Venture capital business climate cools slightly in the spring quarter

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- Macroeconomic uncertainty remains high, interest rate developments weigh on sentiment
- Exit climate drops to a three-year low, quiet hopes for more IPOs
- Valuations are rising, satisfaction with deal flow still above average

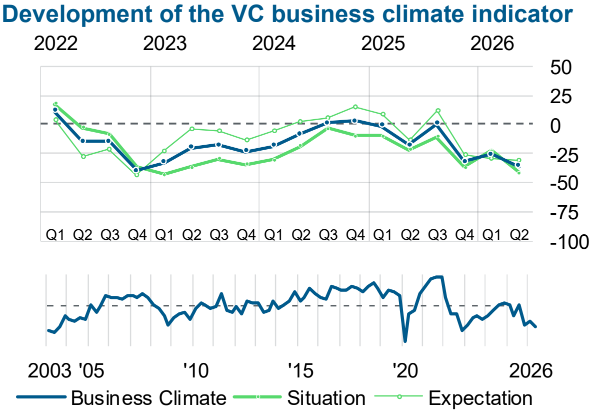
Subdued investor sentiment expected to persist

Contrary to the heatwave across Europe, the business climate in the German venture capital market (VC market) cooled in the spring quarter. The sentiment indicator fell by 10.2 points to -35.8 points in the second quarter of 2026 and thus remains clearly below its long-term average. The business climate is calculated as the average of the assessment of the current business situation and of the business situation over a six-month horizon (business expectations). The cooling is attributable to a deterioration in early-stage investors' assessment of the current business situation, while business expectations again hardly changed. The indicator for the current business situation fell by 18.6 points to -41.2 points, while the indicator for business expectations moved broadly sideways again, declining by 1.8 points to -30.4 points. Compared with the current situation, expectations are only slightly more favourable, which suggests that early-stage investors do not expect any significant improvement in the subdued sentiment over the next six months.

Macroeconomic uncertainty remains high

Oil prices – and thus energy prices overall – were highly volatile at an elevated level in April and May due to the frequently changing news flow from the Middle East. It was only in June that oil prices eased noticeably and fell back to the level seen just before the escalation of the war in Iran at the end of February. Owing to the already materialised second-round inflation effects, the ECB moderately raised its key interest rate. This was also reflected in the interest rate climate, whose indicator fell by 6.3 points to -59.6 points. Even though oil prices have now fallen again, the damage to inflation has already been done and macroeconomic uncertainty remains high. The indicator for the economic climate once more declined slightly, by 7.2 points, to -68.6 points.

Development of the VC business climate indicator



Venture capital climate traffic lights

Values in balance points

	Q2 '26	∆ Q1 '26	Low	High
Business climate	-35.8	-10.2	-59.7	+46.1
Business situation	-41.2	-18.6	-54.0	+51.0
Bus. expectations	-30.4	-1.8	-69.5	+44.8
Interest rates	-59.6	-6.3	-98.7	+48.0
Economy	-68.6	-7.2	-84.4	+83.2
Fundraising	-33.8	-36.2	-66.2	+74.8
Exit opportunities	-56.3	-15.0	-68.5	+77.4
Trade-sales	-73.3	-9.2	-84.6	+63.2
Secondaries	-63.9	-9.9	-63.9	+59.0
IPOs	-37.2	+5.9	-49.3	+102.0
Depreciations	-5.6	+7.3	-46.6	+31.6
New investment	-12.0	+5.3	-71.4	+32.2
Entry valuations	-6.8	-4.9	-55.6	+48.5
Dealflow quantity	+2.6	-7.9	-45.8	+32.3
Dealflow quality	+9.3	-14.9	-24.2	+27.5
DF innovativeness	+5.8	-14.1	-48.7	+35.2

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.

Volatile fundraising sentiment

Early-stage investors' assessments of the fundraising situation and outlook have been extremely volatile in recent quarters. In the second quarter of 2026, the indicator for the fundraising climate once again moved by a double-digit margin, losing 36.2 points to -33.8 points. While a cooling of the fundraising climate is broadly understandable in view of the interest rate hikes already implemented and further expected by the ECB, the magnitude of the shift is again surprising. Why investor sentiment regarding fundraising is proving so erratic remains unclear.

Exit climate falls to three-year low

The exit climate deteriorated noticeably in the second quarter of 2026. The indicator fell by 15.0 points to -56.3 points, thus dropping to a three-year low. The exit climate worsened both with regard to trade sales (down 9.2 points to -73.3 points) and secondaries (down 9.9 points to -63.9 points). It is remarkable how investor sentiment regarding secondaries has virtually plummeted. Until recently, secondaries were an increasingly popular way of generating liquidity for distributions to fund investors, for lack of alternatives. Contrary to the overall trend, the indicator climbed to +1.6 points in the third quarter of 2025. With the current decline, it has fallen to a new all-time low in only three quarters. By contrast, the IPO climate improved slightly, rising by 5.9 points to -37.2 points, but remains at a very low level overall. The increase is largely driven by expectations. The situation component improved marginally by 1.3 points to -42.7 points, while the expectations component rose by 10.5 points to -31.7 points. The record stock market flotation of SpaceX in the US may play a role here, together with a lingering residual hope of an overall boost for IPOs, including from the portfolios of German VC funds.

Alongside the SpaceX record, there were further exceptional VC financing rounds in the second quarter of 2026 running into billions, particularly in the US but also in Europe and specifically in Germany. At the same time, new unicorn rounds were reported in which start-ups attained a billion valuation for the first time. These developments are likely to have contributed to the improvement in investor sentiment regarding valuation adjustments. The indicator rose by 7.3 points to -5.6 points and is thus close to its long-term normal range.

Light and shade in investments and deal flow

The climate for new investments improved slightly in the second quarter of 2026. The indicator rose by 5.3 points to -12.0 points. The situation component increased by 3.8 points to -9.2 points, while the expectations component climbed somewhat more markedly by 6.4 points to -14.8 points. The pessimism that emerged in the first quarter has therefore receded somewhat. Nevertheless, investors remain far from upbeat when it comes to new investments. In addition, sentiment is being dampened by developments in deal flow. The indicators for the volume, quality and innovativeness of VC demand declined in the second quarter of 2026. Although the indicators, at +2.6, +9.3 and +5.8 points, remain above their long-term averages, this is only just the case, particularly with regard to the volume of demand. However, expectations are assessed more positively than the current situation, so a renewed strengthening of deal flow is anticipated. The valuation trend described above, however, is generating headwinds for an increase in investment activity. Satisfaction with entry prices for new investments is continuing to decline. The indicator for entry valuations for new investments fell by a further 4.9 points to -6.8 points in the second quarter.

Comments on the current trend

Dr Dirk Schumacher,
Chief Economist at KfW

"The investor sentiment in the German venture capital market took a hit in the second quarter of 2026," said Dr Dirk Schumacher, Chief Economist of KfW. "Macroeconomic uncertainties and persistent concerns about fundraising and exits are weighing on the market. In addition, the number of financing rounds appears to be declining. On the other hand, the spring quarter, with a deal volume of EUR 3.4 billion, was the strongest in four years. Seven mega-deals, including a billion-euro AI round, drove deal volume in the second quarter and further such deals have already been announced for the third quarter. The enthusiasm over billion-euro deals is justified, as they demonstrate that Germany has start-ups of such quality that investors believe in them and invest capital, many of them from abroad. Moreover, hopes have not yet faded that the record stock market flotation will release the brake on further IPOs. This could give fresh momentum to the entire system."

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

"Sentiment in the German venture capital market remains subdued. The lack of cyclical impulses and the persistent challenges in fundraising and exits continue to weigh on the market," comments Ulrike Hinrichs, Spokesperson of the Executive Board of BVK. "At the same time, the large financing rounds of recent weeks show that German scale-ups are internationally competitive even in a demanding environment and are able to attract growth capital. If these successes encourage further venture capital investors, they can provide important impetus for the market and contribute to a noticeable improvement in the business climate over the remainder of the year."

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.

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