

# Venture capital sentiment collapsed in the final quarter of 2025

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- Fundraising environment has cooled off markedly, exit conditions remain poor
- Investment appetite remains subdued, entry valuations are more attractive again
- Dissatisfaction with deal flow volume continues but quality assessments are near all-time high

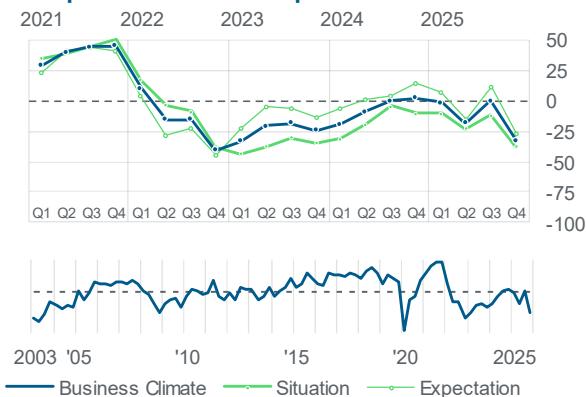
## Investor sentiment worsened at the end of the year

Sentiment in the German venture capital (VC) market dropped significantly in the final quarter of 2025, with the indicator falling sharply to -32.4 points. Business sentiment is calculated as the average of situation assessments and six-month business expectations. Both assessments dropped noticeably in the fourth quarter, again with a disproportionately strong change in business expectations. The indicator for the current business situation fell by 25.9 points to -37.5 points, while the indicator for expectations plunged by 38.9 points to -27.4 points. Thus, investor sentiment at the end of the year 2025 was only slightly above the five-year low at the end of 2022 following the rapid interest rate reversal to combat inflation. Compared with the almost steady sentiment recovery seen in the years 2022 to 2024, the levels of mood fluctuated wildly in 2025. The roller-coaster ride meant that average VC business sentiment in 2025 appeared to be much worse than in 2024, unlike, for example, the investment volume realised, which remained relatively steady year on year at EUR 7.2 billion.

## Exit environment remains frosty

The volatile sentiment can have different causes. One of them is the global geopolitical uncertainty, which climbed to new record levels in the course of the year. Another is investors' ongoing dissatisfaction with exit options. The exit environment hardly changed in the final quarter of 2025 and remained on a frosty -44.9 points. Thus, average exit sentiment in 2025 was also significantly weaker than in 2024, so that the budding hope that things would improve, reflected in the rise in exit sentiment in 2024, remained unfulfilled in 2025. The indicator of investors' assessments of the overall economic trend edged upward by 7.5 points in the final quarter but remains stuck deep in the red at -54.1 points. A long-term comparison shows a strong correlation between exit sentiment and economic climate. Thus, the +1.5% GDP growth rate expected for 2026 could also improve exit sentiment.

## Development of venture capital sentiment indicator



## Venture capital 'traffic lights'

Values in balance points

	Q4 '25	Δ Q3 '25	Low	High
Business climate	● -32.4	⬇ -32.4	-60.3	+45.4
Business situation	● -37.5	⬇ -25.9	-54.7	+50.3
Bus. expectations	● -27.4	⬇ -38.9	-70.1	+44.2
Exit opportunities	● -44.9	➡ +4.6	-69.6	+76.4
Economy	● -54.1	⬆ +7.5	-85.8	+81.8
Fundraising	● -34.2	⬇ -28.7	-66.6	+74.4
Interest rates	● -37.6	➡ +4.1	-99.9	+46.8
New investment	● -19.5	➡ +4.2	-72.0	+31.6
Dealflow quantity	● -12.8	➡ +3.4	-45.7	+32.5
Dealflow quality	● +23.8	⬆ +7.6	-23.9	+27.9
DF innovativeness	● +3.6	⬇ -17.6	-48.4	+35.5
Entry valuations	● +10.1	⬆ +23.0	-55.7	+48.4
Depreciations	● -12.4	⬇ -9.8	-46.8	+31.4

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

## Are fundraising conditions easing?

Over the course of the year, investor sentiment around fundraising was roughly as volatile as business sentiment. That continued at the end of the year, with fundraising sentiment dropping by 28.7 points to -34.2 points. Thus, although average fundraising sentiment was worse in 2025 than in 2024, it was significantly better than in 2023, when central banks were still pursuing interest rate increases. The European Central Bank (ECB) has kept interest rates on hold since the most recent key interest rate reduction of June 2025. For the moment, the ECB appears to regard the current interest rate level as appropriate. Given the tense geopolitical situation, a renewed interest rate reduction is more likely in the course of the year than an increase. An interest rate reduction would surely be positive for fundraising sentiment. Even more important, however, is for the exit environment to improve and the returns to fund investors, which are so important for reinvestment, to grow again.

## Investment appetite remains subdued

Conditions for new investments gradually deteriorated in the course of 2025. The indicator for investment appetite fell moderately again by 4.2 points to -19.5 points in the final quarter. Thus, the indicator was clearly negative on average for the year and well below its long-term average. That suggests investors are taking a cautious approach, which presumably explains the decline in the number of VC funding rounds as well. Given that exit options are generally not very satisfactory and fundraising conditions are therefore difficult as well, investors are obviously more interested in keeping their powder dry and focusing more on follow-on financing transactions in their portfolios instead of undertaking new investments.

This is compounded by a dissatisfaction with the level of deal flow, which increased particularly in the second half of 2025. The indicator for the level of deal flow dropped by 3.4 points to -12.8 points in the final quarter. Overall, the year 2025 was therefore just barely below the long-term average, which last occurred in 2015. The dissatisfaction with the level of deal flow could be linked to the structural shift in start-up activity and, hence, also to venture capital demand in the technological field of artificial intelligence (AI). Investors for whom AI start-ups do not fit into their investment strategy could have become more dissatisfied as a result of the growing share of AI in deal flow. But that does not mean deal flow overall has failed to be of high quality – on the contrary. The indicator for the quality of deal flow rose by 7.6 points to 23.8 points in the final quarter, ending the year just below its all-time high. The indicator for the innovativeness of deal flow, on the other hand, fell noticeably in the fourth quarter of 2025. Having fallen by 17.6 points, it was unable to maintain the high level reached in the course of the year and, at now 3.6 points, it is just barely above its long-term average.

The level of satisfaction with entry prices soared. The indicator for entry valuations for new commitments surged by 23.0 points to 10.1 points in the fourth quarter. Thus, entry valuations appear to have become more favourable towards the end of the year after picking up temporarily in the middle of the year. More favourable entry valuations, however, mean more pressure on portfolio valuations, with the indicator of satisfaction with valuation adjustments falling slightly in return by 9.8 points to -12.4 points.

## Comments on the current trend

**Dr Dirk Schumacher,**  
**Chief Economist of KfW**

“The downturn in business sentiment in the German venture capital market at the end of 2025 is not only surprising but surprisingly strong,” said Dr Dirk Schumacher, Chief Economist of KfW. “The final quarter was the second strongest quarter of the year, with two billion euros invested in German start-ups. In total, EUR 7.2 billion was invested in 2025. That was an extremely solid level. But the persistently weak exit environment appears to weigh heavily on investor sentiment. Nonetheless, I believe that a clear economic recovery is likely in Germany in 2026. Hopefully, this will improve exit opportunities as well.”

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

“The year 2025 was an eventful one in terms of domestic and geopolitical challenges. That significantly weighed on the mood in the German venture capital market. Nonetheless, the renewed downturn in sentiment towards the end of the year came unexpectedly, particularly after the previous quarter had generated optimism. But investors respond sensitively to geopolitical uncertainties and persistent market challenges,” commented Ulrike Hinrichs, Executive Board Member at the BVK. “What makes us optimistic, however, is that those factors did not affect the volume of start-up finance, which even grew in Germany in 2025. Investment increased noticeably at global level as well, not least driven by the AI boom. Whether this remains a flash in the pan or ushers in a new growth cycle remains to be seen. It will essentially depend on when the exit and fundraising environments finally recover.”

### 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.

