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Our views on venture

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Record venture volumes are masking ongoing liquidity challenges for many startups

The venture landscape continues to be shaped by a handful of high-profile mega-rounds. This is driving overall investment values to new records, but not broad access to capital across the ecosystem. The concentration of investment into AI startups has been unprecedented, reflecting both the capital-intensiveness of the AI sector and industry consensus around the wholesale impact of AI technology.

With this backdrop, we are seeing VC strategies split into two business models. On one end, GPs are running concentrated, high-conviction positions in a small set of frontier AI companies. This increasingly resembles private infrastructure finance: very large checks; long durations; and an emphasis on platform control, compute access, and ecosystem positioning. The strategy here is to build allocations in perceived fund returners and category winners.

On the other end, managers are allocating exclusively to early-stage and AI-native companies with a classic portfolio-construction approach. There is optimism among early-stage investors that improved exit market momentum will unlock a fresh crop of founders to start new companies soon. In the meantime, we are seeing more nontechnical founders enter the early-stage-formation mix as AI tools continue to lower the barriers to entry.

For startups that do not align with one of these active VC strategies—a strong and differentiated AI story to tell, or a perceived category winner in their space—liquidity remains highly selective and below the 2021 peak. For this part of the market, the prevalence of undisclosed terms on rounds continues to be elevated. Undisclosed terms often coincide with structured rounds that provide investors with downside protection, down rounds, or flat rounds.

Another strategy that venture firms are increasingly leveraging is incubation and/or co-development. Several funds are formalizing early-stage innovation by incubating ideas inside internal labs—or partnering with independent ones—before spinning the most promising concepts out into standalone ventures. At this front end of the lifecycle, ideation is the core asset. Teams can run structured experiments, iterate quickly, and test hypotheses before committing meaningful capital or scaling—and firms can establish a toehold of meaningful ownership at attractive valuations in platforms they deeply believe in.

The 2026 IPO market is on its way to making history, while M&A also heats up

YTD issuance and the current pipeline point to an estimated $60 billion to $70 billion in IPO proceeds for 2026, excluding any mega-listings—comparing favorably with $43 billion in 2025, $31 billion in 2024, and the prior peak of $155 billion (excluding SPACs) in 2021.

The completion of SpaceX's $75 billion IPO—the largest in history—has meaningfully raised the probability that 2026 will become a new peak for IPO volumes. According to Tegh Kapur, head of Technology Equity Capital Markets, current market depth is supportive of a record-breaking year. A sharp rally in public market valuations has generated strong returns and renewed investor interest for newly public companies. Notably, if IPO volumes as a percentage of US equity market cap reach 2021 levels, the market would be on track to absorb over $200 billion in issuance.

Several structural tailwinds are reinforcing the positive backdrop. Recent index rule changes now allow newly listed companies to be included more quickly, broadening the potential buyer base. Retail investor participation is also higher than in prior cycles, providing a complementary source of demand alongside traditional institutional investors. Meanwhile, increased M&A

has reduced the number of publicly listed companies, which increases scarcity value.

Looking ahead, the performance of high-profile IPOs over the coming months will be a key signal for the broader pipeline. History shows that successful large IPOs tend to open the window for a wider range of issuers—and encouragingly, we are already seeing green shoots across a diverse set of sectors, including semiconductors, space, quantum computing, consumer internet, and robotics.

In parallel, M&A is picking up. Devin Thomas, head of Technology M&A within J.P. Morgan's Strategic Investor Group, is seeing strong demand for startups that bring sustainably differentiated, proprietary data and a proven AI product set. As startups are opting to stay private longer and the lines between VC, growth equity, and PE continue to blur, competition is high for the best assets.

Higher-for-longer rate outlook keeps cost of capital elevated, while policy shifts add uncertainty

We continue to expect steady economic growth this year, but our expectation for inflation has increased. This primarily stems from the conflict in the Middle East and global supply shock for several key commodities: oil & gas, fertilizer, and helium. Supply chain pressures and input costs have increased as delivery times have extended and physical scarcity of some materials has become acute.

As a result, inflation is reaccelerating from somewhat elevated levels already. Both headline and core inflation measures have moved further away from the Federal Reserve's (the Fed's) 2% target. With other aspects of the economy performing as expected—steady GDP growth, resilient consumer spending, and a stable unemployment rate of 4.3%—we think the Fed will likely hold the fed funds target range steady at 3.50% to 3.75% for the rest of 2026. Of note: Rates market pricing has shifted from two to three 25-basis-point cuts this year to one to two hikes over the next 12 months.

An important consideration for valuations and cost of capital is that we see 10-year Treasury yields staying in the mid- to high-4% area through year-end. This is below the 5% level observed in the fourth quarter of 2023, but toward the upper end of the past decade's range and notably above 2021, when rates were below 1%.

Labor market conditions have been stable to slightly improved across the US economy YTD, while trends in the tech sector are more nuanced with an unemployment rate below the national average but elevated layoff announcements. According to the latest Challenger, Grey & Christmas report, nearly 125,000 job cuts have been announced across the tech sector YTD, with a rising percentage being attributed to AI.[1] Many established startups are going AI-first, including retooling workflows and product road maps around AI agents to drive growth with leaner teams.

Despite the push toward leaner organizational structures, AI is also opening doors as companies increasingly seek skilled workers. The percentage of job openings on Indeed.com mentioning AI has sharply risen in recent years to 5.7% at the end of May.[2] For software development specifically, over 47% of job postings in the sector at the end of April mentioned AI, up from 40% in December 2025 and 29% in January 2025.[3]

On the policy front, a recent federal ruling struck down the Trump administration's proposed $100,000 H-1B visa fee nationwide, vacating the policy and restoring the prior fee framework. While the administration plans to appeal, the immediate effect is reduced friction in hiring plans and improved predictability for budgeting and workforce strategy. This is especially important for startups that had paused or repriced skilled tech roles in anticipation of sharply higher sponsorship costs.

Tariffs remain an important consideration for the innovation economy, especially as AI deployment drives capital expenditure into chips, servers, and devices. The administration recently proposed new tariffs of at least 10% on imports from major trading partners based on Section 301 unfair trade practices, specifically forced labor. These developments are in line with expectations that the administration would take steps to reconstruct the tariff regime after the Supreme Court's ruling against International Emergency Economic Powers Act tariffs earlier this year.