A WORD FROM J.P. MORGAN

Our views on venture

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Venture green shoots weather another few months of uncertainty

Trends across the venture ecosystem in early 2025 mostly reflect a continuation of the prevailing themes we saw in 2024. AI, defense tech, and digital infrastructure continue to dominate the sector narrative, while a convincing recovery in exit markets has yet to take hold. Increased macro and policy uncertainty early in the year dampened an expected acceleration in IPO activity. On the other hand, startup M&A green shoots have been encouraging with a jump in deal announcements.

Founders that stay focused on the fundamentals and persevere toward a better exit environment should fare well in the long run. The tone from VCs remains measured with the latest wave of market turbulence taken in stride. Many are cautious and waiting for proof points on successful headline IPOs, which are still expected in 2025. If M&A regulation eases, that exit path could be further reinvigorated as well.

Macroeconomic momentum moderating amid peak policy fog

US economic growth appears to have downshifted in early 2025, reflecting some to-be-expected normalization dynamics following above-trend growth last year, combined with incremental near-term caution on the part of consumers and businesses amid heightened policy uncertainty. The magnitude and velocity of the new administration's tariff announcements over the past two months have been above expectations, putting some spending and investment activity into a holding pattern.

While the tariff endgame remains subject to ongoing negotiations with key trading partners, we are hopeful the dust could start to settle on this topic over the next few months. Even though companies reliant on imports and international supply chains will have to navigate a period of adjustment, improved clarity on the state of play should help pave the way forward for business investments and growth strategies. Also important to keep in mind is that the administration's pro-growth economic policies including reduced regulation, stable taxes, lower energy prices, and increased foreign direct investment are expected to phase in over time.

Nonetheless, given the slower-than-expected start to the year and potential drags on near-term capital spending, consumer purchasing power, and exports related to tariff developments, our forecast for 2025 GDP growth has come down while our outlook for inflation and unemployment has moved up.

Regarding interest rates, we expect the Federal Reserve (the Fed) to proceed cautiously with any adjustments in the coming months. Decision-making should remain data-dependent, guided by its dual mandate of stable prices and full employment. Our view remains that the Fed could cut rates later this year. If correct, market-based interest rates that influence valuations should also be stable to modesty lower through the year.

Recent market turbulence has delayed but not derailed the anticipated recovery in tech IPO markets

It appeared late last year that the stars were aligning for tech IPOs in 2025 to accelerate. However, volatile market conditions through the first quarter delayed the anticipated pickup in activity. Some startups that may have planned to go public early in the year opted for calmer waters to test the market, including a VIX sustained below 20. Improved visibility on the impact from tariffs—and furthermore, rates—should help on this front.

Tegh Kapur, a Managing Director on JPM's Technology Equity Capital Markets team, remains constructive on the outlook for tech issuance this year, noting that IPO "bake-off" and readiness activities have accelerated since the volatility began. While the increased macro and policy uncertainty is weighing on near-term market sentiment, several companies have decided to press ahead with their IPO plans, with one large tech company listing and two others publicly on file.

Aside from the recent spell of market volatility, the fundamental drivers supporting our outlook for increased IPO volumes this year remain in place. The large universe of private unicorns that are scaled, growing, and profitable provide a healthy pipeline of potential IPOs. For sponsors and VCs, generating liquidity remains a top focus given mounting pressure to boost DPI and recycle capital.

Kapur highlights that after three years of subdued exits, an additional consideration for the IPO landscape relates to the significant scale—on an absolute dollar basis—many companies have amassed in the private markets. With a small percentage of equity stakes likely to be monetized upon IPO, VCs are increasingly exploring creative solutions to de-risk exposure ahead of a listing. This could include transactions to consolidate minority stakes via sales to crossover growth-equity investors and sovereign wealth funds. Thus, the private secondary market should also see significant volume this year.

Secondaries are playing an increasingly important role in venture

We are witnessing an ongoing shift in the late-stage venture capital landscape, particularly for top-performing startups, where mega-rounds and a booming secondaries market are playing larger roles. Five years ago, the public markets served as the primary way to inject capital for investment, growth, and liquidity as private companies reached a certain scale and size. In today's fundraising cycle, the proliferation of large private funds (via dedicated pools of capital and deal-by-deal co-investment structures) can now provide these investments to private companies through sizable financing rounds at high valuations. Furthermore, we are increasingly seeing secondaries serve as a valuable liquidity mechanism for employees and early investors.

According to Will Eckert of Morgan Private Ventures, more than half of the late-stage growth rounds over the past six months have had a secondary component attached to the deal. This is up from 20%-30% a few years ago as traditional exit markets of IPO and M&A have been subdued for the better part of three years. The secondary offering in these rounds allows employees to monetize some of their vested equity (including in some cases the associated tax burden), which is an important talent retention and incentive mechanism for private companies that compete with public companies. For investors, the ability to crystallize a portion of portfolio gains and boost DPI to LPs is as critical as ever in the current fundraising environment. However, the "bar" set by investors to provide private market liquidity remains high as demonstrated by how concentrated secondary activity is, with some estimates that close to 75% of all secondary activity is concentrated in just 20 private companies.

The market for fund secondaries (LP stakes, GP-led vehicles, and block trading) has also been active. As the life cycle of traditional funds has stretched out from 8-10 years to as high as 15-20 years in some instances, options to generate liquidity and return capital to LPs have become ever more important.

Commentary and views as of April 4, 2025.