A WORD FROM J.P. MORGAN

Our views on venture

Macroeconomic conditions should remain resilient in 2025

As US economic growth has beaten expectations for the past two years, confidence in the soft-landing scenario has increased and most economic signals are pointing in the right direction for 2025. We expect many of the key 2024 macro trends to prevail in 2025, including sustained economic growth, moderating inflation, stable labor markets, and Federal Reserve (Fed) easing.

Our high-level forecasts call for GDP growth around its 2% long-term average, core inflation inching toward the Fed's 2% target, stable unemployment in the low-to-mid-4% area, and two to three 25-basis-point rate cuts until the upper end of the fed funds target range reaches 4% or 3.75%. If these conditions play out as we expect, it should provide a benign macro backdrop for businesses, markets, and strategic activity.

Getting past the US election cleared a key hurdle

The definitive Republican sweep helps to provide clarity around the direction of policy, while important questions remain around the details. We should have a better idea of how campaign rhetoric translates into policy enactment over the coming months and quarters. In the meantime, optimism is high that less regulation and lower taxes could boost economic growth and support a dealmaking revival.

We generally share in the market's optimism, but it is important to keep in mind risks from new tariffs and general policy uncertainties. On the macro side, incremental tariffs could slow progress on inflation, disrupt supply chains, and increase tensions with trading partners. Shifts in immigration flows could affect labor availability and wage trends. If inflation progress stalls for an extended period or starts to reverse, the Fed's easing cycle could pause altogether. A change in the outlook for stable to lower interest rates could, in turn, impact valuations.

For startups with significant exposure to Chinese imports, planning should be—and in many cases is—already underway to assess the potential impacts from tariffs. Existing and prospective investors will want to understand sourcing contingencies, supply chain alternatives, and strategies to mitigate any margin impact incremental tariffs may cause. The same goes for beneficiaries of government spending tied to areas like renewable energy and climate that could be less of a priority with the incoming administration.

Stars are aligning for the tech IPO market

The constructive macro backdrop, higher equity markets, and relatively low volatility point to improving dynamics for IPOs and equity issuance broadly after fewer deals done in the last three years.

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With total IPO volumes of $33 billion, 2024 normalized to that of the pre-pandemic era, but there is still a ways to go for tech issuance. Three keys to success for issuers over the past 12-18 months have been scale, profitability, and durability of growth. Trading performance for the 2024 IPO cohort was stronger, restoring investor demand in the asset class and setting the stage for more companies to go public in 2025 and beyond.

As we move into 2025, IPO performance in the first half of the year will set the tone for the remaining quarters. We expect companies that test the market early could have similar profiles to that seen in 2024, as well as valuations to remain disciplined. While

public tech valuations have recovered and growth is being rewarded, the days of growth at all costs have not returned, and the balance of growth and profitability will remain important.

Assuming IPOs early in the year gain traction, activity could accelerate in the second and third quarters. Tech companies at earlier stages of profitability and smaller scale could come later in the year or into 2026, depending on market conditions.

According to Michael Millman, Global Chairman of Investment Banking & Capital Markets, a number of sizable private companies are on the near- to medium-term horizon. Before the pandemic, a typical year had 35-40 US tech IPOs. Optimism for 2025 and 2026 is high for a return of normalized tech issuance. Both the private placement market and M&A market should also afford companies and insiders with more opportunities in the coming year.

The market tone for M&A is improving

We are cautiously optimistic the change in administration and leadership at key agencies, like the Department of Justice and Federal Trade Commission, could provide a more efficient and constructive framework for M&A than the previous four years. Policies aside, antitrust and regulatory reviews have extended to 12-18 months or more in recent years, exposing buyers and sellers to lengthy periods of distraction and potential disruptions. If the antitrust review timeline reverts to its typical six to nine months, it could lead to a revival in larger, strategic transactions, while also benefiting M&A activity overall.

How this affects M&A across the tech sector could be nuanced. As was the case in the first Trump administration and voiced through the recent campaign, elevated antitrust scrutiny around Big Tech could continue. Small to midsized transactions, or those into adjacent categories involving domestic buyers and sellers, are likely to be viewed more favorably and could gain timelier approval. In addition, policies that promote competition and innovation across the venture ecosystem stand to benefit "Little Tech."

Private markets are open with increased investor optimism

For the first time in years, private capital markets are experiencing concurrent improvement in both valuations and round sizes across series. Still, down rounds remain elevated, as many companies that raised in 2021 and 2022 are coming back to market while still growing into prior round valuations.

Many investors that were on the sidelines in H2 2022 and 2023 came back to market over the last year with a mandate and mindset to deploy capital. There is still a meaningful flight to quality dynamic with investors being highly selective and discerning. Hayden Stuhr of Private Capital Markets notes that while investors remain acutely focused on scalability, profitability, and sustainability of growth, companies with outsized growth profiles are being rewarded with premium multiples. For high-quality issuers, there is broad investor support for various use of proceeds including growth capital, acquisition financing, and secondary sales.

The tone around secondary activity is sending positive signals. Two years ago, secondary deals were being driven by investors looking for liquidity to recycle capital. This has shifted to investor demand now driving a lot of the dynamic. Even when companies are not in need of primary capital, secondary deals provide the opportunity to clean up existing cap tables, paving the way for a simpler potential future IPO.

Stuhr also notes that bid-ask valuation spreads have narrowed toward levels seen during 2018-2019. While structure remains prevalent in many deals, an increasing number of "clean" rounds are getting done with structure incorporated strategically, all suggesting an improved market environment.

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