A WORD FROM JP MORGAN

Our views on venture

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Europe avoided recession in 2024, but economic trends remain muted

While the euro-area economy has avoided a downturn, the region has struggled to generate meaningful momentum, with Germany's underperformance remaining a notable drag. A silver lining of the slow-growth environment has been cooling inflation, putting the European Central Bank (ECB) in a position to lower rates. In December, the ECB cut its policy rate for the third consecutive meeting by 25 basis points to 3.0%, bringing the year's cumulative cuts to 100 basis points and signalling more cuts ahead. The ECB's latest quarterly projections revised down the outlook for economic expansion and inflation in 2025, citing risks to growth remaining tilted to the downside.

Adding further complexity to the picture, and possibly hindering a recovery, are US trade policy uncertainties following the November presidential election. The threat of tariffs could hang over the euro-area economy for several years. During the 2018 to 2019 period, trade uncertainty was estimated to have had a cumulative -1% impact to real gross domestic product, with effects more weighted towards Germany and Italy than France and Spain, according to J.P. Morgan Global Economic Research.

However, not all developments are cause for concern, and potential policy shifts in the US market could benefit Europe. There is general optimism that the change in administration will provide a more efficient and constructive framework for mergers & acquisitions (M&A). Regulatory oversight in the past few years, including antitrust scrutiny, has had a chilling impact on deal activity—not just in the US, but also in the UK, the rest of Europe, and Asia. If expectations are correct, the new administration could unlock more M&A activity globally.

The mood in private markets has improved

As public markets have recovered, private markets are following suit with a typical six-to-nine-month lag. Both companies and investors appear more optimistic, with companies more actively discussing capital raises and investor demand building. The conversation has shifted from "Let's touch base in six to 12 months" to "Let's put money to work over the next six months."

Importantly, the investor interest is coming from a deep pool. The investor base is expanding across not only high-growth investors, sponsors, sovereign wealth funds, family offices, and crossover investors but also global participants. Along with US-based investors, sovereign wealth funds out of Canada, Singapore, and the Middle East are coming back to Europe to invest in private rounds.

The tone on secondary activity is also sending positive signals throughout private markets. Two years ago, secondary deals were often contemplated as investors looked to recycle capital. This has since shifted, with investor demand now driving the dynamic. Many of these companies may not need primary capital given sufficient funds raised in 2021 and 2022; however, secondary deals provide the opportunity to clean up existing cap tables, paving the way for a simpler potential initial public offering (IPO).

2024 was a build-back year for European IPO activity

The past three years have not been homogeneous for the IPO market, driven by shifting market dynamics from both companies and investors. Deal activity has been growing steadily, with volumes up 3x from 2023, albeit from a low bar. Growth as an investment consideration has also started to come back into focus, further reigniting momentum for the space.

While investors still value profitability, the questions about long-term sustainable growth, maintaining profitability (or having a near-term path to it), and scalability have returned. This dynamic is also beginning to extend into the popular realm of artificial intelligence (AI). While understanding a startup's AI strategy remains near the top of the list for investors, markets may become a bit more discerning in the depth and relevance of AI to the company story. This may build over time, so AI remains a valuable thematic for now.

As IPO markets reopen further, deciding where to list will be important. For European companies looking to list either domestically or in the US, it is important to choose the market that supports long-term success. In the early stages of 2025's reopening, there could be a preliminary shift to the US; however, the decision will ultimately be dependent on a broader set of factors, including the origin of revenues, customer base, competition, and market cap, as opposed to short-term valuation. Either way, Europe's ecosystem has built more global companies over the past five to 10 years than it did in the previous period, and regardless of listing location, this has been positive for innovation and research & development in the region.

Looking ahead, we expect IPO volumes to remain on a similar trajectory with 2025 outpacing 2024, and 2026 outpacing 2025.

AI remains a driving force in the ecosystem

The rise of AI is not something seen since the rise of the internet, with the whole technology industry hyperfocused on one category. In AI's relatively short run, it has had tangible impacts across the space. For some enterprise software investments, given AI's disruption among major corporates, there has been a reallocation of technology budgets. Additionally, some companies have contemplated delaying their IPO until there is more visibility on the potential impact from AI. It is truly only the companies that have embraced AI from the beginning that have risen to the top and have often been rewarded via valuations.

Getting ready for public markets

While conditions in venture markets have been challenging over the past couple of years, subtle signs of improvement in private markets and optimism surrounding the outlook for exits in 2025 could portend a pickup in activity. If private market conditions play out as we expect, including increased exit activity, we anticipate that a large majority of startups across the ecosystem will look to take advantage of positive momentum to raise capital.

The companies that will be best prepared, in what will likely be a still competitive environment, will have addressed or contemplated items that are top of mind for investors today. Outside of growth, profitability, and scale, these include developing a governance structure, establishing and delivering on key performance indicators, as well as building long-term relationships with the investment community. Those that put their best foot forward amid this backdrop will likely stand out.