

A WORD FROM J.P. MORGAN

Our views on venture

The clouds continue to lift across the venture ecosystem

The venture backdrop continues to improve, with the past year defined by robust capital deployment and several exit-market bright spots. AI remains the central theme, with startups in the sector and related industries attracting a substantial share of funding and investor attention. Outside of AI, a sense of scarcity persisted throughout 2025, with a continued decline in follow-on rounds and longer fundraising cycles. This uneven funding environment was reflected in venture capital deployment over the past year being close to the 2021 peak, while deal counts were roughly 30% below.

Positive momentum is forming behind exit markets, especially over the past several months as IPO activity has steadily increased. M&A activity has also accelerated, and similar to broader venture trends, proceeds generated by M&A transactions in 2025 were heavily concentrated among a select number of deals. According to PitchBook data, acquisitions of AI startups represented over a third of M&A deals across the venture ecosystem in 2025, reflecting competitive pressure to accelerate capabilities and secure scarce technical talent.

We remain cautiously optimistic that increased opportunities for monetization in the coming years will begin to alleviate the backlog of portfolio holdings that represent a record level of fund returns.

Economic outlook relatively benign despite disruptive policy shifts

The US economy and financial markets successfully weathered significant policy



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shifts throughout 2025. Full-year GDP growth of roughly 2% aligned with our original forecast, while equity markets posted a third consecutive year of double-digit returns. This robust performance was underpinned by resilient consumer spending, strong corporate earnings, and a surge in capital expenditures from AI hyperscalers.

These positive macro drivers helped to offset headwinds from increased tariffs, reduced immigration, and the longest government shutdown in US history. The one-year US-China truce inked late in the year provided further relief, easing trade tensions and tempering the risk of a near-term recession.

A lower-interest-rate environment has also benefited market conditions and equity valuations. The Federal Reserve delivered three 25-basis-point cuts between September and December, responding to signs of labor market weakness even as tariffs had delayed the path back to 2% inflation. We expect one more cut early in 2026 before an extended pause in the 3.25%-3.5% range. 10-year Treasury yields have generally moved in the same direction, ending 2025 roughly 60 basis points below the start of the year.

AI's contribution to the macro and market environment has been significant on multiple fronts: the capital flow into building datacenters, strong earnings growth of AI hyperscalers, and optimism around the potential benefits to labor productivity and economic growth over time. Given the significant hype around the sector, there are risks of a correction if sentiment shifts. Enthusiasm could start to wane if capital expenditure investments slow or the sector experiences other adverse developments.

Policy-related disruptions are expected to be less pronounced in 2026

While policy shifts caused disruption and uncertainty during 2025, we generally expect fewer surprises in the coming year, especially as midterm elections approach.

On the positive side, stimulus benefits from the One Big Beautiful Bill Act are set to begin flowing through the economy in the first half of 2026. These benefits mainly relate to tax refunds on tips and overtime, but also to beneficial business tax treatment for capital outlays and research expenditures.

However, the risk of another government shutdown looms as the current continuing resolution expires at the end of January. Companies planning IPOs or seeking merger approvals during this period could face delays with regulatory agencies, as we saw this past October. Additionally, the pending Supreme Court ruling on the International Emergency Economic Powers Act tariffs could introduce a new wave of tariff volatility, and the negotiation of the US-Mexico-Canada Agreement could also keep uncertainties for cross-border trade and supply chains elevated.

The president's executive order to raise the application fee for H-1B visas—temporary US visas for nondomestic professionals in specialized fields—to \$100,000 was recently upheld by a federal judge. This creates a meaningful incremental cost for tech companies to hire skilled nondomestic workers. However, it is likely to be appealed. A reduced fee or pause in implementation would remove this overhang for the industry.

Expect sustained momentum for IPOs

As the page is turned to 2026, there is optimism that the IPO window has firmly reopened after a period of selectivity. IPOs of both stable, steady-growth companies and high-growth companies were met with solid demand through the latter part of 2025, signaling confidence and liquidity depth across sectors, according to Greg Chamberlain, vice chair of technology investment banking and equity capital markets at J.P. Morgan.

Markets have proven resilient in the face of macroeconomic noise, with investor engagement remaining high and the deal pipeline steadily expanding. According to PitchBook, roughly 40% of private unicorns are more than 10 years old, meaning there will be a quality universe of potential IPO

candidates for several years to come.

Chamberlain encourages issuers to seize the opportunity of supportive market conditions and robust investor demand for quality new issuance, particularly as valuations stabilize and secondary market performance improves.

According to PitchBook, US VC-backed IPO volumes reached \$16.8 billion in 2025, in line with pre-pandemic annual averages and up roughly 110% from the prior year. Tech IPOs have also made significant progress in their recovery over the past year, with listings and proceeds more than doubling. Tech deals represented roughly 41% of VC-backed IPO volumes in 2025, which stands above historical trends.

Both issuers and investors are expected to be highly active in 2026. Building upon last year's momentum, Chamberlain sees a path for IPO volumes to rise another 20% or more in 2026 if conditions remain favorable. Issuers are focused on precision in timing, structure, and positioning to capture sustained investor demand. Earlier diligence, proactive company-investor engagement, and dual-track approaches that blend private and public market processes are best positioned for success. This focus ensures alignment and realistic expectations ahead of any transaction, whether it is going public or pursuing other equity solutions.

AI likely to remain the central theme

AI is increasingly recognized as a key driver of business transformation across industries. Among our client base, the most validated deployments of AI have been in areas where it directly enhances operational efficiency or decision-making. [According to our 2026 Business Leaders Outlook](#)—an annual survey we have conducted since 2011 to track year-over-year shifts in business leader

sentiment and operational plans—process automation, predictive analytics, and market intelligence stand out as leading applications of AI, with 62%, 44%, and 42% of business leaders, respectively, planning to implement these solutions.

Despite its promise, the adoption of AI remains a considerable challenge. In our survey, the proportion of businesses citing adoption as a significant hurdle has more than doubled over the past year, rising from 8% in December 2024 to 18% by December 2025. This trend underscores the importance of addressing barriers such as integration complexity, talent shortages, and cost and change management. Lessons learned from successful AI deployments highlight the need for clear strategic alignment, robust data infrastructure, and ongoing employee training to maximize value and minimize disruption.

Looking ahead to 2026, most organizations anticipate that AI will have a limited effect on workforce size, with 60% of our survey respondents expecting no change in head count plans due to AI. Only a minority foresee moderate increases (11%) or decreases (13%) in staffing levels, suggesting that AI is more likely to reshape roles and processes rather than eliminate jobs outright.

Among startups, 54% share the expectation of stable head count, further reinforcing the view that AI's primary impact will be on how work is performed. These insights collectively point to a future where AI is integral to business strategy, but its successful adoption depends on thoughtful implementation and workforce adaptation.