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2023 US Venture Capital Outlook

Our analysts' outlook on the venture market in 2023

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

2023 outlooks

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Outlook: The Morningstar PitchBook US Unicorn Index will show a negative return from January 1, 2023 through December 31, 2023.

Rationale: As of December 1, 2022, the US Unicorn Index has returned 1.0% YTD, while our VC-Backed IPO Index is down 59.1%. This difference is due to several factors, not the least of which being that nearly 200 unicorns have been created in the US this year. However, the pace of new unicorn creation, and the pace of unicorn rounds in general, has fallen precipitously in recent months. In November, fewer than 10 completed rounds resulted in a post-money valuation of $1.0 billion or more, well below the 48 completed in January, which saw the year's monthly high. With few new unicorn rounds maintaining the recency bias toward private values, public comparables will impact unicorn pricing more, putting downward pressure on the index as the public market remains depressed.

Risks: While it continues to look less likely, a public market turnaround would push the Unicorn Index into positive territory. Not only would increasing public comparable prices put upward pressure on private values, but new unicorns and new financings for current unicorns would also continue to have a positive impact on the index as they have in 2022 and 2021.

The Morningstar PitchBook US Unicorn Indexes, which debuted in November, provide insight into the opaque pricing of unicorns, companies with a post-money valuation of $1.0 billion or more. The indexes are calculated daily using the most recent private valuations and changes in public and private comparable companies.

Arguably the most important piece of the pricing model is the most recent valuation of a company, pinning the value of a unicorn to its price upon completion of the round. The further away from that round the company gets (there is a roughly 18-month span between unicorn rounds), public and private comparable companies increasingly impact the company's valuation.

When we look at the 2022 US index return of 1.0%, the large number of unicorn rounds throughout the year has tied many index constituents to their most recent priced round, most of which were at a valuation step-up. At the same time, we have not yet seen a marked increase in private company down rounds during the economic slowdown. In 2022, the median step-up for late-stage valuations has been 2.1x—higher than the median step-up in 2021. However, this figure has decreased rather quickly throughout the year. The median late-stage step-up in Q3 2022 was just 1.8x, indicating that private valuation growth, which would underpin unicorn valuations, is growing at a much slower rate. We expect this trend to continue in 2023 so long as the public market is less receptive to high-growth, high-loss companies, as many unicorns are likely to be seen.

The US Unicorn Index has returned much higher than what was seen in the broader public market or in our VC-Backed IPO Index. However, in November just nine deals were completed for a post-money valuation of $1.0 billion or more. We believe this trend will continue, potentially falling even further as the pressure created by stagnating value in the private market constrains activity. We also believe that down rounds and further slowing of valuation growth are likely to be trends in US venture in 2023. These factors will increase the public market's effect on the index's pricing.

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Outlook: Series C and D rounds will see the most down rounds, as these companies are currently the most starved for capital.

Rationale: When we compare the estimated capital demanded by startups to observed deal value in each quarter, we can track deal activity dislocations in the market. Relative to historical trends, all stages have seen a massive dislocation of deal activity starting in Q4 2020, but nowhere is this more pronounced than in the late stage. In Q4 2022, 3.5 times more capital was demanded than deal value observed. This could mean that the late stage became the most overextended during the VC dealmaking frenzy of 2020 and 2021. As these companies grapple with the new reality of higher interest rates and stricter deal terms, they will not be able to raise at their previous paces, high cash burn rates, or valuation levels. Depending on how long it takes for the IPO window to open, we may see these companies cut operations significantly to increase runway at the expense of short-term growth. If or when these companies need additional capital from the private markets, many will have to raise it at a reduced valuation.

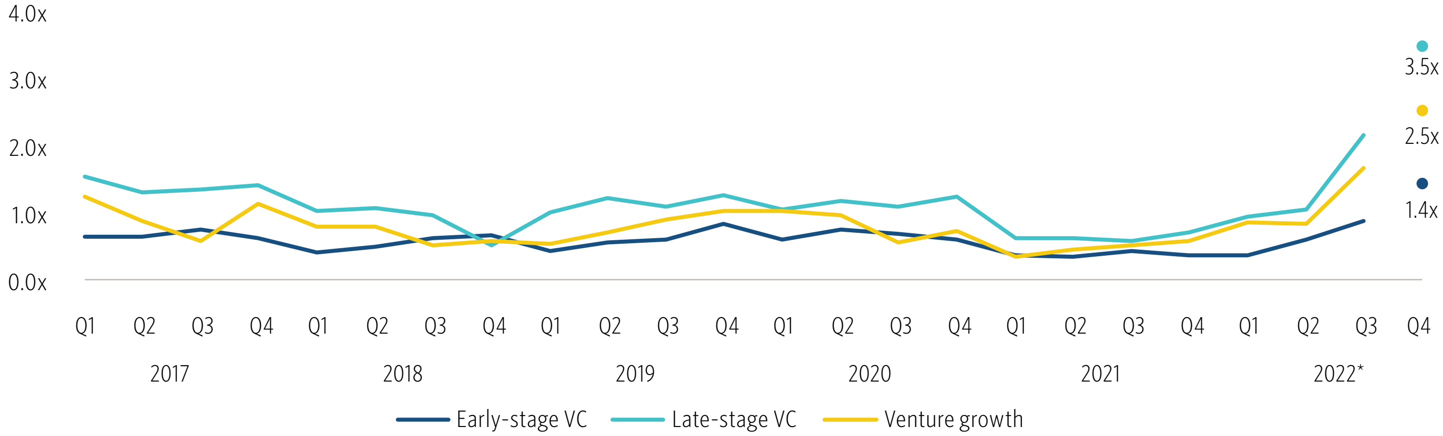
Risks: Investors on the capitalization tables of these late-stage companies may not want to see their own investments written down and could come in to support these companies at the last round's valuation to extend the runway of the companies. Additional capital provided to a company to keep it afloat would be better than a failed business. This occurrence could be especially prevalent if 2023 starts off with a heavily improved IPO market where investors can rationalize additional capital investment if they see a light at the end of the tunnel. Furthermore, investors that were anxious to see a piece of these highly valued companies could have skimped on due diligence and may have left themselves even more exposed than in normal markets. This could increase the incentive to send good money after bad, so to speak.

In the chart below, we plot the estimated capital demand by stage over that stage's observed deal value. This could be thought of as the amount of demand that was fulfilled by the market, or a "pace of dealmaking" metric. We can see below that companies in the late stage are the most capital-starved, with a demand of 3.5 times what was actually fulfilled in 2022. Their estimated capital demand has seen the least amount of support in terms of observed deal activity.

We estimate the capital demanded by startups using a bottom-up analysis where each deal generates estimates into the future based on historical deal size step-ups and the distribution of time between rounds at the time of that fundraising. By reviewing our reported deal value over time, we have determined that we tend to add 10% of deal value to the most recent quarter due to a reporting and collection lag. Therefore, we have added 10% of deal value to our reported deal value in the current quarter only.

We see the biggest growth in capital demand relative to deal size at the late stage because these companies are large enough to put capital to work in a meaningful way. Smaller, early-stage companies may not have had the ability to expand operations significantly in a market like that of 2020 and 2021, when capital was cheap. However, this operational expansion came with greater ongoing expenses that required greater funding in the future if the revenue from those operations could not be converted into profit. When the funding market slowed down in 2022, startups had to respond with layoffs, capital raises from other sources such as venture debt, and so on.

Estimated VC demanded as a multiple of observed deal value by quarter



Source: PitchBook | Geography: US
*As of December 1, 2022

Max Navas
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Outlook: Seed-stage startup valuations and deal sizes will continue their ascent, reaching new annual highs despite a slowdown in total deal value and count.

Rationale: Seed-stage startups are more insulated from public market volatility than their early- and late-stage counterparts because they are at the most nascent stages of the VC lifecycle. Having just raised their first round of institutional capital, they are farther away from an IPO and can bide their time until paths to liquidity reopen. In recent years, and more prominently following the 2022 economic downturn, investors traditionally allocating capital to late-stage startups have moved upstream, targeting the earlier stage to capture larger returns and secure access to promising startups. Dramatic reductions in the cost to start and scale businesses, the prolonged time between startup foundings and seed rounds, and the expansion of participants at the seed stage have contributed to the development of a more robust pre-seed market. This has led to larger capital raises and valuations at the seed stage that are more in line with historical metrics associated with Series A or later rounds. Moreover, the economic downturn could cause investors to encourage seed startups to raise additional capital, which would extend their runway past the 18-month standard and translate to larger deal sizes at this stage.

Risks: The frozen IPO market has diverted investment dollars traditionally committed to late-stage companies to younger startups. Should market conditions improve and paths to liquidity return, seed-stage deal metrics may stagnate or fall in response to larger check writers returning to their original investment strategies. Seed-stage startups have a higher rate of failure and thus higher investment risk; this could cause GPs to be wary of allowing deal sizes and valuations to continue increasing because more of their portfolios could be exposed to this risk. Additionally, GPs could exercise stricter due diligence of startups and limit seed-stage deal-metric growth in order to mitigate the recent years' relaxed due diligence protocols, which have led to unsustainable valuations hurting late-stage startups and forcing them to consider marking down their portfolios.

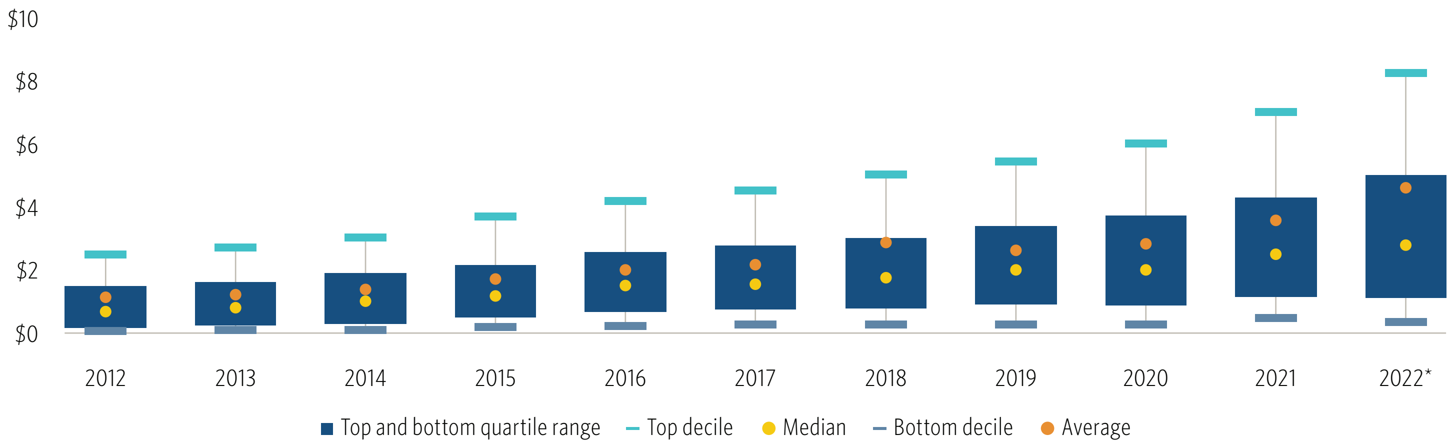
Seed-stage startups are more mature than they have ever been. With a median of 2.4 years since founding, they are nearly double the age of seed-stage startups a decade ago. Their maturity has contributed to the median seed-stage deal size, valuation, and step-up YTD of $2.8 million, $10.5 million, and 1.9x, respectively, surpassing 2021's record-high figures. Amid the tepid public market conditions and the Federal Reserve's (the Fed's) monetary tightening, seed deal metrics have increased QoQ. Q3 saw a record-high median deal size of $3.3 million, reinforcing this stage's insulated nature due to the extended time to an IPO.

Further supporting the prospect of seed-stage growth in 2023 is the large number of micro-funds (funds with less than $50 million in capital commitments) closed in recent years. Venture funds typically make their investments over a period of three to five years, so we have examined the micro-fund fundraising activity over the last decade, breaking it into five-year periods. In the five-year period from 2018 to 2022, 1,770 micro-funds were closed, amassing $24.4 billion in capital commitments. In the five-year period starting in 2013, 1,280 micro-funds were closed with just $15.6 billion in commitments. The increasing amounts of capital allocated to micro-funds as well as the number of micro-funds competing for deals have bolstered seed-stage deal metrics in recent years. The micro-funds closed from 2013 to 2017 largely contributed to the 2018 median seed-stage deal size and pre-money valuation of $1.8 million and $6.0 million, respectively. The record highs set by seed-stage metrics in 2022 are due in part to the expansion of micro-fund activity over the last five years, and as a result we can assume that there will be a healthy number of micro-funds actively investing at the seed stage in the coming year.

Traditional late-stage investors also play a significant role in the growth of seed deal metrics. In recent years, we have seen experienced managers such as Tiger Global, Greylock Partners, and Andreessen Horowitz commit to investing or raising $1 billion, $500 million, and $400 million, respectively, to back founders at the seed stage.[1,2,3] The general need for larger-size funds to write larger checks in order to maintain their expected return profiles will support the growth of seed-stage deal metrics in the coming year.

In addition to late-stage venture capitalists launching seed-stage funds, we have also seen larger venture capitalists increase their participation in seed-stage deals and drive up the median deal size. Using PitchBook's data, we examined the seed-stage investment activity of Accel, Andreessen Horowitz, Greylock Partners, Intel Capital, Khosla Ventures, Kleiner Perkins, Lightspeed Venture Partners, and Sequoia Capital between 2020 and 2022 and found that the collective participated in 154 seed-stage investments in 2020 and had already made 208 investments through mid-December of 2022. The subset of 2020 seed investments had a median deal size of $4.0 million, well ahead of the same year's overall median seed-stage deal size of $2.0 million. Through mid-December of 2022, the median deal size had increased to $6.4 million, also well ahead of the overall median seed-stage deal size of $2.8 million. This activity lends itself to our bullish prospect of seed-stage deal-metric growth in the following year.

Seed deal value ($M) dispersion



Source: PitchBook | Geography: US
*As of September 30, 2022

1: "Tiger Global Partners Commit $1 Billion for Early-Stage Tech Funds," The Information, Berber Jin, March 7, 2022.
2: "Greylock Raises $500M for Seeds," Greylock Perspectives, September 21, 2021.
3: "Introducing a16z's Seed Fund," Andreessen Horowitz, August 27, 2021.

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Outlook: SPAC IPOs and mergers will continue to decline while liquidations will continue to increase in 2023.

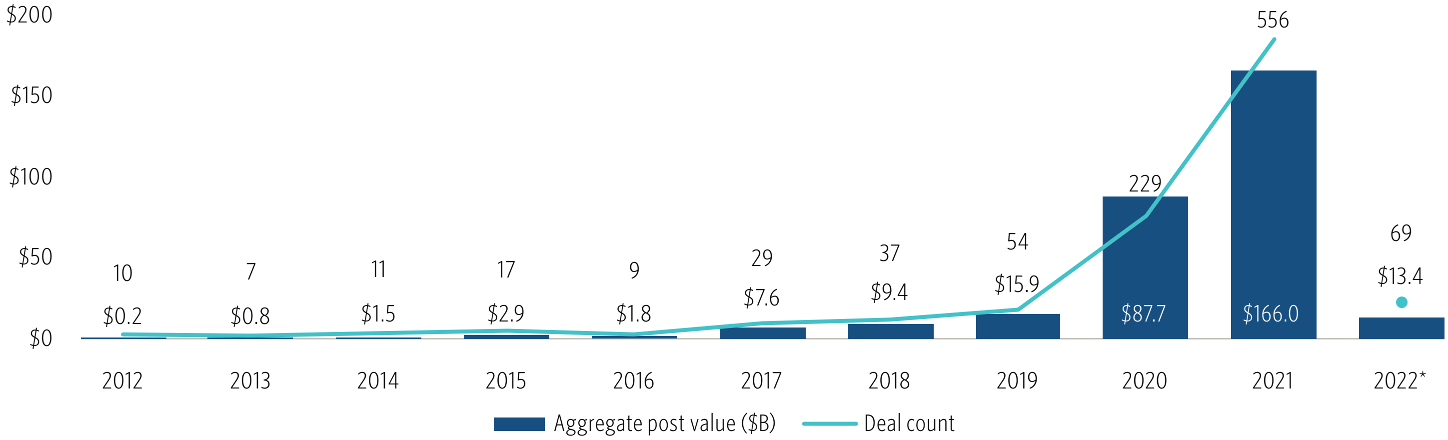
> **Rationale:** Elevated market volatility has dramatically depressed valuations in both public and private markets and has effectively halted public listings through 2022. This impact has been noticeable not only for traditional IPOs but also for companies looking to go public via a SPAC. Rising interest rates, which impact consumer buying and borrowing power and thus earnings for companies, have challenged the sky-high valuation multiples of 2020 and 2021. Additionally, increasing regulatory scrutiny has negatively affected the primary value propositions that SPACs offer to private companies, such as the ability to reach public markets faster than a traditional IPO. These factors, among others, have resulted in a sharp decline in SPAC issuance and combination activity and in many cases have led to SPAC dissolution and capital returning to investors. We expect these trends to be a driving theme in 2023 as turbulent market conditions continue to dampen investor and private company interest in SPAC vehicles.
>
> **Risks:** Going public via a SPAC can still be an attractive option for some private companies, and given the large number of SPACs that have yet to find an acquisition target, it is possible that we will see an increased number of mergers in 2023. As pointed out in our latest US VC Valuations Report, deal value and count have decreased significantly for many late-stage companies and unicorns, demonstrating a difficulty to raise capital in the private market. Accessing public capital via existing SPAC vehicles could be a potential route to funding given IPOs have been nearly nonexistent this past year, though there will certainly be challenges along the way.

US SPAC activity has decreased significantly in 2022 amid volatile public markets, with just 78 SPAC mergers totaling $38.2 billion YTD. Our team's SPAC research note from Q3 2022 observes that outside of the SPAC spike in Q4 2021, this is a continuation of the trend we have seen since the end of Q1 2021. Indeed, SPAC formations are also down with just 69 SPAC IPOs observed this year, which is the lowest annual total we have seen since 2019. Given the propensity for SPAC favorability to coincide with positive market performance, we expect these figures to continue to decline as we head into 2023.

Regulatory and legal headwinds have also contributed to the SPAC decline; most notably, in Q3 2022, President Biden signed the Inflation Reduction Act of 2022 into law. The act included a nondeductible 1% excise tax on the repurchase of corporate stock by a publicly traded US corporation after December 31, 2022. This excise tax will apply to any redemption by a US-domiciled SPAC, consequently incentivizing sponsors with no viable target in sight to close shop before the year's end. We have already observed this trend as several high-profile SPACs have liquidated this year, including two from Chamath Palihapitiya's investment firm Social Capital. With more than 450 SPACs currently on the market with a merger deadline in 2023, half of which with deadlines in Q1 2023, we expect a significant increase in the number of SPAC liquidations by the end of Q1 2023 as investors seek to recoup their capital and invest in asset classes better suited to navigate the current market environment.

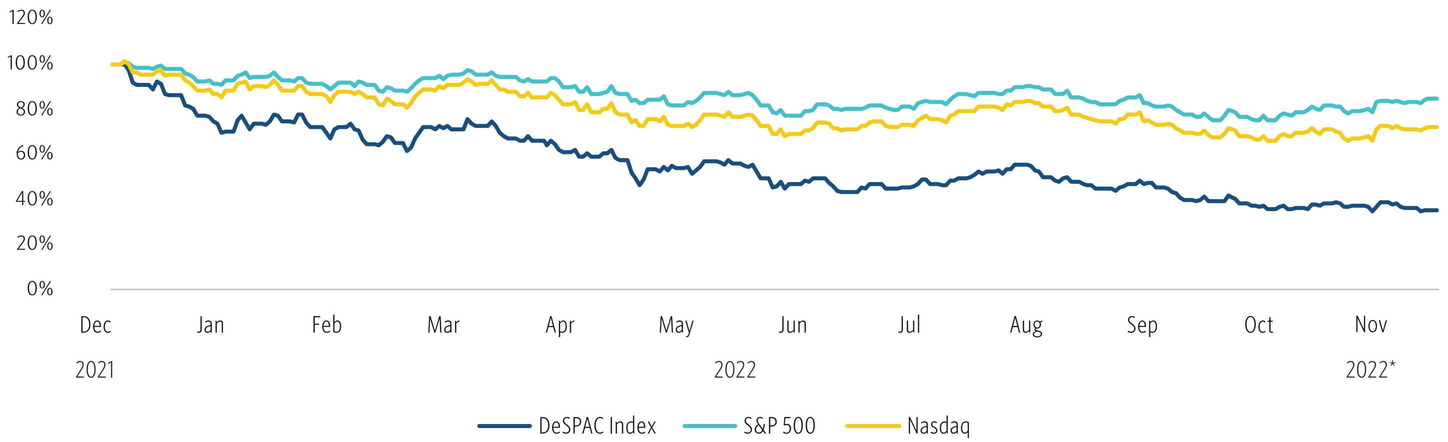
Furthermore, public market performance of companies that have gone public via SPACs will play a role in influencing investor appetite. Unfortunately, companies that have managed to go public via the SPAC route have been especially battered by turbulent market conditions; at the time of this writing, PitchBook's DeSPAC Index shows a -64.5% YTD return for public companies that have gone the SPAC route, compared with -17.3% and -29.6% YTD returns for the S&P 500 and Nasdaq, respectively. While not a perfect proxy for comparison, this sizable difference, among other factors, has curbed SPAC formation and fundraising. We expect SPAC formation to continue its decline well into 2023, considering not only underperformance relative to major public index returns but also increasing regulatory scrutiny and overall market volatility. Additionally, of the more than 450 SPACs still looking to strike a deal, we expect more than 50% to liquidate and return cash to investors in 2023.

SPAC IPO activity



Source: PitchBook | Geography: US
*As of November 23, 2022

DeSPAC Index return versus public market indexes returns



Source: PitchBook | Geography: US
*As of November 25, 2022

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Outlook: Venture growth deal value will fall below $50 billion in the US.

Rationale: Our venture growth dataset showcases the latest stage of VC and could be thought of as a pre-IPO stage of investment. Venture growth deals are generally the largest in the venture market, with the median deal coming in at $20.0 million in 2022, double that of the late stage. Being this large, the venture growth stage is heavily reliant on nontraditional capital, especially from crossover investors, which have quickly retreated from the opportunistic venture strategy they have deployed over the past couple of years. This leaves the venture growth stage with a high number of companies and much lower capital availability. Alongside this, we may simply see fewer companies looking to raise at this stage of VC, instead focusing on sustainable growth and cost-cutting in order to stay away from the difficult capital-raising market.

Risks: Similar to the risks associated with our Unicorn Index outlook, a public market U-turn that begins to unlock the high value held by crossover investors could pull these institutions back into the venture market. One of the reasons crossover investment activity has been so high in recent years is because of the relatively lower liquidity risk that VC investments at the growth stage have presented. More than 87% of the record $781.0 billion in exit value generated in 2021 came from IPOs, which many growth-stage companies will need to realize returns. There is also a large pocket of capital tied up in SPACs that could be liquidated and recycled into the venture growth market.

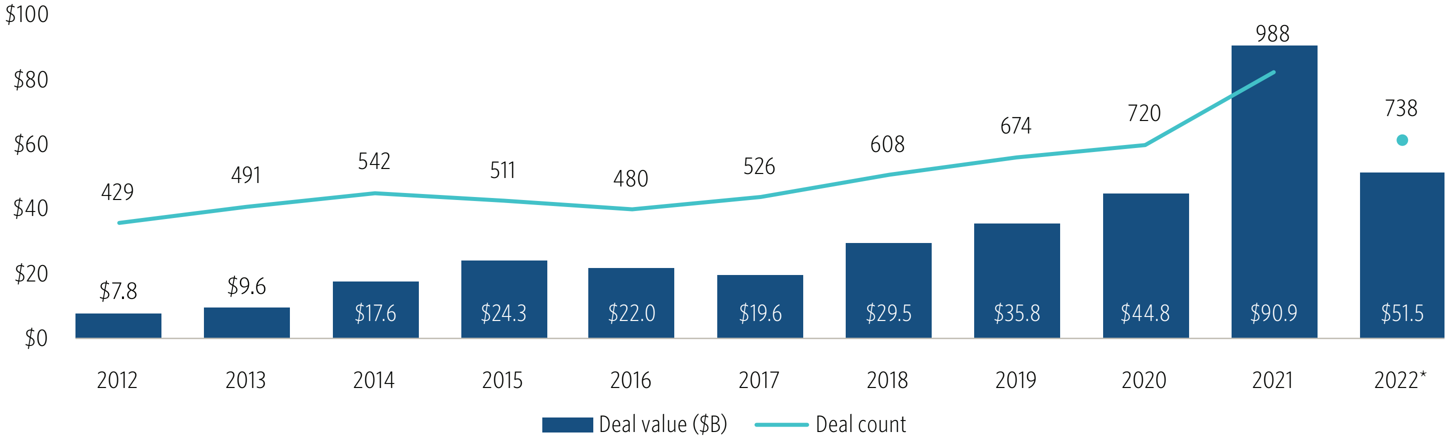
Our venture growth stage highlights a small portion of venture deals that account for a much larger portion of capital invested—5.5% of US deal count and 26.6% of US deal value in 2021, to be exact. The $90.9 billion in venture growth investment in the US VC market during 2021 was a record high by a wide margin, with the prior high-water mark being just $44.8 billion. The capital crunch at the top of the venture market has shown to be especially challenging for venture growth in 2022. Through November 23, only $51.5 billion was invested in the venture growth stage.

The quick pullback from crossover investors is problematic for venture growth because many deals within this space, especially the largest, rely on nontraditional capital. 80.5% of the venture growth deal value in 2021 included participation from nontraditional firms. Over the past five years, an average of 73.9% of venture growth deal value derived from deals with nontraditional investor participation. The activity of these institutions is vital.

In Q3 2022, crossover investors, the largest nontraditional investors, participated in less than $12 billion in deal value, making 211 investments across the entire venture landscape. Compared with the record quarters for each of these figures, both of which occurred in 2021, that is $33.0 billion less and 304 fewer investments. The volatile market has revealed nontraditional investor activity in VC to be simply opportunistic. For many nontraditional investors, liquidity risk is high. Hedge funds and mutual funds must remain liquid enough to service redemptions (mutual funds have strict liquidity regulations), and the current economic climate has shown to make the market even more illiquid than normal.

When we look at our estimate for capital demanded and compare it with our estimate for capital supply for the stage, we see that a wide gap has formed in 2022. This void of funding for venture growth sets 2023 up to be very challenging for companies needing capital. Not only could they remain unable to access the public market through IPO, but without the necessary supply of capital, which will generally be needed to fund large deals, it is more likely that companies that find themselves at the venture growth stage will experience down rounds or even failure.

Venture growth deal activity



Source: PitchBook | Geography: US
*As of November 23, 2022

Max Navas
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Outlook: 2023 US VC mega-round activity will fall below 400 deals, hitting a three-year low.

Rationale: Mega-rounds, defined as rounds with deal sizes of $100 million or more, have become more prevalent in recent years with surplus capital and the high number of investors chasing VC deals. The VC dealmaking environment of the last few years encouraged a growth-at-all-costs mentality, encouraging startups to return to market quicker at higher valuations and seek larger amounts of capital. In the wake of the 2022 economic downturn, investors are presently focused on the capital efficiency, path to profitability, and justifiable valuations of startups. This shift in investor mentality, coupled with depressed public markets affecting late-stage deal metrics and comparables analysis, will thwart the mega-round activity in the coming year.

Risks: There are close to 1,300 privately held unicorns that have been unable to go public due to the frozen IPO market. Unicorns as well as startups that have previously raised mega-rounds are likely to raise a mega-round in a subsequent financing because their unprofitable operations may have grown to require additional large capital injections to sustain their activity until an exit. 2021 was a record year for mega-rounds, and the companies that raised those rounds will likely need to return to market by 2023. Their return could prop up mega-round activity. Additionally, 2022 saw a record amount of capital consolidate in larger-size VC funds. This consolidation could lead to larger checks being written and ultimately increase the total number of mega-rounds next year.

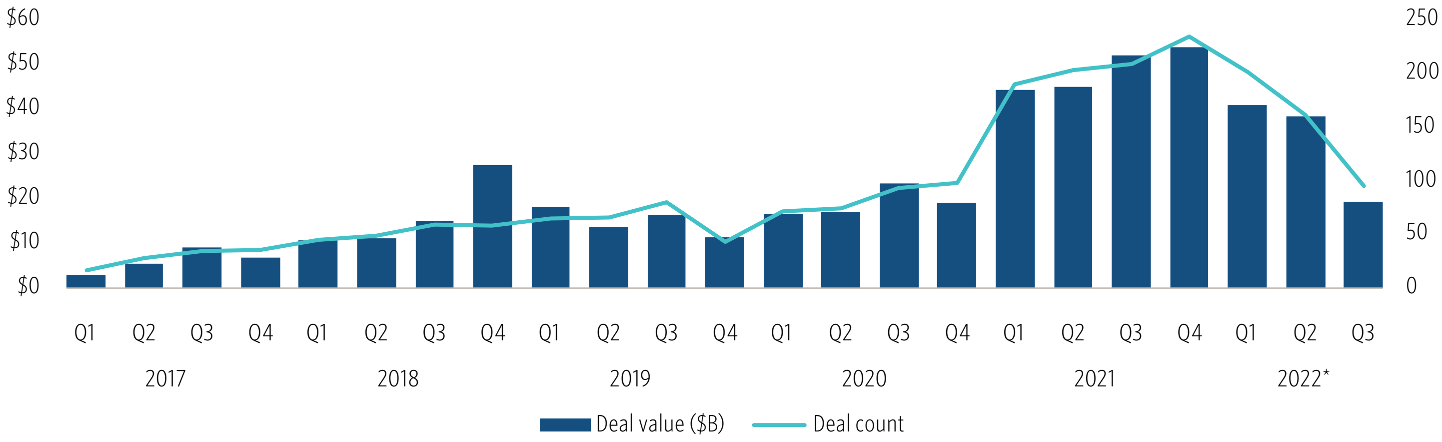
Mega-rounds have fallen on a QoQ basis throughout 2022, from 201 rounds in Q1, to 161 rounds in Q2, to 103 rounds in Q3. Considering the fourth quarter's preliminary data, we expect an additional 80 to 100 mega-rounds will be completed, bringing this year's annual total to around 550 deals. Stemming from the pressure of public market uncertainty and frozen paths to liquidity, this year's mega-round activity will be a far cry from the 836 mega-rounds observed in 2021. Using our prior conjecture, extrapolating 2022's fourth-quarter activity, and anticipating a further slowdown leads us to expect less than 100 mega-rounds will be observed per quarter, culminating in a 2023 annual figure of less than 400.

Most mega-rounds occur in the late stage, so it is pertinent to examine the recent dealmaking trends of startups in that stage. Late-stage deal metrics have fallen well below 2021 figures, indicative of the unsustainable growth fostered in recent years. Through Q3 2022, the median late-stage deal size was $11.5 million, a 20.6% drop from the 2021 full-year figure of $14.5 million. As median deal sizes decline, we can expect fewer mega-rounds to occur. The top-decile late-stage deal size was $75.0 million in Q3, a dramatic reduction from the record high of $143.7 million in Q4 2021. Even the highest-performing late-stage deals are getting squeezed, making the prospect of expansionary mega-round activity in the coming year improbable.

Tandem to the conversation of mega-round activity is the participation of nontraditional investors, which overwhelmingly contribute to the growth of the largest startups prior to their public listings or other exit events. From 2018 to 2021, nontraditional investors have participated in 91% of mega-rounds and 93% of mega-round deal value per year on average. Through Q3 2022, nontraditional investors participated in mega-rounds with deal value totaling $88.5 billion, significantly less than the $181.9 billion in mega-round deal value they participated in last year. Nontraditional investors offer a necessary capital source to help startups exceed deal sizes of $100 million. If nontraditional investors reduce their investment in VC markets, mega-round activity will fall. We expect nontraditional investor participation to shrink further in the coming year, limiting the number of startups that can successfully raise mega-rounds.

Finally, it is important we address the risks of the plethora of startups that raised mega-rounds in prior years potentially returning to market in 2023 to raise again. Using PitchBook data, we examined the median time between rounds for startups that have raised mega-rounds and saw a median between 1.0 and 1.2 years from 2019 to 2022. Based on this, we will focus on startups that raised mega-rounds last year, as they will likely need to return to market soon if they have not already. Of the 832 startups that raised mega-rounds in 2021, 104 already returned to market this year, meaning fewer of those startups will need to return in 2023. Due to the harsher VC environment, we expect a fair number of the remaining startups to consider venture debt to supplement their need for equity financings. Startups that opt to raise venture debt could lessen the burden on raising equity; for example, if a startup were to secure $50 million in equity and take on $50 million in venture debt, their financing round would not show up as a mega-round despite having mega-round capital. If they are unable to secure venture debt, they may resort to down rounds with deal sizes less than $100 million, seek out acquirers to generate a liquidity event, or even go out of business. Consequently, we are skeptical of the continued growth of mega-round activity in the coming year and forecast fewer than 400 rounds closing.

VC mega-round deal activity by quarter



Source: PitchBook | Geography: US
*As of September 30, 2022

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Outlook: US VC fundraising will fall between $120 billion and $130 billion in 2023.

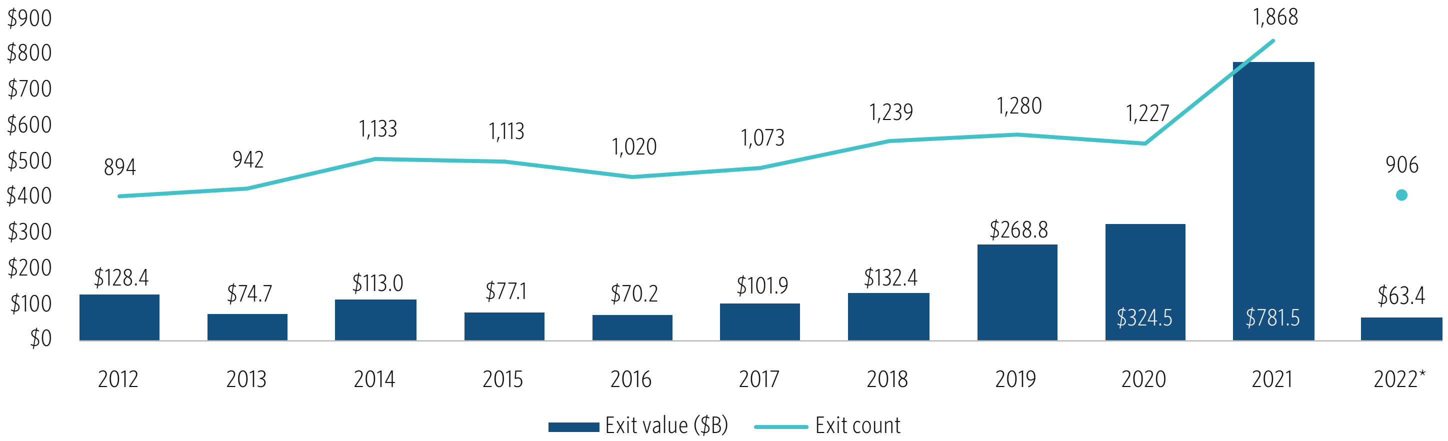
> **Rationale:** Despite US VC fundraising reaching a historic high in 2022, we expect a slowdown to occur in 2023 as LPs grapple with liquidity concerns and consider alternative investments in other asset classes positively affected by rising interest rates. Declining public equity valuations can create a "denominator effect" for many LPs, such as endowments, pension funds, and sovereign wealth funds (SWFs), whose venture asset holdings become too large relative to other asset classes outlined in their mandates. Our in-depth methodology for this phenomenon can be found here. Declining public market valuations also create an additional liquidity crunch for many LPs, as public equity markdowns reduce the capital they can expect to receive as lockup periods for recent exits expire. Rising interest rates, which are largely to blame for the downward trend in equity valuations, have also created lower-risk opportunities for LP capital in other asset classes, taking even more attention away from private market fundraising.
>
> **Risks:** Allocations to venture assets within an LP's portfolio typically represent a small overall percentage; therefore, large reductions in allocations may not occur. Furthermore, as pointed out in our Q3 2022 Global Private Market Fundraising Report, established fund managers with successful track records, especially those who have done well despite poor market conditions, have had great success in capitalizing on LP interest; globally, 68.4% of total VC raised went to established managers in 2022, compared with 58.3% and 54.9% in 2021 and 2020, respectively. This upward trend illustrates the probability for larger, established fund managers to increase their market share of active LPs with flexible allocation mandates in 2023.

The exit environment of 2022 has been lethargic relative to previous years, with just $63.4 billion in exit value generated YTD (not including Adobe's acquisition of Figma, which is expected to close in 2023), a significant decline from last year's record of $781.5 billion. As discussed in our most recent PitchBook-NVCA Venture Monitor, this year's total exit value, which we expect to be the lowest since 2016, is a real cause of concern because the lack of liquidity driven by the slowdown in exit activity could discourage LPs from recycling capital into the VC ecosystem. Even in cases where VC valuations may remain stable or are marked up, resulting in unrealized gains, cash returns to LPs ultimately dictate where future dollars are allocated, including to existing capital commitments or into new funds.

Additionally, strong markdowns in public markets have reduced the amount of capital returns that endowments, pensions, and SWFs can expect to receive if and when they choose to sell shares from recent exits whose lockup periods have expired. The lack of realized value relative to 2021's record exit value generation is likely to cause a capital crunch for many LPs, and this reduction in capital puts a strain on existing liquidation mandates, so there is likely to be some hesitation when considering recycling any available cash into the relatively illiquid VC market. Given the ongoing uncertainty around public market conditions, we expect the amount of capital commitments from these investors to continue to decline in 2023 as these firms look to satisfy liquidity regulations and other mandates outlined in their investor policy statements.

Interest rates have marched upward for most of 2022 as the Fed continues its most aggressive set of rate increases since the 1980s. While these rate increases have been the primary cause of equity valuation declines in public and private markets, they have inversely created a safer way for investors to lock in positive returns in other asset classes. As of December 6, 2022, the benchmark 10-year Treasury yield finished at 3.5%, while the two-year Treasury yield—which is even more sensitive to near-term Fed policy changes—finished at 4.4%. These figures are some of the highest we have seen since the 2007-2008 global financial crisis. Considering the fact that higher yields translate to falling bond prices, and higher risk-free rates increase the return needed from VC investments, it is likely we will see investors allocating more capital to fixed-income instruments as a lower-risk path to cash returns. Doing so would theoretically reduce the amount of capital allocated to other alternative, illiquid asset classes, such as VC, thus further reducing fundraising levels in 2023. However, it is important to note that many investors predict a recession is on the way, which could eventually lead the Fed to halt rate increases or lower them entirely, therefore reducing the attractiveness of such a strategy.

VC exit activity



Source: PitchBook-NVCA Venture Monitor | Geography: US
*As of September 30, 2022