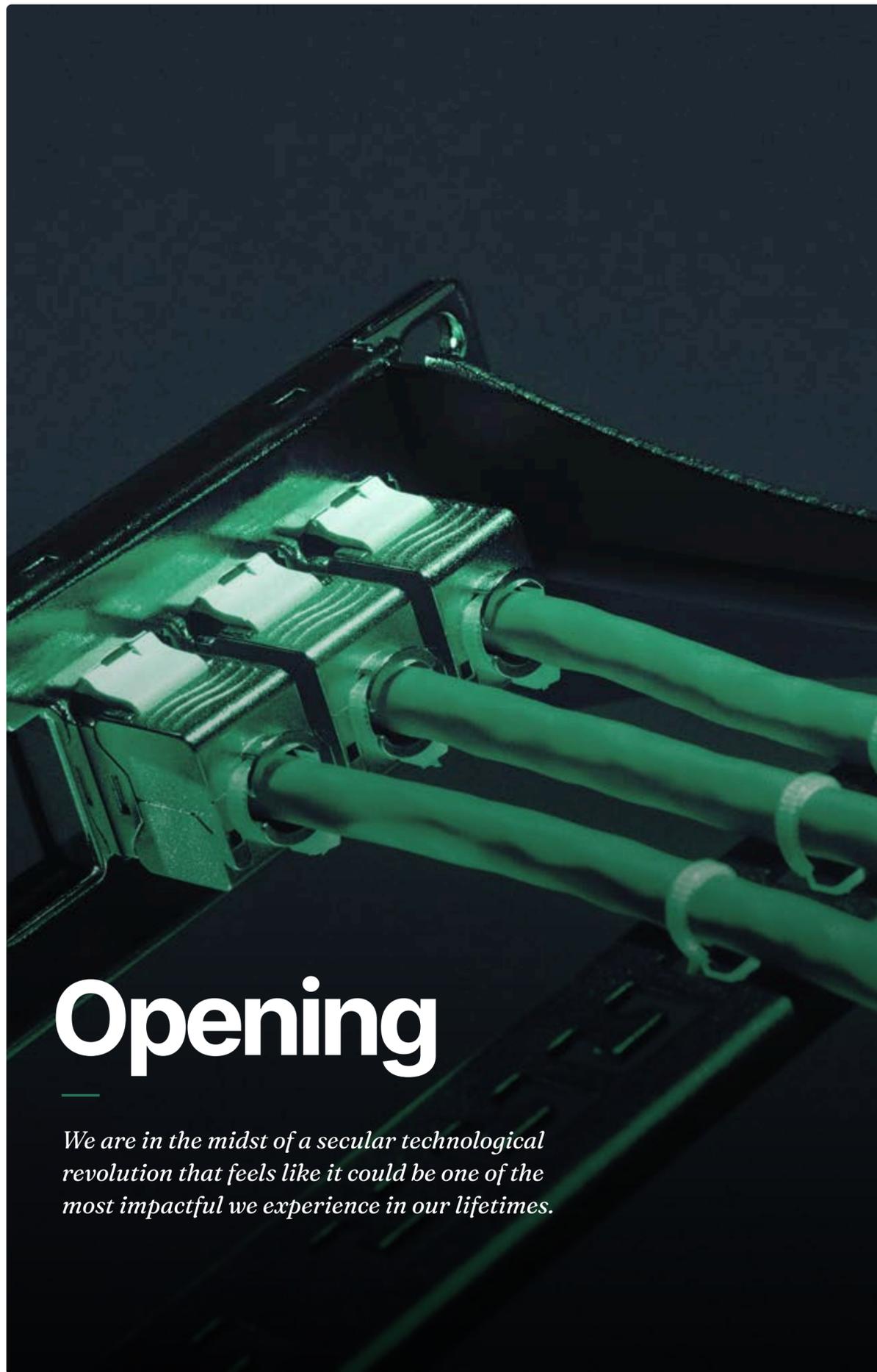


Elevate⁺

2026 ANNUAL VENTURE REPORT

CROSSING THE TILT





Opening

We are in the midst of a secular technological revolution that feels like it could be one of the most impactful we experience in our lifetimes.

01

Let's be categorical: we are in the midst of a secular technological revolution that feels like it could be one of the most impactful we experience in our lifetimes. Of course, every generation believes this about its own revolution...only to learn, in hindsight, that perspective tends to distort importance. Sometimes, entire fortunes are made chasing impostor technologies that promise to change the world, only to fizzle as quickly as they enter our consciousness. Those failures are often blamed on "timing," as if society simply wasn't ready. More often, the truth is simpler: the technology didn't live up to the hype because it failed to meaningfully improve the human condition.

When real revolutions do arrive, they don't announce themselves politely. They feel sudden...almost violent. One day, we didn't have it. The next day, it's everywhere. And everything changes. In reality, these revolutions have been brewing for years before they feel revolutionary. Like a tsunami forming far out at sea, very few recognize the threat early. But as it approaches shore, the force becomes undeniable. The water pulls back. The ground shifts. And once it hits, there's no hiding. Entire companies disappear. Whole industries are reshaped. And while businesses take the most visible blows, the consumer feels the impact too...not all at once, but subtly, quietly, and often before we realize what's happening.

That quiet pressure on the consumer is the part our industry tends to underestimate. In the grand scheme of things, the health and psyche of the consumer is easy to dismiss, but doing so is a fool's errand.

In 2022, we argued that the consumer held the cards for venture capital, but for a different reason. At the time, the economy was running hot, distorted by unprecedented stimulus, and needed to come back into balance. That idea was uncomfortable, especially coming out of an era defined by excess capital and reflexive risk-taking.

But the underlying insight still holds.

In a services-driven economy, the consumer isn't just a downstream variable. They're the transmission mechanism. When households feel confident, risk travels upstream. When they hesitate, it doesn't matter how much capital exists...everything stalls.

That dynamic is even more pronounced today.

The Great Tilt

We are in what we've coined The Great Tilt: a period where productivity gains are accelerating faster than society's ability to absorb them. Technology is compounding quickly, but institutions, skills, and personal certainty lag behind. Output rises, metrics look strong, yet consumer sentiment sits below the hard data.

This is the messy middle of every technological revolution, the diffusion & dislocation phase, where the tools arrive before the rules, and the benefits are unevenly distributed. Historically, this has been the most painful part of secular technological revolutions, not because progress slows, but because people struggle to reorient themselves fast enough to participate in it.

What makes this moment different is not that the Tilt exists. It always does. What's different is how quickly it may resolve.

In past revolutions, diffusion & dislocation lasted decades because learning did as well. Skills diffused slowly as re-skilling was expensive, institutional, and often generational. Entire cohorts were left behind while the next one caught up.

CORE THESIS

For the first time in history, machine-to-human teaching could change the duration of diffusion & dislocation.

AI doesn't just boost output. It collapses learning curves, turning reskilling from a multi-decade, institution-led process into something continuous, individualized, and on demand. Research like Bloom's "Two Sigma" work hints at this shift: when instruction becomes adaptive and individualized, performance doesn't improve incrementally, it leaps.

For the first time in history, machine-to-human teaching could change the duration of diffusion & dislocation.

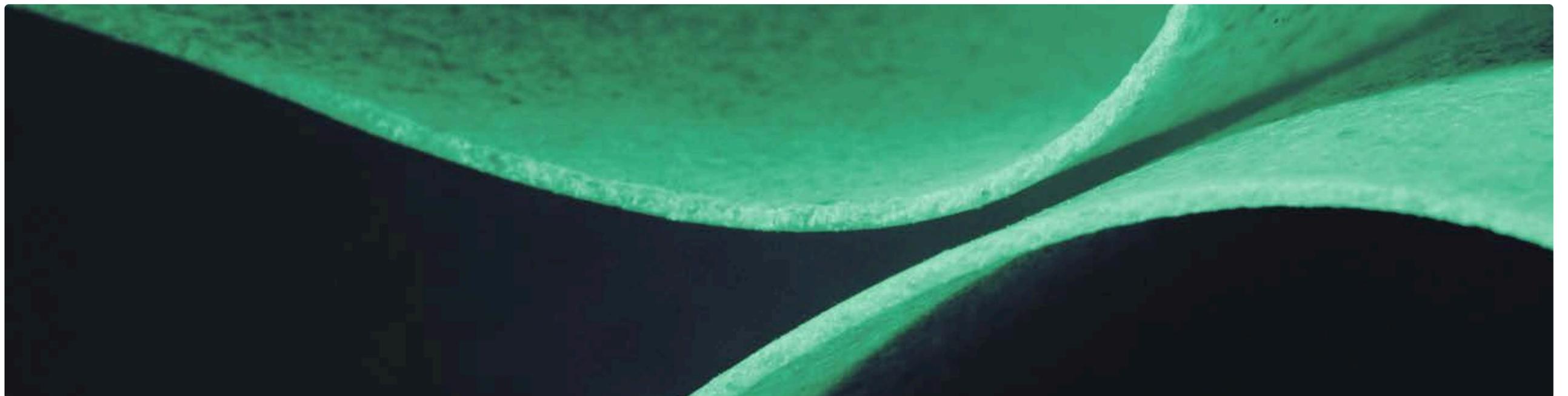
Which is why this moment, despite feeling chaotic, may ultimately prove shorter and less destructive than prior cycles. The consumer feels the uncertainty first, but this time, they also hold the tools to adapt faster than ever before.

That matters for venture capital.

Because if the Great Tilt compresses, the window between disruption and broad-based participation narrows. And if the consumer regains confidence faster than history would suggest, the transition into the next phase of the cycle, the productivity supercycle, arrives sooner.

What follows is a deeper look at how this thesis plays out in practice, across 2025 venture performance, the data we're seeing at the national, regional, and state level, and the implications we believe matter most as we look ahead to 2026.

If the Great Tilt compresses, the window between disruption and broad-based participation narrows.



The Consumer Shock of the Great Tilt

Macro-economic resilience is masking a deepening psychological fragility beneath the surface.

02

A Quiet Revolution, Misleading Signals

As our intro suggests, we are living through a revolution that was never announced, it just arrived suddenly. Most people don't remember the day they started using ChatGPT, they simply opened the site and never looked back. They added it to their habit stack at work, then took it home with them to help simplify and organize their personal lives. They went from relying on their own brains and experience to suddenly flipping a switch and being unable to imagine their lives without the support of AI. Writing an email? A formal paper? Doing research? Hours and hours saved thanks to this amazing new technology. At first, this tool felt like a superpower; now, it feels like a threat to our professional value. This is the Great Tilt affecting consumers today.

In 2025, macro-economic metrics like GDP remained resilient, which was a feat when one considers the transition from 2024 to 2025. While 2024 was defined by broad-based real GDP growth of 2.8% fueled by robust government spending and a surge in goods-producing industries, 2025 was characterized by compounding headwinds. The economy had to navigate the delayed impact of the most aggressive tightening cycle in decades alongside the introduction of new tariffs, which increased input costs and altered trade dynamics. Despite these simultaneous pressures, growth proved more durable than many analysts initially predicted.

Consumption shifted heavily into the service sector which accounted for approximately 68.6% of all personal consumption expenditures, pushing 2025 GDP to an estimated 2.6-2.8% growth rate.¹ Despite volatile inflation driven by uncertainty around tariffs, headline CPI ended the year at 2.7%, just above the Federal Reserves' stable price mandate of 2% inflation. Personal consumption rose consistently, underpinned by steady monthly gains of 0.6% in August and 0.5% in November.²

Furthermore, workers saw continued stabilization in real wage growth that outpaced inflation by 1.1%. This marks the third year of positive real wage growth after real wages dropped dramatically 3.8% during the inflationary period from 2021 to 2022 when peak inflation hit 9.1%.

2.7%
GDP GROWTH EST.

2.7%
HEADLINE CPI

+1.1%
REAL WAGE GROWTH

Affluence Without Confidence

These resilient strides, however, do not tell the whole story. While the top-line numbers suggest a universal "spring in the step" for U.S. consumers, a deeper analysis reveals that this data provides only a surface-level relief concentrated among the top 10% of earners. This group, which accounts for 49.2% of all U.S. consumer spending, saw after tax wage growth of 4.0% YoY (the highest level of growth since 2021), which provided a buffer against inflation.^{7, 3} Capital ownership solidifies this logic even further. As of September, 2025, the top 10% held nearly 87.2% of all stock market holdings.⁶ This meant that the \$5.5 trillion gain in stock values during Q2 2025 functioned as a concentrated 'wealth effect' for the top. While the broader population holds smaller stakes, primarily in 401(k) accounts averaging gains of roughly \$6,000, the top 10% captured \$4.8 trillion of that growth.

Yet, even within the affluent circle, wealth on paper is failing to translate into peace of mind. For the upper-middle class, made up of attorneys, consultants, and financial professionals who sit squarely in the 5-10% bracket, the economic landscape feels increasingly precarious. In 2025, the conversation around AI shifted from a "helpful tool" to "total replacement," triggering a "White-Collar Recession" where corporate profits soared while professional hiring for roles over \$125,000 plummeted by as much as 32%.¹⁹ This has created a volatile psychological paradox. These individuals are wealthy enough to keep the economy moving today, but feel far too replaceable to trust in their stability tomorrow.

TOP 10% SHARE OF SPENDING

49.2%

87.2%

STOCK HOLDINGS
BY TOP 10%

\$4.8T

Q2 2025 GAINS
CAPTURED BY TOP 10%

-32%

PROFESSIONAL HIRING · ROLES OVER \$125K

This uncertainty among consumers is backed by data. The University of Michigan's Consumer Sentiment Index plummeted to 51 in late 2025, nearly eclipsing the historic lows of June 2022. Strikingly, this reading represents a deeper erosion of confidence than was witnessed during the height of the 2008 financial crisis.¹⁵ Simultaneously, the Conference Board's Consumer Confidence Index fell for five straight months, culminating in a January 2026 reading of 84.5. Additionally, for the first time since the 2008 financial crisis, the Expectations Index fell below 80.0 for eleven consecutive months, hovering at just 70.7 in December of 2025. This sustained low generally signals that the public expects a recession in the next 12 months, marking a definitive psychological shift from a growth mindset to a defensive protection mindset.⁸

51

UMICH SENTIMENT
LATE 2025

84.5

CONF. BOARD
JAN 2026

Why This Matters for Venture

The result is a venture environment that feels contradictory. Economic output remains resilient, technological capability is advancing rapidly, yet confidence and risk tolerance lag behind. Some founders scale faster than ever, while others struggle to clear even modest thresholds for adoption or funding.

This divergence is not random, and it is not unprecedented. It is a recurring feature of major technological transitions; moments when productivity accelerates before society has fully reorganized to absorb it.

To understand why this pattern emerges, where we are within it today, and why this cycle may unfold differently than those before it, we turn next to the broader historical and structural context.



Where Are We in the Cycle

The most common mistake investors make during secular technological revolutions isn't a lack of intelligence or conviction. It's misjudging where the wave actually is.

03

Misreading the Wave

The most common mistake investors make during secular technological revolutions isn't a lack of intelligence or conviction. It's misjudging where the wave actually is.

When a tsunami forms far out at sea, there's very little to see from shore. The surface looks calm, signals are faint, and early warnings are easy to dismiss as noise. As a result, capital often rushes toward whatever looks active or visible in the moment, rather than toward the deeper forces quietly building beneath it. Human behavior tends to reinforce this pattern. Markets are wired to anchor on what's observable and consensual, taking surface-level motion at face value instead of looking farther out to understand what's actually forming beneath the surface.

We saw this play out clearly during the rise and fall of Web3 from 2020 to 2022. Capital was flowing and talent was flocking to this new, promising technology. But the disorientation of that period didn't come from the wave itself, it came from an attempt to summon it early. Flush with capital and conditioned by a decade-long bull run, markets tried to manufacture the next secular shift before it had fully formed.

Markets are wired to anchor on what's observable and consensual, taking surface-level motion at face value.

What followed wasn't a true impact, but a false crest; a forced surge that looked convincing in the moment and collapsed just as quickly.

The harder problem comes later. Even once you accept that a true wave is forming, it's still difficult to tell how close it is to shore. Has the water already begun to pull back? Or is the real force still building beyond the horizon?

That key question, "where are we in the cycle?", is the one most frameworks fail to answer. It's also the question that swallows up the most savvy investors.

As we studied prior technological revolutions, we found that while the specifics differ, the sequence rarely does.

Every major revolution we care about (electrification, automobiles, computing, and now AI), unfolds through the same four phases

The Diffusion & Dislocation Phase

01 Breakthrough

02 Infrastructure Buildout

03 Diffusion & Dislocation

04 Productivity Supercycle

These waves don't arrive all at once. They build slowly, distort incentives along the way, and then arrive with force. The most confusing period is almost always the same: the moment when productivity begins to accelerate, but society hasn't yet reorganized itself to absorb it.

That is where we find ourselves today, in Phase Three of the cycle: the Diffusion & Dislocation phase. This phase is identifiable not just in theory, but in behavior. When productivity begins to accelerate faster than society's ability to adapt, uncertainty shows up first in how households and workers respond. Confidence weakens even as output rises, and decisions become more defensive, more tentative, and more uneven across the economy.

This uncertainty is triggering a notable shift in consumer and professional behavior. It is most notable in high income households, where 33% have pivoted towards cheaper retailers to hedge against future instability.¹⁵

For those early in their careers, the outlook is more grim. According to the Stanford Digital Economy Lab, there was a 13% decline in employment for early-career workers in AI-exposed fields from 2022-2025.¹⁶ This anxiety extends deep into the mid-career ranks as well. More than 1 million people in their 40s are currently enrolled in postsecondary programs, a desperate re-skilling effort to maintain pace with AI-driven productivity.¹⁷ In a world with a 78.4 year life expectancy, mid-career professionals are no longer 'finishing' their education; they are frantically updating it to stay relevant.

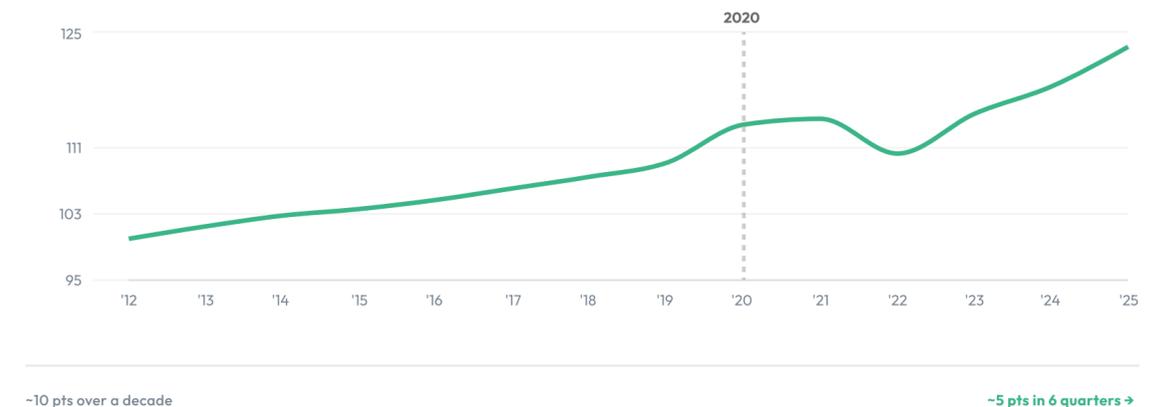
The Great Tilt is defined by rapidly compounding productivity gains that outpace society's ability to adapt, economically, institutionally, and psychologically. Output rises, the data looks strong, but beneath the surface, uncertainty builds as consumers and workers try to re-anchor themselves in a world reshaped by revolutionary technology.

This imbalance is the hallmark of diffusion & dislocation. Progress is real, but participation lags. And until that gap closes, confidence struggles to keep up with capability.

Look no further than recent productivity data to understand this dynamic. Indexing productivity to 2012, when we believe phase I of this secular revolution kicked off, it took nearly a decade for the economy to generate its first ~10 points of productivity gains. After the release of ChatGPT in late 2022, it took roughly six quarters to generate the next ~5 points. Same trend, but radically different speed:

This warped speed of productivity growth is leading to all-time high hard consumer numbers (net worth), coupled with all-time low sentiment. This can be seen in the divergence of soft versus hard data reaching levels last seen during peak Covid and Great Financial Crisis uncertainty:

FIG. 02 U.S. NONFARM BUSINESS PRODUCTIVITY INDEX (2012 = 100)



We recognize that the decline in consumer sentiment cannot be fully attributed to AI alone at this point in time. Sentiment is influenced by many forces and is often volatile, particularly during periods of change. Our claim is narrower and historical: during technological diffusion & dislocation phases, sentiment becomes more volatile and, over the full span of the transition, settles at a materially lower level than in non-dislocation periods.

When we define dislocation by reskilling lag rather than by recession (1995–2015 for the internet and 2022 onward for AI), the pattern becomes clearer. Using Michigan Consumer Sentiment data (available back to 1952), median readings sit near ~95 outside of diffusion & dislocation phases, fluctuate but average closer to ~85 during the internet transition, and have stepped down further to roughly ~70–75 in the current AI era.

Other macro and political factors clearly contribute to this volatility, but historically, major general-purpose technologies exert disproportionate pressure during these transitions. When productivity advances faster than labor markets and institutions can adapt, confidence does not collapse in a straight line, but it does reset lower over time.

Soft vs. Hard Data Divergence

Net worth at all-time highs while sentiment sits at historically depressed levels — a gap last seen during the GFC and peak COVID uncertainty.

FIG. 03 MEDIAN CONSUMER SENTIMENT: PHASE III DISLOCATION & DIFFUSION



Venture Market Data

National, regional, and state-level performance across stages, sectors, and fund strategies.

2025 Market Review: Capital Resurgence & AI Concentration

U.S. venture capital surged to \$339.4 billion in 2025, a 59.2% YoY increase that brought the market within striking distance of the 2021 all-time record (\$358.2 billion). On the surface, the engine is roaring: deal counts rose 9.6% to an estimated 16,709.

However, this "resurgence" is highly deceptive. If the 2021 record was a "rising tide" that lifted all boats, 2025 was a tsunami concentrated in a single channel. 2025 was defined by an unprecedented concentration of capital into AI.

Investors deployed a record-breaking \$222.1 billion across 5,793 AI startups. This sector accounted for 65.4% of total deal value, a historic concentration that reflects how venture capital is increasingly being deployed as the fuel accelerating the Great Tilt.

The "Tilt" is most visible at the very top of the market. The top 40 venture deals alone commanded an astounding \$140.9 billion, representing 41.5% of all deal value for the entire year.

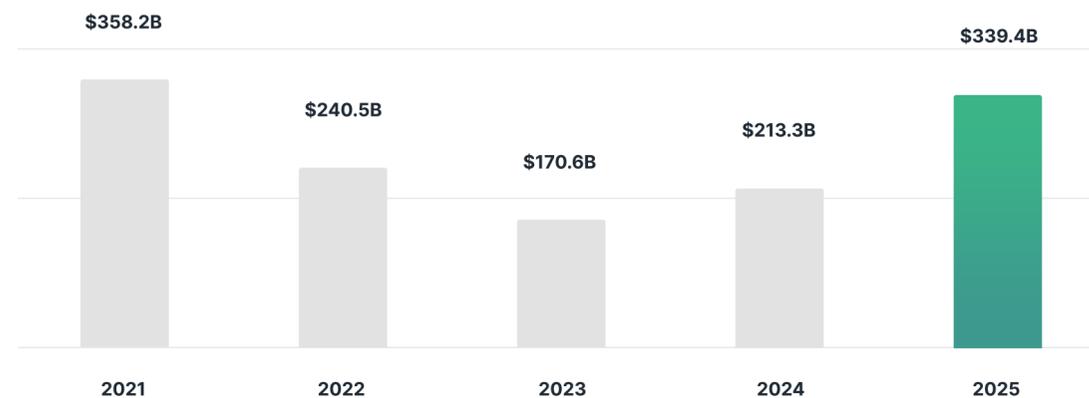
16,709

TOTAL DEALS
+9.6% YOY

65.4%

AI SHARE
OF DEAL VALUE

FIG. 05 U.S. VENTURE CAPITAL DEPLOYED (\$B)



Why This Moment is Fragile

By our assessment, the economy entered this diffusion & dislocation phase in late 2022, following the broad release and rapid adoption of large language models. That timing matters. It means we are no longer reacting to a theoretical shift, but operating inside its second-order effects. Enough time has passed for behavior to change, incentives to distort, and early patterns to emerge, while still being early relative to the historical duration of similar phases.

This timing also helps explain the fragility of the current moment. When productivity accelerates faster than confidence can adjust, the system becomes unusually sensitive to shocks. Households may appear resilient on paper, but sentiment remains delicate. Small disruptions, whether economic, geopolitical, or policy-driven, can quickly cascade into outsized behavioral responses. For venture markets, this fragility matters. Capital does not disappear overnight, but it can retreat suddenly, narrowing risk tolerance and compressing funding windows far faster than fundamentals alone would suggest.

The Disruptive Accelerant

Historically, the most destabilizing feature of the diffusion & dislocation phase has not been the technology itself, but the speed at which societies could adapt to it. In prior technological revolutions, learning and re-skilling moved slowly, constrained by the dominant modes of instruction available at the time. Knowledge diffused through institutions, organizations, and generations rather than directly to individuals, stretching adaptation across decades.

This pattern is visible across past cycles:

But what if this time is different?

Decades ago, research by Benjamin Bloom demonstrated that students receiving individualized instruction outperformed those in traditional classroom settings by nearly two standard deviations, roughly a 98% improvement in performance. The insight was powerful, but at the time it was economically impossible to scale. For the first time in history, that limitation may no longer hold. Machine-to-human instruction is beginning to replace one-to-one human training, allowing personalized, adaptive learning to occur continuously, on demand, and at near-zero marginal cost.

The implication is not that dislocation disappears, but that its duration and shape may differ from prior cycles. Productivity gains are arriving faster than institutions, labor markets, and confidence can absorb them, producing an economy that is neither uniformly strong nor uniformly weak. Output continues to improve, but participation remains uneven. Capability advances rapidly, while confidence struggles to keep pace.

This is the phase in which investors and institutions have most often misread the signal, mistaking fragmentation for failure or isolated strength for broad recovery. The same risk exists today, with the added complexity that shifts in sentiment can propagate faster than in any prior cycle.

To understand how this dislocation is expressing itself in venture capital, across stages, geographies, and company profiles, we turn next to the data.

FIG. 04 DOMINANT LEARNING MODES BY ERA

ERA	DOMINANT LEARNING MODE	RESKILL TIMEFRAME
Industrial (Mechanical)	Apprenticeship, on-the-job, generational	40 – 60 years
Electrification	Vocational schools, corporate training	30 – 40 years
Computing & Internet	Formal Education + Self-directed Learning	20 – 30 years

BLOOM'S TWO SIGMA

98%

improvement when instruction becomes adaptive and individualized

THE SHIFT

Machine-to-human instruction may compress the diffusion & dislocation phase from decades to years.

The "Barbell" Effect

This created a bifurcated reality for founders:

The Elite 40: Absorbed nearly half the market's liquidity.

The Remaining 16,669: Competed for the remaining \$198.5 billion.

While headline mega-rounds like OpenAI (\$40 billion) and Anthropic (\$25 billion) skewed the average AI round to \$59.9 million, the median figures reveal the "Barbell Effect" in action: a typical AI deal sat at \$5.9 million with a \$46 million valuation.

Investors are no longer "sprinkling" capital; they are over-weighting winners while the rest of the market starves for attention.

The distribution of capital has bifurcated. Venture capital investors are deploying larger checks into "proven" winners (Series A through C saw 21-29% growth), while the entry point for new founders has narrowed.

The Top: Median Series D rounds hit \$100 million, tying 2021 levels.

The Bottom: Pre-Seed was the only stage to contract, with median deal sizes falling 10% to \$450k.

This suggests a rising barrier to entry: in a world of accelerating productivity, the "proof of concept" required to unlock institutional capital has moved significantly downstream.

\$140.9B

TOTAL FUNDING
THE ELITE 40

\$198.5B

TOTAL FUNDING
THE REMAINING 16,669

\$100M

MEDIAN SERIES D
LATE STAGE

-10%

PRE-SEED CONTRACTION
MEDIAN TO \$450K

The New Physics of Venture

In the zero-interest rate era, the mandate was simple: grow at all costs. Today, the physics of venture have fundamentally inverted. Founders are navigating a market where growth rates have slowed, yet the finish line has been moved further away.

This is the "Efficiency Paradox" of 2026: investors are demanding more progress per dollar, but the raw velocity of that progress has mechanically slowed as companies prioritize durability over speed.

Since the 2021 peak, top-quartile revenue growth has collapsed. For Seed stage companies, top-quartile growth plummeted from a blistering 959% in 2021 to just 322% in 2025. Series A companies saw a similar compression, falling from 484% to 164%.

Crucially, investors did not lower the bar to account for this slower growth. They raised it. The median revenue required to raise a Series A round more than doubled, jumping from \$1.6 million in 2021 to \$3.3 million in 2025.

The Seed-to-Series A Chasm

The pressure created by accelerating productivity is most acute at the transition from Seed to Series A. This has become the most fragile graduation point in venture, not because ideas are weaker, but because expectations have reset faster than most companies can adapt.

Where prior cycles allowed incremental progress between rounds, today's bar demands a step-function change in scale. The revenue leap required has widened materially, with companies now expected to grow revenue by roughly 8x to 12x coming out of Seed.

The Math of Survival: A median Seed company enters the market with roughly \$220k-\$363k in revenue but must scale to \$3.3 million to unlock Series A capital.

SEED → A GRADUATION

~10%

DOWN FROM ~20%

SERIES A HAD PRIOR

18%

SEED EXTENSION ROUND

SERIES A REVENUE BAR

\$3.3M

MEDIAN REQUIRED · 2025

Sector Variance: The Bar Shifts by Category

The pressure at the Seed-to-Series A transition is not applied evenly. Expectations vary significantly by sector, reflecting differences in underwriting logic, perceived risk, and the type of proof investors prioritize.

AI (The Innovation Premium): AI startups benefit from a "premium" that lowers the immediate revenue bar. Median revenue at Seed is just \$114k and \$1.3 million at Series A. Investors are paying for technical capability and future dominance rather than current cash flow.

Consumer Tech (The Velocity Trap): Consumer founders face the harshest grading curve. Median revenue at the Seed stage is \$447k, the highest of any sector. By Series A, they are expected to hit \$3.8 million.

Frontier Tech (The Patience Premium): Deep Tech operates on a different timeline. The median Frontier Tech company raises Seed capital with \$0 revenue. Capital is unlocked by milestones, not ARR.

Enterprise (The Scalability Test): Enterprise software remains the middle ground, where predictable, scalable revenue models drive a steady climb from \$198k at Seed, to \$1.6 million at Series A, eventually requiring \$5.2 million by Series B.

SECTOR	SEED REVENUE	SERIES A REVENUE	SERIES B REVENUE
AI	\$114K	\$1.3M	-
Consumer Tech	\$447K	\$3.8M	-
Frontier Tech	\$0	Milestone	-
Enterprise	\$198K	\$1.6M	\$5.2M

The Venture Fund Barbell

The "Great Tilt" isn't just reshaping where capital goes; it is fundamentally restructuring where capital comes from. A barbell market shape wasn't exclusive to venture-backed startups in 2025; the funds themselves experienced a mirrored bifurcation.

According to PitchBook's data 2025 was a year of extreme rationing for General Partners. Just 537 venture capital funds managed to raise capital, securing a total of \$66.1 billion. This represents the fewest number of funds raised in the last decade.

Both figures are down approximately 70% from the peak in 2022.

This concentration creates a specific downstream pressure. When the majority of available dry powder is held by a handful of massive funds, the "average" good company finds itself starved of oxygen.

As the market tilts, fund strategies are splitting into two distinct postures: Mega-Fund Generalists evolving into "Asset Managers," and Specialist Snipers becoming hyper-sector-specific.

Even more telling than the scarcity of capital is its distribution. Of the limited dollars raised in 2025, 53% went to just 25 funds. This list reads like a roll call of the "Super-Elite": a16z, Founders Fund, Lightspeed, & 8VC.

FUNDS RAISED

537

DECADE LOW

TOTAL LP CAPITAL

\$66.1B

DOWN ~70% FROM PEAK

SUPER-ELITE SHARE

53%

TO JUST 25 FUNDS

The Liquidity Reset Remains Incomplete

The IPO Bottleneck and the M&A Reality

2025 was widely expected to mark a meaningful reopening of the public markets. While total IPO value rebounded, the window remained narrow and concentrated among the largest, most established companies.

Only 46 venture-backed companies listed in 2025. Although aggregate IPO value rose 174% to \$119.6 billion, the low volume underscores that public markets remain selective and largely reserved for outliers.

Strategic acquirers, not public listings, provided the majority of liquidity. Corporate buyers drove \$140.7 billion in exit value, a 68% year-over-year increase and the second-largest year for M&A on record.

Liquidity Is Improving, But Not Broad-Based

Sustained liquidity remains a prerequisite for normalization across the venture ecosystem. As of early 2026, a significant IPO pipeline estimated at over \$2 trillion in potential listings stands at the goal line. The roster highlights generational companies such as SpaceX and OpenAI.

If these offerings price effectively, capital may begin to recycle back to LPs at scale, restoring risk appetite and easing one of the most binding constraints on venture capital.

However, liquidity remains concentrated, and normalization has yet to extend meaningfully beyond the largest and most mature companies.

IPO VOLUME

46

VC-BACKED LISTINGS

IPO VALUE

\$119.6B

+174% YOY

M&A EXITS

\$140.7B

+68% YOY

2026 PIPELINE

\$2T+

INCL. SPACEX, OPENAI

Regional Trends: The West Coast Pulls Away

Capital concentration has become increasingly geographic. In 2025, the West Coast realized its largest year in history, reaching \$218.6 billion in deal value, an 83% year-over-year surge. This represents a historic level of centralization: 64 cents of every venture dollar invested in the U.S. during 2025 went to a West Coast startup.

The Great Lakes Divergence

While the West Coast chased the AI boom, the Great Lakes region (IL, IN, MI, MN, OH, WI) stood alone in contraction.

Total deal value fell 16% to \$7.2 billion, ranking it 6th in the last decade. Deal volume declined 11% to 1,074 deals, one of the quietest years on record.

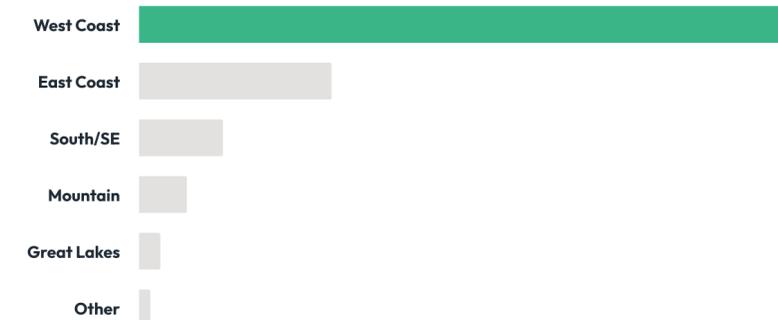
Indiana: A Stalled Breakout

Following a promising 2024, early signals suggested Indiana's ecosystem was breaking out. Unfortunately, that momentum did not carry into 2025. The state saw just \$395.2 million in deal value, a 36.1% decline from the previous year.

Only 111 companies secured venture funding in 2025, representing a 37.6% drop year-over-year and the lowest activity level since 2017.

Indiana fell 13 spots to rank 33rd in total deal value, allowing smaller ecosystems like Kansas, Nebraska, North Dakota, Missouri, and Alabama to leapfrog the state.

FIG. 07 REGIONAL VC DISTRIBUTION (2025)



West Coast

\$218.6B (64%)

South/SE

\$28.4B (8%)

Great Lakes

\$7.2B (2%)

East Coast

\$65.2B (19%)

Mountain

\$16.2B (5%)

Other

\$3.8B (1%)

Where the Money Went

The decline in Indiana was most acute at the Late Stage, where capital plummeted 62% to \$160.92 million. However, the data reveals a "flight to concentration" at the earlier levels:

Early-Stage Value: Rose 27.8% to \$150.57 million.

Seed-Stage Value: Rose 5% to \$83.71 million.

Crucially, these value gains mask a harsh reality for volume: Seed-stage volume dropped 49% (to 52 deals). Fewer Indiana founders raised capital in 2025, but those who did commanded significantly larger rounds.

DISTRIBUTION OF DEALS BY STAGE

DEAL TYPE	COUNT	VALUE (\$M)
Seed Round	52	\$83.71
Early Stage VC	22	\$150.57
Later Stage VC	37	\$160.92
Total	111	\$395.20

TABLE 02 DISTRIBUTION OF DEALS BY SECTOR

SECTOR	COUNT	VALUE (\$M)
M/E/D	9	\$70.32
B2B	55	\$134.61
B2C	18	\$18.42
Life Sciences	29	\$171.85
Total	111	\$395.20

LIFE SCIENCES

43%

of all Indiana capital (\$171.85M across 29 deals)

The Sweet Spot: \$1M–\$5M

Indiana's venture ecosystem remains heavily anchored in the early stages, with the most significant activity clustering in the \$1M to \$4.99M range. This bracket accounted for 34 deals (30.6%), serving as the clear "sweet spot" for Hoosier founders raising Seed or Series A capital.

Below this level, the market was supported by a robust layer of entry-level funding. Deals under \$1M totaled 30 transactions, representing 27% of the market.

Conversely, the "growth gap" is evident at the top end: only 9 deals exceeded the \$10 million mark (roughly 8% of the total), and just 5 companies (4.5%) managed to raise rounds larger than \$15M.

Taken together, the data points to a venture market that is quietly but meaningfully resetting. Capital is more selective, stage thresholds have moved materially higher, and incremental progress is no longer enough to sustain momentum.

What's notable is that these shifts are no longer confined to fundraising dynamics alone. They are beginning to show up inside companies themselves, shaping how products are built, how teams are structured, and how quickly feedback translates into real change.

TABLE 03 DISTRIBUTION OF DEALS BY SIZE

DEAL SIZE	COUNT	% OF TOTAL
Undisclosed	29	26.13%
\$0 - \$0.49M	13	11.71%
\$0.5 - \$0.99M	17	15.32%
\$1.0 - \$4.99M	34	30.63%
\$5.0 - \$9.99M	9	8.11%
\$10.0 - \$14.99M	4	3.60%
\$15M+	5	4.50%
Total	111	100.00%

WHAT COMES NEXT

To understand what this reset looks like in practice, we turn next to how these forces are showing up on the ground — reshaping how products are built, how teams are structured, and how quickly feedback translates into real change.

What the Tilt Is Changing

Productivity, capital efficiency, and operating leverage are reshaping how companies are built and scaled.

05

The Productivity Tilt

The Tilt has compressed the distance between idea and product, customer feedback and shipped features, and capital deployment and value creation. In prior cycles, scale was achieved primarily through headcount growth and organizational build-out. Today, scale increasingly comes from software leverage.

The most immediate expression of the tilt is the collapse of the development cycle. Throughout 2025, the goal of MVPs shifted from validating features to constructing engines that capture behavioral data that competitors can't see.

This evolution represents a departure from the previous era of Retrieval-Augmented Generation (RAG), where startups spent engineering capital building bespoke, often brittle pipelines to stuff context into models.

The distance between observing a need and shipping a solution has effectively collapsed to zero. Software ceases to be a cost center and becomes a real-time revenue engine.

The momentum for a more integrated shift began when Anthropic open-sourced the Model Context Protocol (MCP) in November of 2024, replacing manual RAG architectures with a standardized bridge between AI models and local data sources.

The industry reached a tipping point in the spring of 2025 when OpenAI adopted MCP across its agents and ChatGPT desktop app in March, and Google DeepMind followed suit in April.

Today, MCP allows for daily model refinement. Startups are leveraging this protocol to feed real-time behavioral data back into their proprietary models and are seeing an 8x increase in user-intent granularity.

8x

INCREASE IN USER-INTENT GRANULARITY VIA MCP

The Capital Tilt: Efficiency as Alpha

The collapse of the development cycle doesn't just change how products are built; it fundamentally rewrites the physics of how capital is deployed. We call this the capital tilt: a shift in investor focus from sheer scale and "growth at all costs" to structural leanness and high-velocity feedback loops.

Because companies can now use MCP to refine their models daily, they have developed a surgical understanding of their users. This has significantly shortened the path to revenue and moved the goalposts for venture success.

In 2025, capital efficiency became the new alpha, as investors began prioritizing companies that could translate real-time behavioral data into long-term retention.

This efficiency is best evidenced by the shift in revenue composition. Today, the majority (50%+) of new ARR in AI native companies is driven by existing customer expansion rather than net-new acquisition. The significance of this statistic is best understood when compared to a traditional SaaS company, where the industry benchmark for expansion revenue has hovered between 20% and 30%.

By automating the last mile of product-market fit through self-healing code, these companies have essentially de-risked the venture model. This structural efficiency is why AI startups attracted \$221.3 billion (or 64.7% of all capital invested) despite accounting for only 40.2% of total deal volume.

AI-NATIVE COMPANIES

50%+

NEW ARR FROM EXPANSION

TRADITIONAL SAAS BENCHMARK

20–30%

INDUSTRY STANDARD EXPANSION

The Operating Tilt: Teams to Orchestration

The operating tilt is defined by a shift in value creation from organizational size to human-agent density. In 2025, the top 10 AI startups generated an average of \$3.4 million in revenue per employee. This figure is nearly five times higher than the \$610,000 average seen among established SaaS leaders like Salesforce and Adobe.

Carta data reveals that the percentage of solo-founded startups rose sharply to 36% in 2025, up from 23% in 2019. These same solo-founders are waiting significantly longer to build traditional teams, with a median hiring delay of 399 days, compared to 262 days in 2019.

This delay is not a sign of stagnation, but of a fundamental transformation in how work is orchestrated. In the gap where a founder would traditionally have hired a 10-person team, they are instead deploying agentic systems.

This orchestration capability has led to the rise of parallel founders. Because companies can now reach escape velocity so quickly, founders are building modular entities in a stacked sequence, utilizing AI agents at a 10:1 ratio to humans.

This shift defines a new labor archetype: The Software Composer. These individuals don't understand coding at the same level as a senior developer, but they possess the vision and utilize tools to bridge the gap between technological and operational needs.

Companies like Lovable (which reached a \$6.6B valuation and \$200M ARR in 2025) are succeeding thanks to these people. Lovable empowers the scrappy consumer and entrepreneur to build their own solutions.

REV PER EMPLOYEE

\$3.4M

TOP 10 AI STARTUPS

SOLO-FOUNDED

36%

UP FROM 23% IN 2019

MEDIAN HIRING DELAY

399 Days

UP FROM 262 DAYS

Three Dynamics for 2026

Looking ahead, we see a venture ecosystem where agency becomes the defining advantage. By agency, we mean the ability to turn intent into output quickly, using AI to replace coordination, delay, and overhead.

While much of this report has focused on uncertainty and dislocation, the integration of AI into company building and investing is already removing long-standing bottlenecks that historically slowed venture outcomes.

Productivity is rising, capital efficiency is improving, and the distance between intent and execution continues to compress.

For builders, this means less early capital is required to reach meaningful traction, and the ability to build multiple companies around shared infrastructure, data, and distribution becomes viable for the first time.

For investors, it means returns increasingly accrue to those who recognize leverage early and back founders capable of orchestrating it.

Against that backdrop, we believe the following dynamics will define venture capital in 2026 and beyond.

DYNAMIC 01

Bottom-up capital tightens as consumer anxiety rises. The earliest checks get harder to write.

DYNAMIC 02

Founder throughput becomes a defining source of edge. The ability to run multiple bets in parallel separates winners from the field.

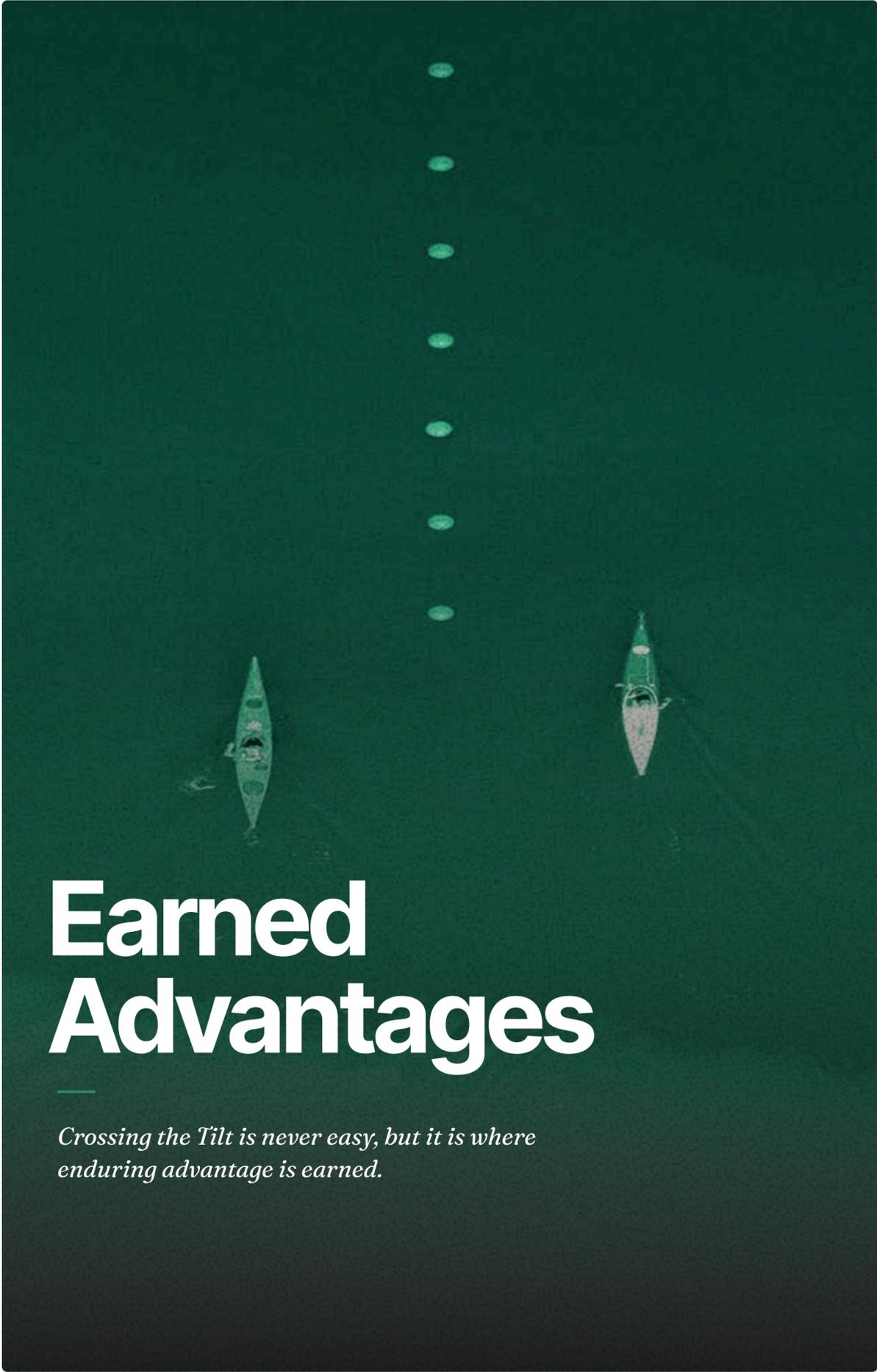
DYNAMIC 03

AI-native efficiency resets early-stage venture economics. Velocity and leverage per person matter more than scale alone.

Taken together, these dynamics suggest a venture environment that will be increasingly selective rather than broadly cyclical. Capital, talent, and outcomes are unlikely to move in lockstep. Instead, advantage will accrue to those able to adapt quickly, operate with structural efficiency, and navigate uncertainty without overextending.

The Future: Agency is King

Agency becomes the defining advantage, the ability to turn intent into output quickly.



Earned Advantages

Crossing the Tilt is never easy, but it is where enduring advantage is earned.

07

Conclusion: Earned Advantages

The uncertainty we are experiencing today is not a signal of decline. Rather it is a feature of technological transition. Periods of rapid productivity acceleration have always been accompanied by discomfort, misinterpretation, and anxiety, particularly before society has had time to reorganize itself around new capabilities.

As venture investors, we are positioned far out ahead of the shoreline. We spend our time tracking weak signals, false crests, and early formations long before they are visible from land. For several years now, the force of this technological wave has been evident to those operating at the front of it, even as the broader economy appeared calm.

That calm is beginning to break. The broader consumer is now starting to see the water pull back. After years of benefiting from rapid productivity gains and newfound technological leverage, households are confronting the possibility that the same tools empowering them could also disrupt their livelihoods.

That realization is unsettling, and the fear is rational. This is typically the moment when sentiment becomes fragile, confidence erodes quickly, and risk assets grow vulnerable to abrupt shifts. In that sense, the current bull run is not invulnerable. Transitions like this have a history of testing conviction.

What gives us confidence is not the absence of risk, but the presence of a structural difference. For the first time in history, the constraint that prolonged past dislocation phases...slow, human-to-human learning, is being replaced by machine-to-human learning at scale. The tools required to adapt are arriving alongside the disruption itself, not decades later.

If adaptation can keep pace with capability, this period may ultimately be remembered not for the anxiety it created, but for how quickly it set the stage for what came next.

There will be winners, and there will be many losers. Not everyone will adapt at the same speed, and not every organization or region will make the transition intact. Coming out the other side stronger will require more than optimism. It will demand discipline, intention, and sustained focus at a level higher than most cycles have required.

Those who rise to that challenge can help shape the next productivity supercycle. Those who do not risk being reshaped by it. Crossing the Tilt is never easy, but it is where enduring advantage is earned.

Sources & Notes

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METHODOLOGY

National venture data is sourced primarily from PitchBook Data, Inc. and Carta, Inc. Macroeconomic indicators are drawn from the Bureau of Economic Analysis, Bureau of Labor Statistics, and the Federal Reserve Board.

Consumer sentiment data references the University of Michigan Survey of Consumers and The Conference Board Consumer Confidence Index. Regional and state-level breakdowns use PitchBook geographic classifications.

Revenue benchmarks represent median values unless otherwise specified. Growth rates are calculated on a year-over-year basis. All dollar amounts are in U.S. dollars and are not adjusted for inflation unless noted.

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COLOPHON

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