

# VC investor sentiment is brightening again

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- Fundraising environment is clearly picking up again; exit options are also improving
- Investment appetite is falling; entry valuations are rising
- Deal flow is weaker but remains on a high level of quality and innovation

## Sentiment indicator is back in the green

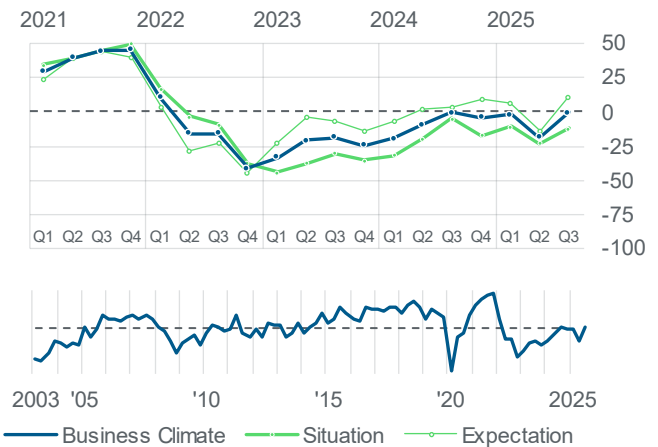
After the slump in the previous quarter, confidence among German venture capital (VC) investors has brightened again. The indicator for the VC business climate rose by 18.5 points to -0.3 balance points in the third quarter of 2025, offsetting the drop from the previous quarter. Business sentiment is calculated as the average of situation assessments and six-month business expectations. Both assessments improved noticeably again in the third quarter and once more with a disproportionately strong change in business expectations. The indicator for the current business situation climbed by 11.1 points to -11.9 balance points, while the indicator for business expectations surged 25.9 points to reach 11.3 balance points. Expectations were thus higher than at the beginning of the year. The increase was even sufficient to flip the indicator for business expectations to green. That means assessments are in the top one third of previous indicator values. The last time this was the case was in the fourth quarter of 2021.

Thus, the indicator for business expectations is again well above the indicator for the current situation. This signals that VC investors are now feeling more optimistic again and anticipating a further improvement in the business situation over the next six months. The uncertainty that arose about the global economic impact of Donald Trump's 'Liberation Day' tariff policy had led to an unexpected and steep drop in sentiment in the second quarter and a pessimistic outlook on the second half of the year. This economic policy uncertainty has eased somewhat, giving way to more relaxed sentiment.

## Fundraising expectations are back above average

The rebound in confidence has also had an effect on the fundraising environment. The indicator rose by 25.9 points to -5.9 balance points. In a similar way as for the business climate, pessimism had dominated here in the previous quarter, pushing fundraising expectations for the next six months deep into the red. Fundraising expectations have now returned to positive territory in the third quarter, while the fundraising environment is still rated as below-average.

## Development of venture capital sentiment indicator



## Venture capital 'traffic lights'

Values in balance points

	Q3 '25	Δ Q2 '25	Low	High
Business climate	-0.3	↑+18.5	-60.6	+45.1
Business situation	-11.9	↑+11.1	-55.0	+50.0
Bus. expectations	+11.3	↑+25.9	-70.4	+44.0
Fundraising	-5.9	↑+25.9	-66.9	+74.0
Interest rates	-42.1	↓-17.8	-100.3	+46.4
Exit opportunities	-40.8	↑+11.2	-70.0	+75.9
Trade-sales	-46.5	↑+20.5	-86.9	+61.0
Secondaries	-0.1	↑+25.1	-56.1	+57.2
IPOs	-40.2	↑+3.0	-50.7	+100.6
Buy-backs	-7.0	↑+25.2	-49.2	+47.8
Depreciations	-2.8	↑+19.8	-47.0	+31.3
New investment	-15.7	↓-7.4	-72.3	+31.3
Entry valuations	-12.8	↓-7.4	-55.6	+48.5
Dealflow quantity	-9.6	↓-14.0	-45.9	+32.3
Dealflow quality	+16.5	↑-3.0	-23.6	+28.1
DF innovativeness	+21.2	↑+2.6	-48.4	+35.6

Colour scheme of sentiment indicator dots: values in the lowest tercile are marked 'red', in the medium tercile 'amber' and in the highest tercile 'green'. Indicator design may lead to deviations from previous publications.

Sources: KfW Research and BVK.

There was no tailwind for the fundraising environment from the European Central Bank (ECB) in the third quarter. The ECB paused the interest rate reduction cycle. By contrast, the US Federal Reserve lowered key interest rates for the first time this year. The central bankers regarded this move as necessary given the cooling of the US economy in the wake of the tariff policy. Despite the unchanged interest rate situation in the EU, VC investors became more dissatisfied with the interest rate level. The interest rate sentiment indicator fell by 17.8 points to -42.1 balance points. The worsened sentiment around interest rates could reflect disappointed market expectations as the ECB paused interest rate reductions. Furthermore, risk premiums at the long end of the interest rate curve have risen, leading to higher market interest rates for longer-term capital investments.

### Exit expectations driven by hope

Exit options improved slightly in the third quarter. The indicator for exit opportunities increased by 11.2 points to -40.8 balance points. The rise thus made up for only part of the downturn from the second quarter. This is due to a very strong improvement in exit expectations which even overcompensated a further sharp deterioration in exit conditions. The indicator for exit conditions has slipped to just above its all-time low.

With the exception of the 'Liberation Day' quarter, exit expectations over the past three years have always been significantly better than assessments of exit conditions. The optimistic expectations for an improved exit situation, however, have so far remained unfulfilled. The renewed divergence between situation assessments and expectations in the third quarter shows that VC investors continue to believe in the possibility of a foreseeable improvement in the exit situation.

This applies mainly to trade sales, the most frequently used exit channel. The indicator for exits via trade sales increased by 20.5 points to -46.5 balance points, mostly as a result of improved expectations. Exits via initial public offerings (IPOs), the most lucrative exit pathway, also show that expectations have risen. The IPO indicator rose by a moderate 3.0 points to -40.2 balance points. IPO expectations improved significantly, overcompensating the deteriorated situation assessments. Assessments of the IPO situation, however, have fallen to a new all-time low. This could reflect the discrepancy between announced and cancelled or repeatedly postponed IPOs of the past months. VC investors currently appear to be most satisfied with exits via secondaries. The indicator for exits via secondaries rose by 25.1 points to -0.1 balance points. Here, not just expectations but situation assessments improved equally. Secondaries, the sale of an investment to another investor (or another fund of the same investor), make up only a very small but growing share of all exits. This has to do with the difficulties of realising trade

sales and IPOs. In order to generate proceeds for return flows to their investors, VC funds are increasingly selling participations to specialised secondary funds or are themselves setting up continuation funds with new investors in order to be able to continue holding onto the most promising investments.

### Investment appetite continues to decrease

The investment environment deteriorated further in the third quarter. The indicator for investment appetite fell by 7.4 points to -15.7 balance points. The decreased appetite for investment also appears to have had an impact in real terms. Fewer German investors were involved in the deals that took place in the market in recent quarters.

At the same time, VC investors perceived a decreasing deal flow. The indicator for the level of deal flow dropped again in the third quarter, by 14.0 points to -9.6 balance points. Assessments of the strength of deal flow has thus dropped below its long-term average again for the first time since the COVID-19 year 2020. Given that the number of newly established start-ups increased at the same time, the weaker deal flow is hardly intuitive, to be sure, but in line with the realised deals seen in the market, which in Q2 and Q3 2025 were only half as many as in the preceding quarters. The development appears to affect smaller deals, in particular, since the number of larger deals concluded in the third quarter (in excess of EUR 1 million) remained steady. Thus, investment activity in this segment continued to be robust.

The disproportionately high assessments of the quality and innovativeness of the deal flow, however, suggest that attractive investment opportunities continue to exist. Both indicators trended sideways in the third quarter but on a high level. The indicator for the quality of deal flow was down 3.0 points to 16.5 balance points on the previous quarter. The indicator for the innovativeness of deal flow was 2.6 points higher at 21.2 balance points.

These obviously attractive investment opportunities continue to have their price, however. Thus, satisfaction with entry valuations for new commitments fell again in the third quarter. The indicator shed 7.4 points to -12.8 balance points. The rising valuation level could be a reason for the current weakness in investment appetite. On the other hand, it is positively affecting portfolio valuations and improving the environment for valuation adjustments. The indicator for valuation adjustments was up 19.8 points in the third quarter, at -2.8 balance points. The strong rise was predominantly driven by expectations. These have increased very substantially and indicate that VC investors anticipate a further rising valuation level in the next six months and, thus, a further easing of write-down pressure (which is likely to have resulted primarily from valuations from the boom year 2021).

## Comments on the current trend

Dr Dirk Schumacher,  
Chief Economist of KfW

“The Trumpian tariff policies initiated a phase of uncertainty among German venture capital investors but that appears to be over now. In the third quarter, VC business sentiment made up for the downturn in sentiment seen in the early summer,” said Dr Dirk Schumacher, Chief Economist of KfW. “What is surprising and not so good news for start-ups in search of capital, however, is that the investment appetite of VC investors continued to fall despite the rebound in sentiment. This may have to do with rising entry prices. But it should not lead to good investment opportunities remaining untapped. In the eyes of investors, opportunities at least exist.”

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

“After the surprising low in the early summer, venture capital sentiment has returned to its recovery path. In particular, the significantly more optimistic business expectations of venture capitalists give reason to hope for strong investment at the end of the year and continued improvement in sentiment,” commented Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). “The improved assessments and expectations for the exit and fundraising environment could indicate that the prolonged downturn will ease in these two important market factors as well and that we will soon see more sales and new funds again. But we need to keep an eye on the falling investment appetite. The apparently rising entry valuations may be having an effect here. However, we have not seen any cooling of investments in the past months and large rounds have also taken place again regularly.”

## Calculation of the German Private Equity Barometer

The **German Private Equity Barometer** is based on a quarterly survey of the members of the German Private Equity and Venture Capital Association (Bundesverband Beteiligungskapital – BVK) and further private equity companies with registered offices in Germany. It reports on business sentiment in the German private equity market on the basis of assessments provided by private equity firms with a focus on mature small and medium-sized enterprises. 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.

