performance of recent tech IPOs reflects robust institutional investor demand for high-growth stories. Retail investors are also adding significant—yet short-lived—pops in aftermarket trading of new issuances. This is an important and evolving factor that will likely influence future pricing and trading expectations.

Trading volatility aside, measured valuations at pricing remains the most important factor for the long-term stability and outperformance of future IPOs. We have observed that roughly half of recent venture-backed tech IPOs have priced at discounts to their latest private round, with conservative public peer discounts.

Alongside valuation discipline, investor due diligence processes remain in line with historical norms. While involvement of cornerstone investors

has been case by case, we have seen approximately one-quarter of IPOs in the third quarter include a cornerstone investor. We are also seeing active engagement from a broad range of investors—mutual funds, hedge funds, and family offices—but not an unusual willingness to stretch on terms. This is a key reason we expect the momentum in the IPO market can be sustained.

### **Tech M&A is also accelerating**

After a few years of subdued volumes, M&A in the tech sector is experiencing a strong rebound. Despite lingering uncertainty around trade deals and geopolitics, the resilient economic backdrop and lower interest rate outlook have bolstered business optimism and boardroom confidence. With equity markets near all-time highs, companies are increasingly motivated to push ahead with strategic plans.

The revival in tech sector M&A has outpaced the broader market as tailwinds from AI, cybersecurity, and consolidation transactions drive activity. With significant capital flowing into AI this year and a competitive sense of urgency to scale, Big Tech is actively pursuing talent acquisitions and licensing transactions to fill product gaps. Relatively nascent AI companies are being approached by strategics keenly focused on adding to their teams and technology. This could persist into next year as the AI race picks up speed.

### **Secondaries markets activity on the rise**

With the recovery in tech IPOs and M&A in early innings, the need for

alternative liquidity sources for employees and early shareholders remains high. In this regard, secondaries are playing an increasingly important role in later-stage private markets—a trend we expect to continue as startups are staying private for longer.

Like other areas of venture, secondary market activity this year has been highly concentrated in the top names in favored sectors such as AI, robotics, and crypto.

Although AI has dominated the headlines and garnered the majority of venture investment dollars year-to-date, the sector has comprised somewhat less of secondary transaction volume this year on a relative basis. These companies tend to have strict transfer restrictions and shareholders who are reluctant to sell stock.

According to Aumni data, secondary pricing has been strengthening in line with broader private market trends. Nearly 30% of secondaries in the first half of 2025 were purchased at a premium to the most recent equity financing round, compared with a low of 16% in the first half of 2023. Startups founded in 2020 are seeing the most activity in secondaries markets for the second year in a row.<sup>2</sup> This coincides with the typical four-year vesting period for employee equity and the five-year Qualified Small Business Stock period.

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2: "Venture Beacon Q2 2025 Report," Aumni, August 25, 2025.