3Q 2025 Venture Capital: Positive investment momentum continues with improving exit dynamics

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1. Investment Activity: *Sustainable rebound of global Venture Capital investment volumes*

The third quarter of 2025 marks another inflection point for global venture capital markets. Total venture funding reached approximately USD 95.6b globally, representing the fourth consecutive quarter with funding volumes above USD 90b. YTD total funding volume reached USD 309.6b, which is at 3Q point already above FY2024 with USD 291.2b. This level of activity reinforces the recovery trajectory that began in late 2024 and continued steadily throughout the first half of 2025. Year-on-year, total funding rose by roughly 38 % compared to 3Q 2024, showing that the rebound is not a short-term blip but a sustained re-acceleration of global venture deployment.

While investment volume is increasing, the number of transactions continues to decline to below 6,000 in 3Q represents decline of 25% compared to 3Q2024. This is underscoring a trend of sharp concentration of capital into fewer, larger rounds. Investors are increasingly directing capital toward a small group of perceived “category winners,” while broad-based early-stage deal flow remains more selective.

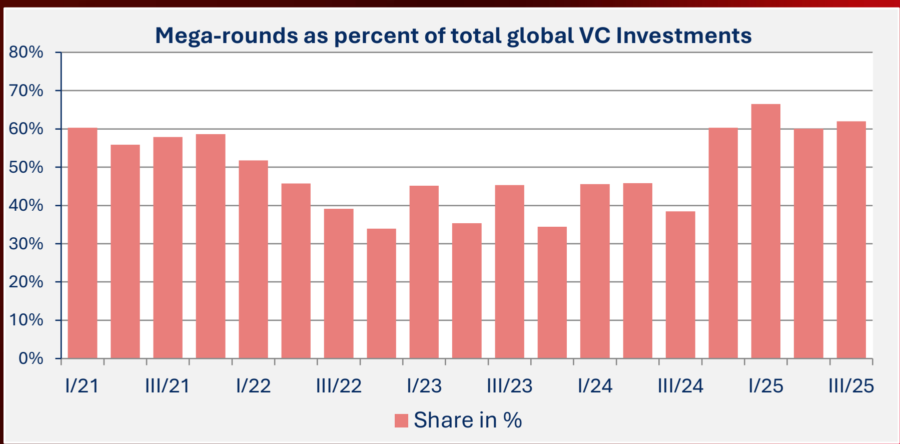

Chart 1*: Mega-rounds as percent of total funding, Source: CBInsights*

In the years 2022-2024, mega-round deals swept an average of 45% of total fundraising dollars, but in 2025 YTD, this portion has noticeably increased to 66% of total investment volume. The number of mega-rounds (deals worth USD 100m+) struck in 3Q was 156, maintaining consistency from the last quarter (1Q: 158, 2Q: 161), but up 30% YoY (122 deals in 2Q 2024). As a result, these 156 mega-rounds accounted for 61% of total investment volume, while the 5,872 non-mega-round deals accounted for the remaining 39%. These statistics support the developing trend towards a quality-over-quantity approach as capital becomes more concentrated around fewer deals. With AI and hard tech costing a great deal to produce, more money is being allocated to startups with substantial potential for expansion, resilient underlying metrics, and a strong foundation backed by expertise.

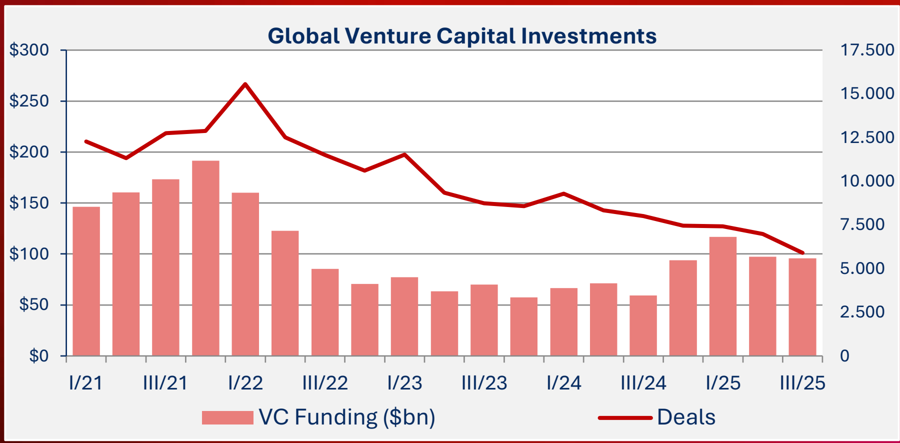

Chart 2*: Global VC Investments in Terms of Volume and Deal Count, Source: CBInsights*

2. Investment Trends: *DeepTech and AI are booming, with AI expected to become more differentiated*

Artificial intelligence (AI) is dominating in global venture allocations. AI-related companies attracted roughly half of all venture funding in 3Q and slightly more than 50 % on a year-to-date basis globally and a share of 85% in the US. It was fueled again by several mega-rounds including equity funding rounds of Anthropic (USD 13b), OpenAI (USD 8.3b) and Mistral AI (USD 1.5b).

While this level of thematic concentration is unprecedented in recent venture history, there are various areas of AI investment, which are fundamental different to each other and addressing other verticals. AI areas include Large Language Model developers (currently capturing by far most attention and biggest investment volume), Industrial humanoid robot developers (ranked #1 in terms of deal count in 3Q2025), Coding AI agent & co-pilots, End-to-end software AI agents, AI agent development platforms and Generative engine optimization solutions.

AI represents not just a sector but a foundational platform technology with the potential to reshape multiple industries simultaneously. Many companies classify themselves at the moment as AI companies for example to be attractive to investors. The underlying business models and sectors are fundamentally different. An example are humanoid robot developers in the industry, healthcare or consumer home sector often classified under AI. It is expected that AI label will fragment into categories, with companies judged by what the technology truly does. It will move from catch-all buzzword to a set of clearly segmented technologies.

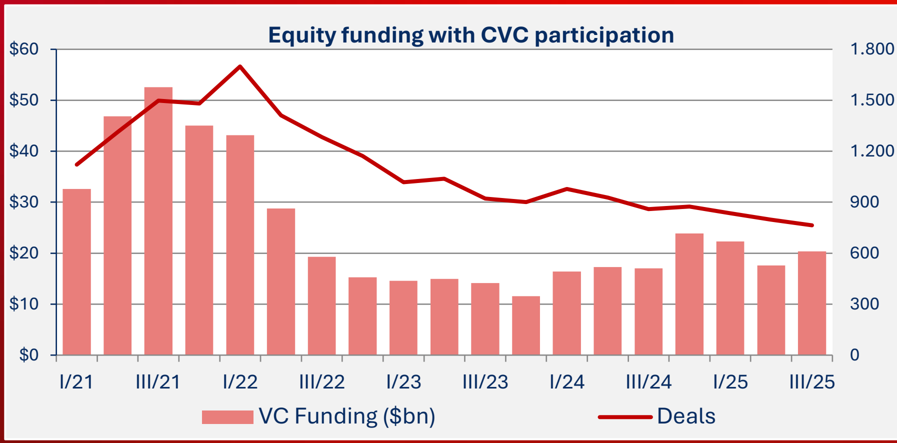

Chart 4: *Quarterly VC funding with CVC participation, Source: CB Insights*

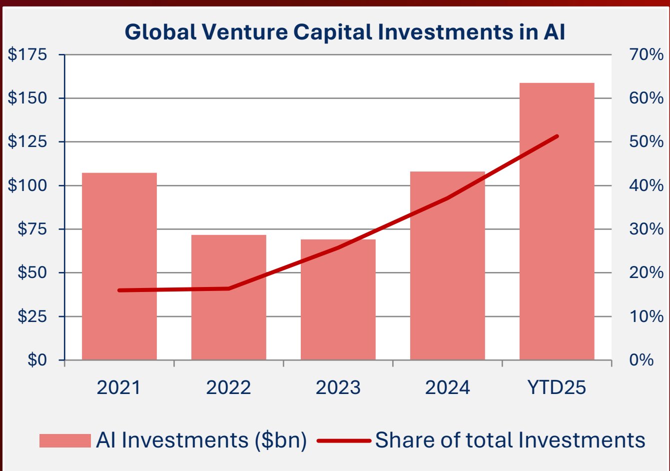

Chart 3: Global VC investments in AI, Source: CBInsights

Beyond wider AI topic, deep-tech verticals such as advanced robotics, quantum and edge infrastructure, and industrial automation are building further momentum.

As in the overall market, the number of transactions involving CVC participation declined. At 764, this represents a slight decrease of 4% compared to the previous quarter and of 11% to last year's third quarter. One in eight deals worldwide involved a CVC company. The number of transactions has been following a general downward trend since the beginning of 2022. However, the deal volume involving CVC participation (USD 20.4b), shows an increase compared to both the previous quarter ($17.6b) and the same quarter last year ($17.0b). In the long term, deal volume appears to have recovered from its lows in 2023 and stabilized in the range of USD 17-20b since mid-2024. Most deals involving CVC participation took place in Asia (320), followed by the US (250) and Europe (141).

3. Exits: Signs of exit market rebound strengthen

The liquidity environment in 3Q 2025 marked the strongest improvement since the post-2022 correction, with cumulative exit volume year-to-date already surpassing total full-year 2024 activity.

A soft reopening of the public markets contributed to a more constructive exit landscape. 3Q saw a notable rise in venture-backed IPOs, including more than a dozen listings exceeding USD 1b in market capitalization. Prominent transactions included Figma Inc. (~USD 40b market cap at listing), Klarna Bank AB (~USD 17b), and Firefly Aerospace, Inc. (~USD 8b).

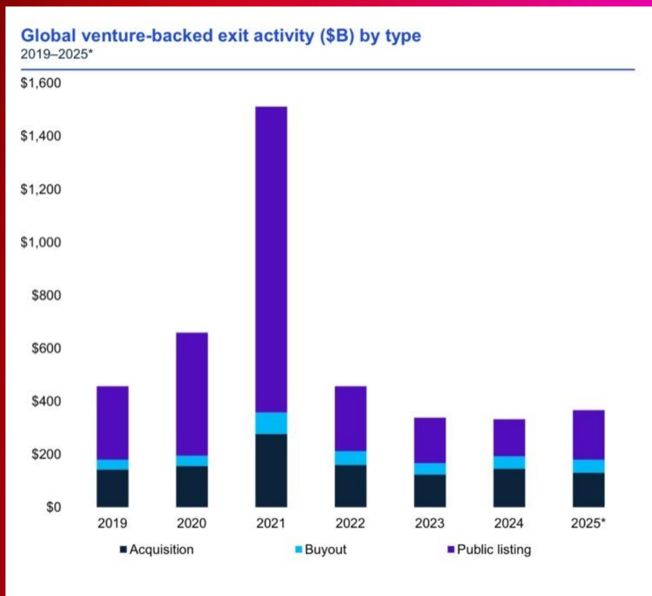

Chart 5*: Global VC exit activity in the US, Europe, and Asia, Source: KPMG Venture Pulse*

The rebound remained predominantly U.S.-driven with its IPO window reopened. The Swedish buy-now-paylater company Klarna’s debut at US-Nasdaq, intensified discussions regarding the relative attractiveness and accessibility of European exit pathways (see Europe section). The renewed IPO activity after an extended dormant period may encourage a number of privately held, IPO-ready companies currently in the pipeline to execute public listings, assuming market conditions remain broadly stable in the coming quarters.

Secondary activity continued its transition into the industry mainstream, including across GP-led processes. Boards increasingly considered secondary mechanisms as complementary liquidity tools, even as the IPO window began to reopen. According to PM Insights, large-ticket secondary transactions (USD 50m+) increased modestly in 3Q 2025, while smaller institutional transactions (USD 1–5m) saw a slight slowdown, with return profiles remaining positive.

For venture investors and limited partners, these dynamics could influence the outlook for distributions and exit optionality. The reopening of the IPO window, M&A activity, and sustained secondary-market liquidity collectively could support improved distribution-to-paid-in trajectories and could help re-establish a functioning capital-recycling cycle within the venture ecosystem. While the environment remains more disciplined than during the peak, 3Q 2025 could represents a shift from a liquidity-constrained market toward a selective exit recovery.

➔ ***to be continued on page 6***

Expertise from Deutsche Bank Research

Did investors escape to Europe in H1?

What we know and don't know

In the first half of this year, global investors seemed to reassess their global allocations in light of surging economic policy uncertainty in the US. Stock markets in the US underperformed their European counterparts, and the US dollar weakened substantially versus the euro. Market participants suspected a degree of capital flight from the US.

However, a closer look at financial accounts does not reveal a significant redirection of capital from the US towards Europe so far. True, there has been a slowdown in outflows to the US across direct investment, portfolio investment and other investment (mainly consisting of bank lending). But its scale was not unusual in a longer-term comparison and may not have been the prime reason for the divergence in asset prices.

Beyond the moderate slowing of capital flows to the US, the main driver of the US dollar weakness was probably the increased hedging of foreigners' dollar positions. Whether this hedging flow will be followed by an actual reallocation in capital is likely to depend on investors' assessment of US policy uncertainty going forward, including institutional resilience, and on growth prospects both in Europe and the US.

Something unusual happened in global capital markets this spring: in a period of strong economic and trade policy uncertainty – mainly emanating from the US –there was no investor flight to US assets as the typical safe haven. Instead, US equity markets underperformed their European counterparts, and the US dollar depreciated substantially versus the euro. The S&P 500 was down 5-6% year to-date in early May, with the Stoxx Europe 600 at the same time virtually up by the same percentage. Simultaneously, the euro advanced from USD 1.03 at the beginning of the year to USD 1.13 in the first few days of May.

Many market observers pointed towards US assets having lost in attractiveness relative to other jurisdictions, including claims of the "end of US exceptionalism", because of policy uncertainty and perceived institutional weakening. As a result, professional investors were said to have adjusted their asset allocation, withdrawing funds from the US and deploying them elsewhere, primarily in Europe.

In this note, we analyse to what extent this supposed reallocation indeed occurred, covering all the different possible channels. Given that these bouts of uncertainty may very well appear again, transatlantic (and global) capital flows will probably remain in the spotlight of investors and policymakers in the coming months and years. In a nutshell, our conclusion is that the story was more nuanced than a global reallocation.

Where to look

The obvious starting point for tracking capital flows is the balance of payments. In the BoP, the financial account (sometimes also called capital account) mirrors the current account where exports and imports of goods, services and income e.g. from investments or remittances are recorded. The two accounts always net to zero, by definition, like any balance sheet of a firm or a bank where assets always equal liabilities plus equity.

The financial account is essentially composed of three different categories, each offering distinct insights into the nature of capital movements:

i. direct investment

ii. portfolio investment

iii. other investment

Direct investment aims for strategic influence and control of foreign enterprises. Portfolio investment primarily serves financial investment purposes. And Other investment, while broadly defined, encompasses capital movements not classified as direct or portfolio investment, largely reflecting the bank lending channel, including cross-border bank loans and deposits.

A challenge in working with official BoP data, particularly when analysing rapid capital flow reversals or sudden stops, lies in the reporting frequency. BoP data are typically released only on a quarterly basis, with a considerable time lag, often several months.

Alternatively, private-sector providers such as Emerging Portfolio Fund Research (EPFR) and the Institute of International Finance (IIF) offer high frequency data. These proxy data are sometimes available on a monthly, weekly, or even daily basis and complement official statistics. However, they have other limitations. The IIF mainly focuses on capital flows to emerging market countries, rather than flows between major advanced economies. EPFR data, on the other hand, primarily cover portfolio flows only and do not provide a comprehensive overview of all financial account components.

Hence, this paper mostly relies on official BoP data from the ECB, with the US as the counterpart. Q2 numbers have been released now and provide a comprehensive picture.

What may have happened?

In the absence of a large-scale redirection of capital flows away from the US and towards Europe, what other factors beyond traditional portfolio rebalancing may have driven (short-lived) US equity market underperformance and (continuing) weakening of the US dollar to the benefit of the euro?

A driver in recent months may have been changes to the monetary policy outlook on both sides of the Atlantic. At the beginning of the year, many analysts had assumed the Fed would maintain a “higher for longer” stance on interest rates and would stay on hold throughout 2025, whereas the ECB would continue to ease until it had reached a deposit rate of about 1.5%. Later in spring and summer, however, this expected divergence morphed into moderate convergence. Indeed, the Fed has resumed rate cuts, while the ECB may have settled on a terminal rate of 2% for the time being. This narrowing interest rate differential has probably contributed to pro-European sentiment, further impacting currency valuations.

Still, this monetary policy angle may have played a role only more recently, after the biggest diverging moves in equity and FX markets had already taken place. Before, something else may have driven markets, even though not capital flows: hedging of US dollar exposure. Instead of immediate, outright divestment of USD-denominated holdings in response to initial market uncertainty triggered by the substantial shift in US trade policy in early April 2025, non-US investors primarily sought to mitigate currency risk through ex-post FX swap and forward contracts. This allowed them to keep their dollar assets, while simultaneously containing their vulnerability to a further fall in the dollar. Such hedging activity effectively put downward pressure on the dollar exchange rate without being based on lower confidence in dollar assets per se or the USD losing importance in international markets. Asian investors, who are major holders of US dollar bonds, may have been the primary force: during April and May, the dollar depreciated the most during trading hours in Asia. Simultaneously though, there was no significant selling of US government bonds as Treasuries even gained in value.

The BIS paper also shows that foreign investors had hedged a smaller share of their portfolio in the last few years, due to the long-term upward trend in the USD and because of higher hedging cost since the surge in interest rates in 2022. With losses arising on their substantial unhedged positions when the dollar started to slide in April, investors became wary. Subsequent hedging impacted the FX spot market and led to a further decline in the dollar – despite investors holding on to their underlying US assets.

At the same time, other factors such as opportunistic positioning and disinvestments may have also been at play. More recently, hedge ratios have remained much higher than usual, both in equity and bond fund investments. Going forward, beyond the short-term shock, the bigger question will be whether some international investors indeed adjust their underlying allocation as a result of permanently higher policy uncertainty in the US, real or perceived weakening of independent institutions such as the Fed, and potentially lower long-term economic growth as a result of headwinds from trade and migration policy. This really could lead to a sizeable redirection of capital from the US towards Europe, more so than the mere “warning sign” of moderately slowing inflows into the US and, particularly, increased dollar hedges so far.

Author:
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[1] *For the full paper please see Did investors escape to Europe in H1? What we know and don't know, October 2025*

4. Insights into Europe and a closer look at Germany: Europe is punching below its weight

Europe recorded USD 13.5b in venture funding in 3Q, down slightly from USD 14.5b in 2Q but broadly in line with the USD 14.2b level observed a year earlier. Europe accounted for approximately 14% of global funding, reflecting a modest sequential contraction but a stabilization relative to the post-2022 reset, but still punching below its weight and investing even less than its global GDP share of 21-23%. 3Q puts Europe almost on a par with Asia, which was able to slightly increase its share on global investments. North America continues to dominate investment activity, accounting for two-thirds of the investment volume. However, this share declined for the second consecutive quarter.

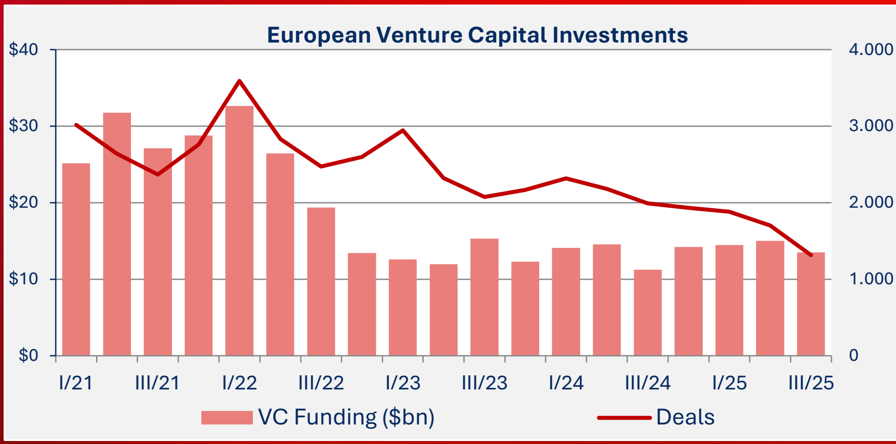

Chart 6: *European Venture Capital Investments, Source: CBInsights*

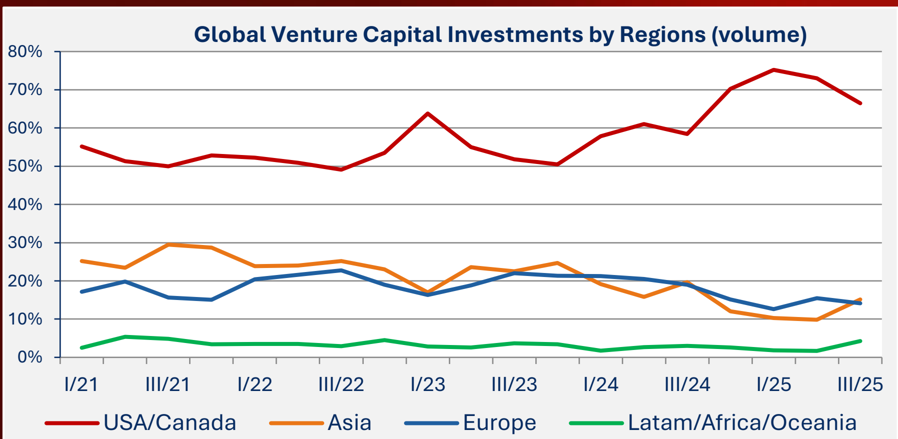

Chart 5: *Regional split VC investment volume, Source: CB Insights*

The European funding gap remains the scale-up phase. According to State of European Tech 2025 report, US startups founded in 2016 are twice as likely to have raised USD 50m or more than their European counterparts. The growth in European late-stage funding in 2025 is driven by foreign investors from US and Asia, which invested almost same amount as European investors.

Despite these headline transactions, early- and mid-stage deal activity remained subdued, reinforcing a pattern of selective deployment and continued investor discipline. Overall, 3Q data indicates that Europe is participating in the global upturn but at a slower and more concentrated pace, with funding levels stabilizing rather than accelerating, and late-stage capital doing the heavy lifting.

In 3Q, Europe closed 17 mega-rounds (>USD 100m) totaling USD 5.2b, accounting for 39% of Europe's quarterly funding. A handful of later-stage raises dominated the quarter most notably Mistral AI (France, USD 1.5b Series C) and Nscale (UK, USD 1.1b Series B), both above 1b rounds. Additional significant rounds above USD 200m included Sportawheel (Greece, USD 352m), IQM (Finland, ~USD 320m), Ortivity (Germany, USD 233m), and Nothing (UK, USD 200m).

The lack of European growth capital results into the fact, that within the global ranking of the 10 most valuable unicorns, Europe is represented by only a single company with Revolut (USD 75b, United Kingdom) and no company originating from the European Union. The picture looks more favorable for Europe looking at the Top10 new unicorn created globally, with two, Framer (USD 2b, Netherlands) and Tide (USD 1.5b, United Kingdom), emerged from Europe.

Consistent with the global trend toward greater investment concentration, the total number of completed transactions in Europe declined to 1,315 in 3Q. Europe's share of global deal volume now stands at 22%, substantially exceeding its 14% share of global invested capital and broadly aligning with its proportion of global GDP. This divergence underscores a persistent structural pattern: Europe produces startups at a globally comparable level, yet continues to exhibit a relative deficit in scaling firms through later-stage growth phases. But the mood across Europe's tech landscape is clearly lifting. In the latest State of European Tech survey, 50% of respondents say they feel more optimistic than they did a year ago, which is up from 34% in 2024. This marks one of the strongest optimism readings of the past decade and signals a tangible shift in sentiment across the ecosystem.

Looking at individual European countries, the investment situation has slightly shifted compared to 2Q. After Germany recorded an extremely strong second quarter in terms of investment (USD 2.7b), investment almost halved to USD 1.4b. France, on the other hand, saw a significant increase (USD 2.5b) driven by the Mistral AI funding round of USD 1.4b. The United Kingdom (USD 4.1b) remains at the top of the list of investment volume in Europe, maintaining its investment level nearly unchanged.

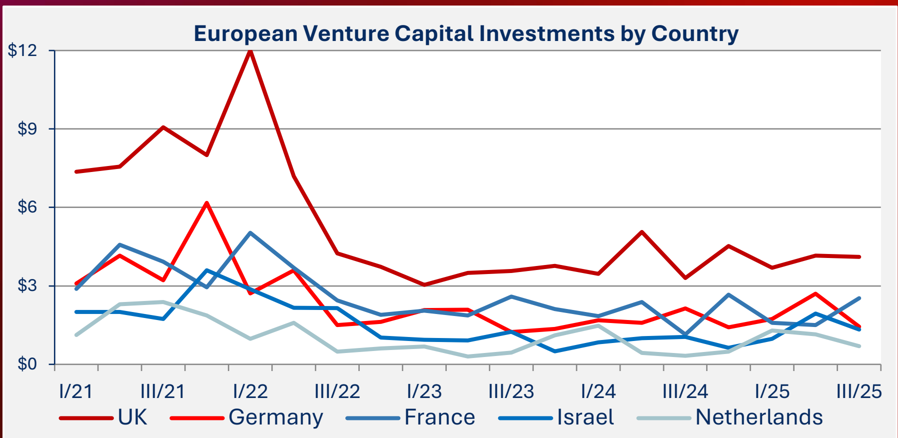

Chart 7: *European Venture Capital Investments by country, Source: CBInsights*

Taken out quarter-to-quarter movements impacted by mega-rounds such as Mistral AI in 3Q, the mid-term trend of German funding volume surpassing France is still been seen, while it's a close race.

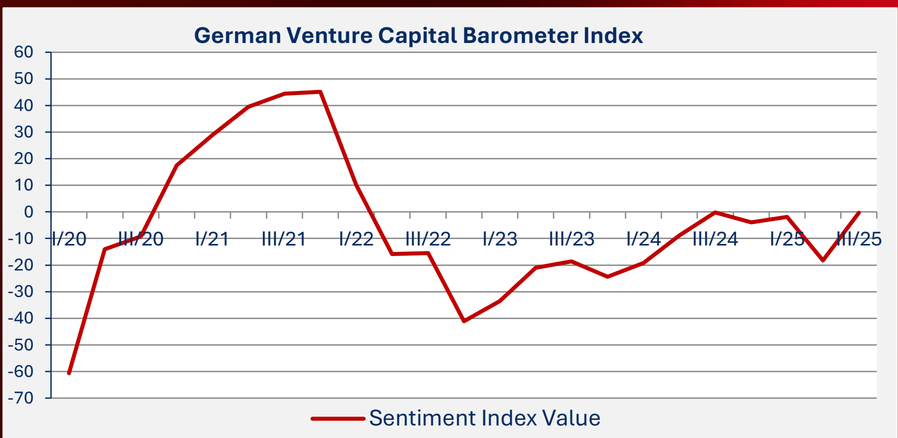

Chart 8*: Development of the German Venture Capital Barometer, Source: BVK/KfW*

Sentiment among German venture capital investors—measured by the German Venture Capital Barometer, a market sentiment index compiled by the German Venture Capital and Private Equity Association (BVK) and state bank KfW—improved significantly in the third quarter, recovering from the summer's slump. Investors now view both the current business situation and business expectations more favorably than recently. The main factors cited as negative influences continue to be the exit and fundraising environment, as well as the general level of interest rates.

Finally, public stimulus for European and German Venture Capital is forming, such as the announced Scale-up Europe Fund by European Commission with a target size of EUR 5bn, the European Tech Champion Initiative II as well as German WIN Initiative with a targeted volume of EUR 25bn. Beside such stimulus, structural reforms are critical to improve Venture & Growth Capital in Europe. In Germany the "Standortfoedergesetz" is a first step into the direction to make incremental improvement to the environment incl. exit market , which is currently in legislative process expected to go into law in 1H2026.

Sources

- CBInsights “State of Venture Q3 2025” Report
- BVK / KfW German VC Barometer 3Q 2025
- KPMG Private Enterprise Venture Pulse Q3 2025
- Atomico, State of European Tech 2025 report
- Deutsche Bank Research

Appendix

***Annex 1**: List of largest rounds in 3Q 2025, Source: CBInsights*

Company	Round amount in USD	Region	Industry
Anthropic	13b	US	Internet
OpenAI	8.3b	US	Internet
China Fusion Energy	1.6b	China	Energy & Utilities
Mistral AI	1.5b	France	Mobile & Telecommunications
Princeton Digital Group	1.3	Singapore	Computer Hardware & Services
Nscale	1.1	UK	Internet
DBG Health	1.0b	Australia	Healthcare
Databricks	1.0b	US	Internet
Figure	1.0b	US	Industrials
PsiQuantum	1.0b	US	Computer Hardware & Services

***Annex 2**: List of largest rounds in Europe in 3Q 2025, Source: CBInsights*

Company	Round amount in USD	Region	Industry
Mistral AI	1.5b	France	Mobile & Telecommunications
Nscale	1.1b	UK	Internet
Spotawheel	352m	Greece	Internet
IQM	320m	Finland	Computer Hardware & Services
Ortivity	233m	Germany	Healthcare
Nothing	200m	UK	Consumer Products & Services
Aira	175m	UK	Consumer Products & Services
Xelix	160m	UK	Internet
Treasury	147m	Netherlands	Internet
Fnality	136m	UK	Internet

***Annex 3**: List of largest AI rounds in 3Q 2025, Source: CBInsights*

Company	Round amount in USD	Region
Anthropic	13b	US
OpenAI	8.3b	US
Mistral AI	1.5b	France
Nscale	1.1b	UK
Databricks	1.0b	US
Figure	1.0b	US
Groq	750m	US
Ramp	500m	US
Cognition	400m	US
Sierra	350m	US