

Venture capital business climate at the start of 2026 only slightly better

21 May 2026 // Author: Dr Georg Metzger, +49 69 7431-9717, georg.metzger@kfw.de

- Macroeconomic consequences of the Iran war are likely to weigh on market development this year
- Concerns about AI are dampening sentiment towards secondaries
- More restrained investment appetite despite high satisfaction with deal flow

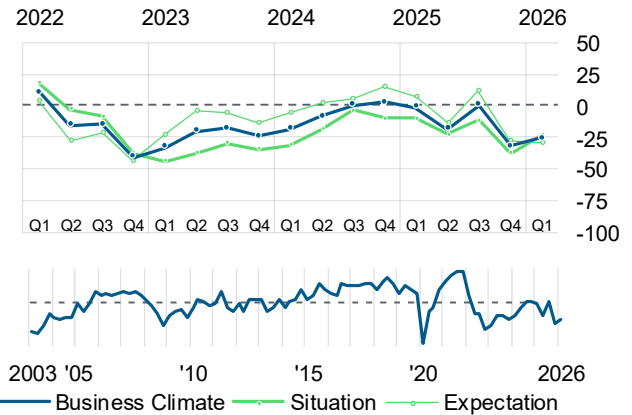
Investor sentiment stabilises

After the slump in sentiment at year-end 2025, the business climate on the German venture capital market (VC market) stabilised again at the start of 2026. The sentiment indicator rose slightly by 6.2 points to -25.9 in the first quarter of 2026. Despite the slight increase, the VC business climate thus remains subdued and lies well below its long-term average. The business climate is calculated as the average of assessments of the current business situation and the business situation over a six-month horizon (business expectations). The slight increase is attributable to an improved assessment of the current business situation by early-stage investors, while business expectations changed little. The indicator for the current business situation climbed by 14.3 points to -23.0, while the indicator for business expectations moved broadly sideways, slipping by 1.9 points to -28.9. Compared with the assessment of the current situation, the somewhat weaker expectations suggest that early-stage investors do not expect any material improvement over the next six months.

Macroeconomic environment deteriorates

The "closure" of the Strait of Hormuz as a result of the Iran war caused prices for oil and natural gas to rise sharply. This price shock is already feeding through into the inflation rate and will predictably push it higher. Interest rate increases to combat inflation are foreseeable. Expectations regarding the path of the key interest rate have adjusted accordingly. By the end of 2026, two smaller rate increases by the EZB are now expected. Previously, a rate cut had been regarded as more likely. This is also reflected in the interest rate climate, the indicator for which fell by 16.9 points to -53.9, primarily due to a deterioration in the expectations component. The geopolitical situation is also having cyclical effects. The indicator for the economic climate fell by 8.7 points to -62.2.

Development of the VC business climate indicator



Venture capital climate traffic lights

Values in balance points

	Q1 '26	Δ Q4 '25	Low	High
Business climate	-25,9	+6,2	-60,1	+45,7
Business situation	-23,0	+14,3	-54,4	+50,5
Bus. expectations	-28,9	-1,9	-69,8	+44,5
Interest rates	-53,9	-16,9	-99,3	+47,4
Economy	-62,2	-8,7	-85,1	+82,4
Fundraising	+2,0	+36,3	-66,6	+74,4
Exit opportunities	-41,9	+2,5	-69,1	+76,8
Trade-sales	-65,0	-5,0	-85,4	+62,4
Secondaries	-54,7	-19,8	-55,1	+58,2
IPOs	-43,5	-0,8	-49,7	+101,6
Depreciations	-13,0	-0,7	-46,7	+31,6
New investment	-17,5	+1,6	-71,6	+32,0
Entry valuations	-2,0	-12,1	-55,7	+48,4
Dealflow quantity	+10,6	+23,5	-45,8	+32,4
Dealflow quality	+24,4	+0,8	-24,1	+27,6
DF innovativeness	+19,9	+16,6	-48,7	+35,3

Colour scheme of the "climate traffic lights": values in the lowest third of the value range are marked "red", those in the middle third "yellow" and those in the highest third "green". Deviations from earlier publications are possible due to the construction.

Source: KfW Research and BVK.

Fundraising climate remains volatile

Given the prospect of rising interest rates, a weaker sentiment among early-stage investors regarding fundraising would be expected. Instead, the indicator for the fundraising climate increased markedly by 36.3 points to 2.0. This means that the volatile investor sentiment, with very large swings in the fundraising climate indicator, has persisted for the fourth consecutive quarter. In view of the macroeconomic uncertainties, stronger fluctuations are also to be expected in the coming quarters. On account of the expected key interest rate hikes, the fundraising climate is likely to deteriorate in the coming quarters – all the more so if oil and gas prices were to remain high for longer than assumed and, amid higher inflationary pressure, more or larger interest rate increases were to materialise.

Exit environment becomes even more challenging

The exit climate improved only marginally in the first quarter of 2026. The indicator rose by 2.5 points to -41.9 and thus remains deep in the red. Sentiment towards trade sales (down 5.0 points to -65.0) and IPOs (down 0.8 points to -43.5) changed little. By contrast, exit sentiment for secondaries fell sharply for the second time in a row, down 19.8 points to -54.7 in the first quarter. In autumn 2025, the indicator still stood at 0.9. Early-stage investors were thus still in neutral sentiment with regard to secondaries half a year ago. In the meantime, concern about the disruption of (particularly software) business models by artificial intelligence (AI) has spread. This appears to have hit the secondaries segment particularly hard. However, the AI-induced valuation pressure does not yet appear to have fed through broadly across portfolios. The indicator for write-downs changed little in the first quarter, edging down by 0.7 points to -13.0. In this, the current situation component even improved by 13.8 points to 0.5. By contrast, the expectations component fell by 15.2 points to -26.4. Early-stage investors therefore expect rising pressure to write down valuations over a six-month horizon.

Investment activity set to decline

A similarly split pattern is also evident in the climate for new investments. In the first quarter, the indicator for investment appetite changed little, edging up by 1.6 points to -17.5, whereas assessments of the current situation and expectations moved markedly. The current-situation component rose by 16.2 points to -13.5, while the expectations component fell by 13.0 points to -21.6. This implies a likely decline in early-stage investors' investment activity over the next six months. This may be related to a renewed decline in satisfaction with entry prices for new investments. The indicator for entry valuations for new investments fell by 12.1 points to -2.0 in the first quarter. This, in turn, is consistent with investors' assessments of deal flow. These either improved markedly in the first quarter or maintained their very high level.

Comments on the current trend

[Dr Dirk Schumacher,](#)
[Chief Economist at KfW](#)

"The business climate on the German venture capital market stabilised in the first quarter of 2026 but sentiment remains subdued after the previous slump," says Dr Dirk Schumacher, Chief Economist at KfW. "In a market phase in which business models and valuations are being called into question by the advancing capabilities of AI tools, the Iran war has added further macroeconomic uncertainty. Higher energy prices make interest rate hikes to combat inflation likely over the course of the year. This is likely to make fundraising more difficult once again and further increase valuation pressure, adding to the already challenging exit climate. These prospects hang like a sword of Damocles over what is actually a stable start to the year for the VC market, with a deal volume of EUR 1.7 billion in the first quarter."

[Ulrike Hinrichs,](#)
[Executive Board Member at the German Private Equity and Venture Capital Association \(BVK\)](#)

"After the unexpected slump at year-end 2025, venture capital investors' sentiment has shown a slight recovery at the start of the year. Of course, the domestic venture capital and start-up ecosystem cannot decouple from the macro environment but current technology trends are likely to have the greater influence on the market climate at present," comments Ulrike Hinrichs, Executive Board Member at the BVK. "Artificial intelligence, robotics and defence fuelled investment in the first quarter globally as well as in Europe and are likely to shape venture capital activity as the year progresses. Germany can point to a number of successes here. Recent funding rounds at Parloa, Neura Robotics and Upvest, for example, as well as the exits at Tubulis and Talon.One, are likely to send positive signals both nationally and internationally and to feed through to domestic market sentiment."

Calculation of the German Venture Capital Barometer

The **German Venture Capital Barometer** is based on a quarterly survey of the members of the German Private Equity and Venture Capital Association (*Bundesverband Deutscher Kapitalbeteiligungsgesellschaften*) and further private equity companies with registered offices in Germany. It reports the business climate in the German venture capital market on the basis of assessments provided by private equity firms with a focus on young companies. All sentiment indicators represent the average of the balance of situation assessments (share of 'good' minus share of 'bad') and the balance of expectations identified at the same time for the coming six months, normalised to their respective historical mean balance values as baseline level. As a result, the maximum or minimum value of the indicator may exceed or fall below +100 or -100 as the actual maximum or minimum. Because of the way the barometer is constructed, positive indicator values point to above-average sentiment and negative values to below-average sentiment.

The **German Private Equity and Venture Capital Association (BVK)** is the voice and the face of the private equity industry in Germany. The association is committed to improving conditions and facilitating access to private equity so that even more businesses in Germany can benefit from private equity. It has some 300 members. These include around 200 private-equity companies and investors as well as some 100 consulting firms and service providers of the industry.

