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## Contents



# AI, Megadeals, and the Making of a Concentrated Venture Market

Deal activity and LP allocation have concentrated among fewer deals and GPs

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

## Key takeaways

- Despite ongoing liquidity challenges, deal value for the US venture market surged in 2025, reaching $250 billion through Q3. However, this total has been much more concentrated than in previous years. The 10 largest deals accounted for 38.9% of the total capital invested, with just four deals totaling $77.5 billion.

- AI has been a significant driver of this deal value concentration. The sector itself contributed 65% of deal value in the US, yet leading LLM providers such as OpenAI, Anthropic, and xAI continued to raise billion-dollar deals. Although AI should not be seen as a single sector, this capital concentration highlights the opportunities investors perceive.

- New commitments have also become increasingly concentrated in recent years. As VC firms move earlier and grow larger, dry powder has become concentrated in megafunds. Funds of $500 million or more now account for nearly 58.7% of dry powder in the market, up from 39.9% a decade ago. Conversely, small funds, which make up the largest group by fund size, have seen their share of dry powder fall to just 16% of the total available.

- This concentration of deal value and investor commitments has shifted deal activity toward major hubs like the Bay Area and New York. The Bay Area was home to 22% of the deals closed in 2025 through Q3—the second-highest share in the past decade. As fundraising remains tough, smaller markets lacking local capital face more challenges in retaining top companies, while the Bay Area has secured 50% of the total commitments to the US venture market over the past decade.

## The market is becoming more concentrated

The US venture market has become increasingly concentrated. Fewer companies now account for a larger portion of the total deal value, while fewer funds represent a larger portion of closed commitments. The power law is fundamental to venture capital, but recent market shifts have obscured the state of venture in the US and created a problematic structure for the industry moving forward.

The trend extends beyond VC. The S&P 500 has also become highly concentrated. As of November 28, 2025, the 10 largest companies in the S&P 500 accounted for 39.7% of the market value.[1] The index's concentration risk has never been higher. NVIDIA's Q3 earnings, which we watched with bated breath, showed that a miss could potentially trigger a major market selloff. AI has contributed to the concentration issues faced by both public and private markets.

Venture investors frame the asset class as a diversifier, providing access to the next wave of innovation through illiquid fund structures and proprietary deal sourcing from managers. However, as dealmaking centers on fewer companies and industries, the question of the true nature of that diversification should be questioned. As fewer firms are able to raise capital, access points to the market close and ideas consolidate around fewer decision-makers.

This analysis of concentration is based on several measurements, including deal activity, investor fundraising, and capital commitments as well as the geographic dispersion of companies and deals. Metrics include aggregated top market-share figures to illustrate the level of concentration. The aim of this research is to present the market concentration and analyze the main factors driving change.

## VC market concentration across dimensions

The venture market follows a power law distribution, where a small number of investments generate the vast majority of a fund's (or the market's) return. It is a key metric used by investors, and the pattern is evident in the data. Around 80% of investments return between 0x and 1x, while less than 5% return 20x or more. This analysis is based on a rather diversified market. In a concentrated market, these figures would likely shift.

Not all concentration is a negative. The rumored $1.5 trillion IPO of SpaceX would generate nearly as much exit value for the US market as the past five years combined, including the record $862 billion worth of exits in 2021. However, those returns would be generated by a relatively small portion of the market no matter how active the secondary trading of the company has been.

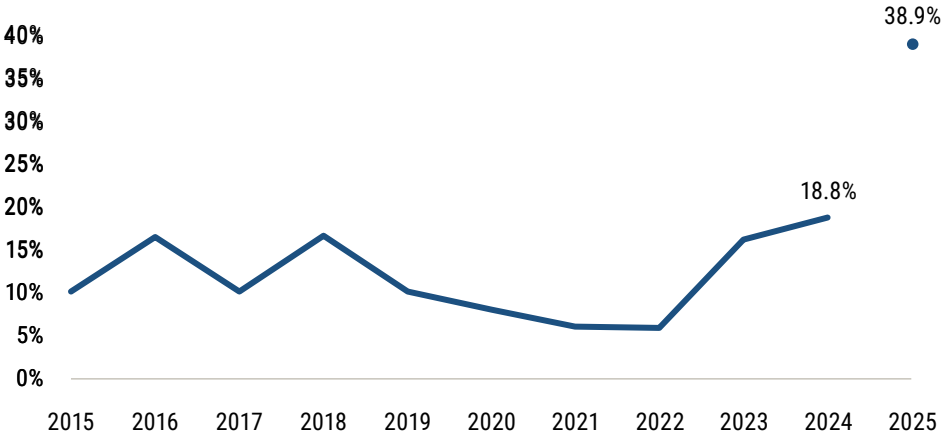
1: "S&P 500," S&P Global, November 28, 2025.

Where concentration creates challenges or asymmetries in the market is in current dealmaking, where AI has captured a majority of investments and centered activity in high-quantity markets with local capital availability. If AI creates the next wave of industrial innovation, activity should focus on companies harnessing the technology. If it does not, VC investors have overallocated to an idea that would lead to amplified losses.

## Deal activity concentration

While deal counts have remained high on a relative basis, dollars deployed have become significantly concentrated. Through Q3, 2025 had already notched the second-highest annual total for deal value in the US. Alone, that figure would denote a strong market for investment, though we know it has been much less so. The top 10 deals in 2025 have accounted for more than 38.9% of the total deal value, the highest mark by 20%.

### Top 10 deals as proportion of total deal value



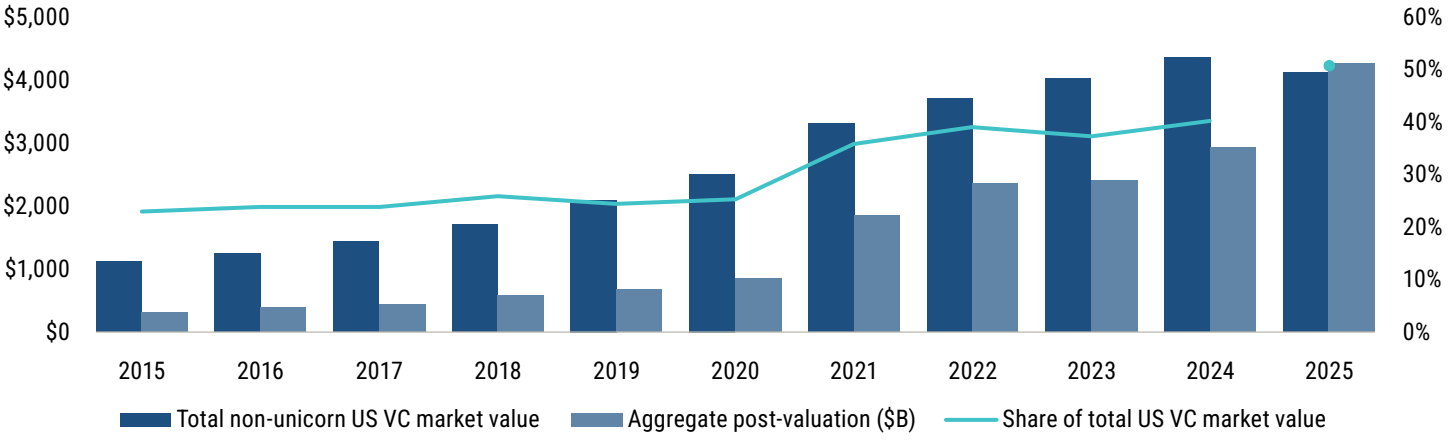

Source: PitchBook • Geography: US • As of September 30, 2025

In terms of value—both the market value of VC-backed companies and the amount invested per deal—several data points stand out:

- In 2025, deals of $10 billion, $13 billion, $14.8 billion, and $40 billion have closed, accounting for 31% of total deal value.
- The 6.7% of deals completed at the venture growth stage account for 45% of total deal value.
- Unicorn deals have accounted for 56.8% of total deal value this year, while deals worth $1 billion or more alone represent 42.1% of deal value.
- The total market value of US VC-backed companies has reached $8.4 trillion, with 51% held in unicorns—approximately 855 companies.

These figures illustrate market concentration in various ways. Deal value concentration exhibits an annual level that can fluctuate rapidly, reflecting the prevailing consensus on current dealmaking. Next year could be different, but AI continues to attract capital toward hyperscalers' foundational AI models to manage compute costs. Market value concentration indicates an increase in long-term systemic risk to venture capital, as that value has proven difficult to realize, even while private market values keep growing and revenue multiples reach unsustainable levels.

**Aggregate market value and unicorn market value concentration**




Source: PitchBook • Geography: US • As of September 30, 2025

The short-term focus on deal value itself may not pose much of a problem. However, it increases risk to future returns by concentrating growth dollars among fewer companies overall. Still, the four deals driving nearly 30% of deal value likely are not diverting funds from other deals in the market. Much of the capital in these deals has come from Big Tech corporations spending heavily on AI without a cap on their current expenditures.

The capital concentration in the foundational large language models (LLMs) does point toward where the US economy is moving. These companies have become the engine for many AI agents and are being incorporated throughout the market. Capital has concentrated on these companies because of their integral nature within the AI economy. The risks then become not in the potential loss of capital should these companies fail, but in the market-wide losses if underlying technologies can't live up to the hype and generate meaningful impact on the economy. Restarting a liquidity engine would also help shift some concentrated private market investments into public markets or IPOs.

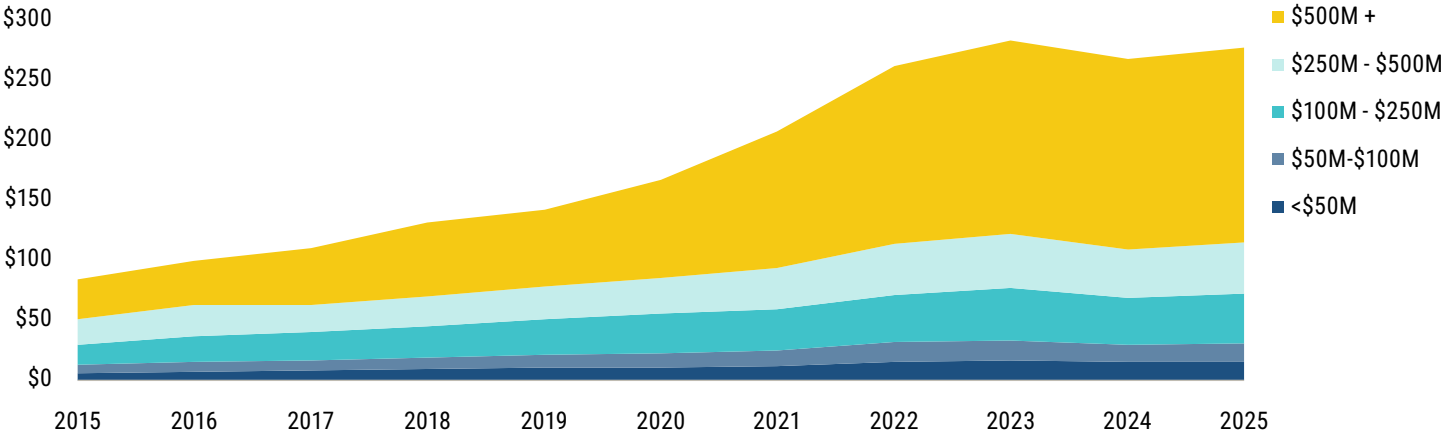
Concentrated market value, on the other hand, is more likely to cause long-term problems. This concentration contributes to the lack of liquidity seen over the past few years. In 2021, venture market net asset value nearly doubled on top of high valuations and portfolio markups. Subsequently, the venture market raised record commitments through 2022 based on these private market values. Several years later, that value has been unable to be unlocked, and many liquidity events have occurred at discounts.

## Investor concentration

Investor concentration has been another area of significant shifts, changing quickly alongside the structure of the venture market. As a market, VC has essentially divided into several substrategies: megafunds, pre-seed funds, and the rest. This has resulted in a notable concentration of commitments and dry powder, as megafunds continue to grow in number and size. Andreessen Horowitz is preparing a $10 billion fund, which would represent over 15% of the total capital raised in 2025, and Lightspeed Venture Partners recently raised $9 billion in new funds, its largest annual commitment total.

You will not see this shift much in the median or average fund size, two metrics which have been relatively consistent. However, over the past decade, new commitments to funds exceeding $500 million have averaged nearly 50% of the total value of all commitments annually. Presently, dry powder in these funds accounts for 54.8% of the available dry powder in the market, represented by only 6.1% of funds closed since 2018.

**US VC dry powder ($B)**



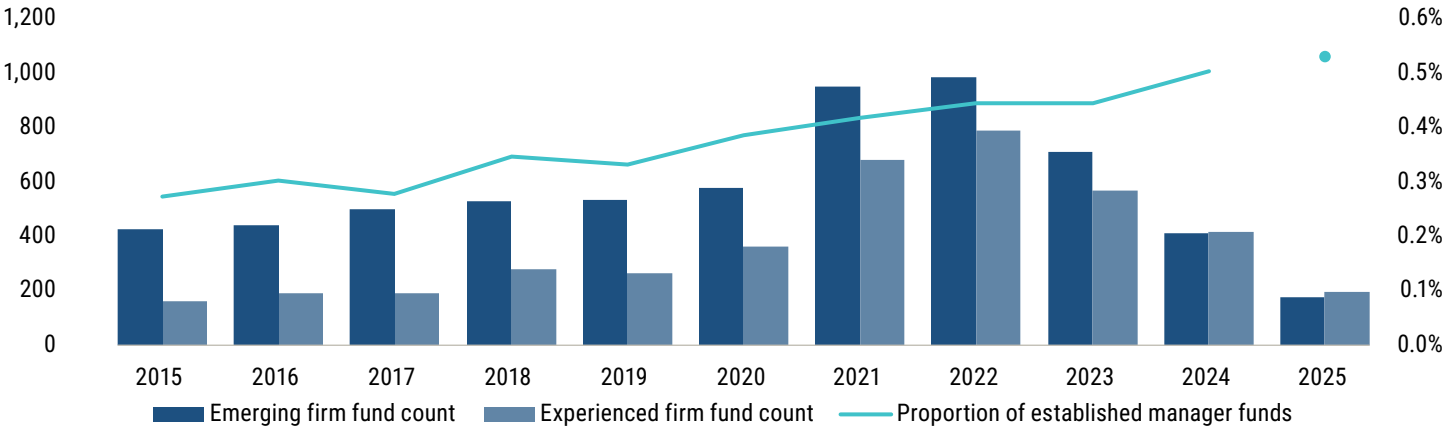

Source: PitchBook • Geography: US • As of March 31, 2025

When the market slowdown began, high dry-powder figures indicated a broad range of investors capable of supporting startups through the market slowdown. At the end of 2021, funds under $250 million accounted for 28.2% of dry powder available. That has quickly fallen to 25.8%. In 2020, such funds accounted for 33% of dry powder. Although dry powder remains high, its concentration has shifted notably, with smaller fund size categories showing declines.

The pricing power of these large firms is driving major changes in the early market stages. Many are large, traditional investors or multistage, platform megafunds investing from the seed to pre-IPO stages. Five of the 20 most active seed investors are firms with multibillion-dollar funds. Together, these firms have largely compensated for a perceived scarcity of early-stage capital and are redefining standard life-cycle and investment strategies.

Investor consolidation has been fueled by LP sentiment and the ongoing liquidity shortage. LPs have prioritized strong existing relationships and a solid track record of returns, channeling more funds toward established managers. This is reflected in the data: Through Q3, more established firms had closed fewer funds than emerging managers. However, this trend reversed in 2021 when, by year-end, emerging managers outpaced established firms by 33% in closed fund count. In the first nine months of this year, established firms closed 12% more funds and secured 200% more commitments.

**Fundraising count by manager activity**




Source: PitchBook • Geography: US • As of September 30, 2025

## Sector

In a way, AI—or the concept of AI—has served as the perfect foil to rising interest rates. Normally, low interest rates encourage companies to invest and boost productivity; however, with high rates that the market has adjusted to over recent years, the opposite tends to happen. Investing in AI has enabled companies to maintain high capital expenditures, developing internal AI features or using external AI products that can, in some cases, replace hiring and reduce future expenses by eliminating some human roles. While AI may be compensating for a weakening economic outlook by reducing layoffs, the US saw 1.1 million layoffs in 2025 as of November,[2] with the tech industry leading, including Amazon laying off 14,000 employees as it focuses on AI to achieve efficiency gains.[3]

Over 65% of deal value in 2025 was invested in AI during the first three quarters. AI is not as narrowly defined as industries such as life sciences or financial technology, as it can be integrated into various business models and products across many sectors. This broad application has been widely publicized. When analyzing deal activity, the shift toward AI becomes even clearer:

2: "Layoff Announcements Top 1.1 Million This Year, the Most Since 2020 Pandemic, Challenger Says," CNBC, Jeff Cox, December 4, 2025.
3: "Staying Nimble and Continuing to Strengthen our Organizations," Amazon, Beth Galetti, October 28, 2025.

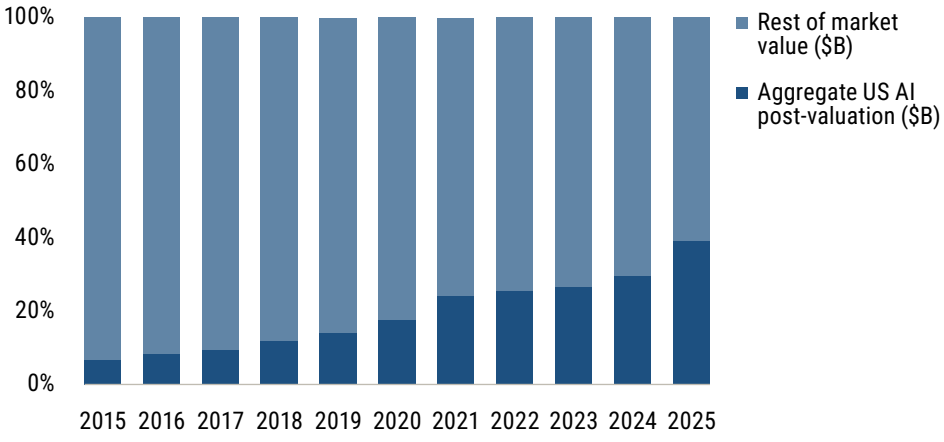
- AI companies accounted for 51.8% of unicorn deal count in 2025 through Q3 and 83.2% of the deal value.
- AI companies made up 30.8% (as seen in chart below) of megadeals in 2025 through Q3, representing 74.2% of the total deal value in these large transactions.
- The total value of US unicorns exceeds $4 trillion, with AI representing more than $1.5 trillion of that unicorn value.
- AI companies comprise about 36.4% of US VC-backed market value.

Comparing AI with a broader sector such as software as a service (SaaS) reveals further insights into market concentration. SaaS has never surpassed a 32.6% share of deal count—only reaching that in 2022. In terms of deal value, SaaS peaked at a share of 55%, driven by AI, which overlaps significantly with SaaS. Excluding AI, SaaS's share of deal value drops to just 7% in 2025, the lowest in a decade.

It is likely that the venture market is experiencing an AI bubble. The data checks most of the boxes. The market has shown a sharp price increase, the market narrative has become "AI versus the rest," and much of the investment is driven by investor envy and fear of missing out on returns. Does this mean that companies like OpenAI, Anthropic, or xAI will not be major winners for investors, driving growth and innovation? Not necessarily. However, many current investments might not yield high returns or could underperform due to high private market valuations or diminishing utility as large market operators become too dominant to challenge.

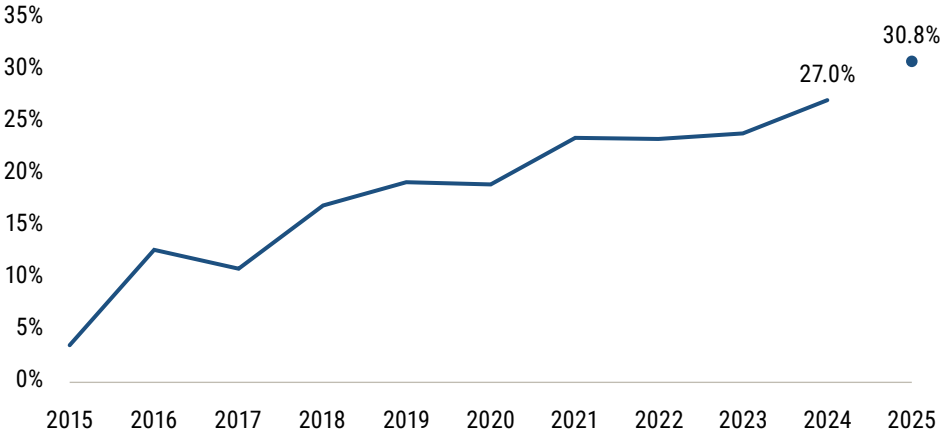
Funding for early-stage AI remains significant: 46.5% of early-stage deals and 41.4% of deal value go into AI companies. This reflects the rise of specialized agents and vertical AI platforms rather than horizontal platforms and foundational models, which constitute most of AI's value. These companies face challenges in capturing market share, similar to earlier vertical applications during the zero-interest-rate-policy (ZIRP) era. It will be difficult to continue this growth, though there might not be much change in the near term. Q3 2025 was the most active quarter on record for early-stage AI activity, accounting for data collection lags.

**Share of VC post-money valuations by AI versus non-AI companies**



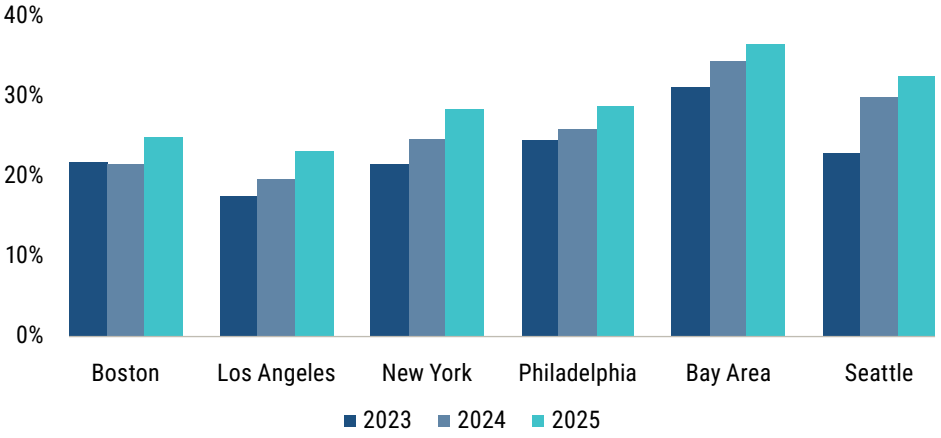

Source: PitchBook • Geography: US • As of September 30, 2025

**Share of AI VC deals worth $100 million or more as a share of all VC deal count**




Source: PitchBook • Geography: US • As of September 30, 2025

**Share of AI VC deal activity by select combined statistical area**




Source: PitchBook • Geography: US • As of September 30, 2025

## Geography

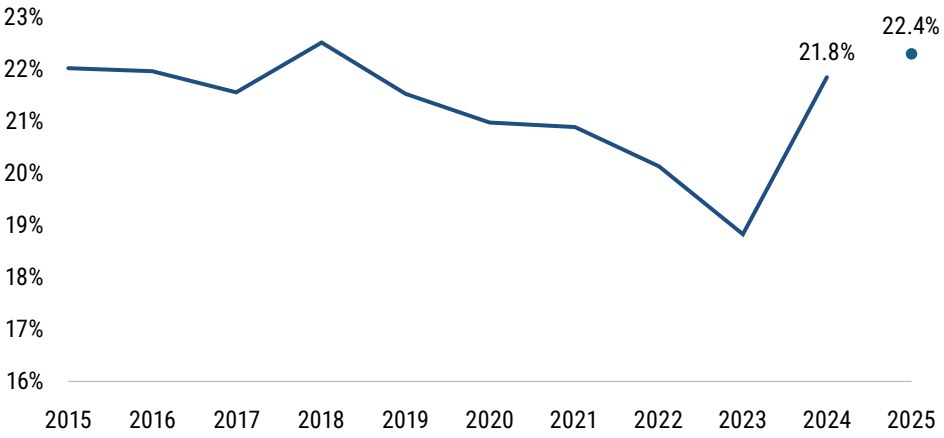
The attention to AI and the consolidation of commitments has shifted the market back to a more concentrated geographic distribution after years of broadening investment into lesser-invested markets. This has occurred for several reasons. The COVID-19 pandemic altered the landscape of venture investing, boosting activity in markets like Miami and Phoenix regardless of local fundraising because of new remote work technologies such as Zoom as well as a migration of investors to markets less impacted by COVID-19 lockdown regulations. Historically, activity has focused on areas with available funds, and investors have preferred in-person dealmaking and easy access to companies, especially in the early stages.

Investor focus and AI technology have once again shifted the venture landscape geographically. Deal activity now centers around San Francisco. More than half of first-financing investments in AI companies occurred in the Bay Area in 2025.

As the market has moved back to a fast pace, local capital availability has become more and more important. As of the end of Q1 2025, the Bay Area accounted for 44% of the available dry powder in the market. New York, which has seen its dry powder decline and is a distant second to the Bay Area, holds just 17% of dry powder. That is still more than nearly all other markets. Together, markets outside of the four largest hubs (the Bay Area, New York, Boston, and Los Angeles) accounted for just 16.5% of available dry powder combined.

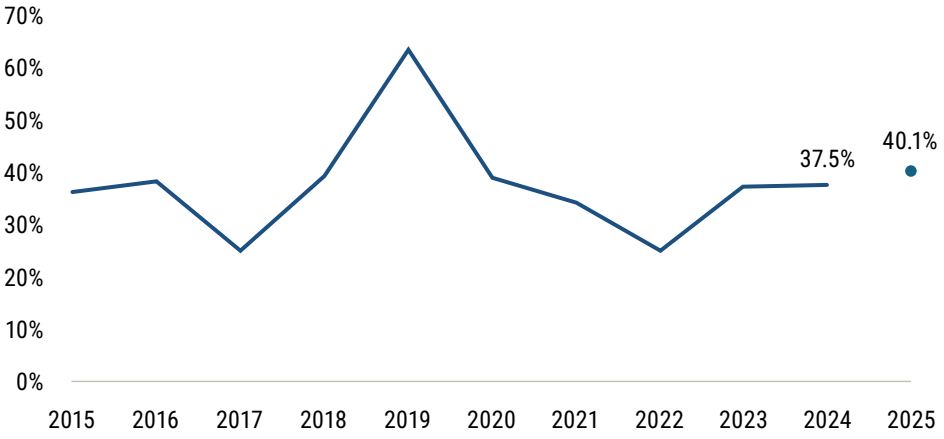
Continued dry powder and fundraising consolidation in the Bay Area can be understood through exit data. The Bay Area has consistently generated the most exit value of any market. As of Q3 2025, Bay Area-based companies created 40.1% of the total US VC-backed exit value and 37.8% of the total exit value of the past decade. As LPs prioritize established firms and return track records, the Bay Area has been able to check each of those boxes.

### Share of VC deal activity in Bay Area companies



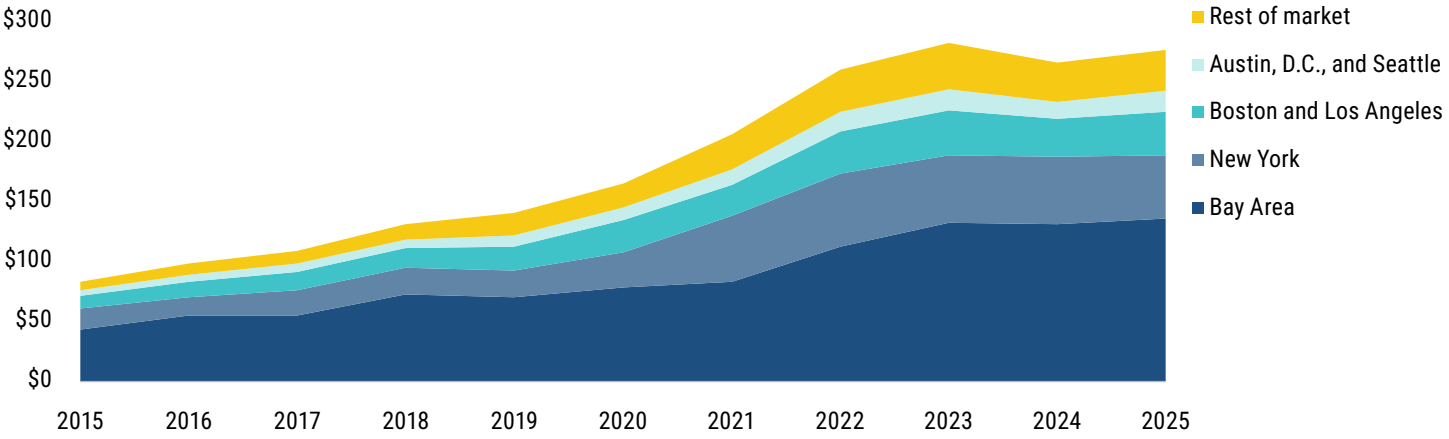

Source: PitchBook • Geography: US • As of September 30, 2025

### Share of VC exit value in Bay Area companies




Source: PitchBook • Geography: US • As of September 30, 2025

**Dry powder ($B) by select market group**




Source: PitchBook • Geography: US • As of March 31, 2025

## Outlook

Macroeconomic factors, structural market shifts, and return expectations influence how capital is allocated and invested. Market concentration does alter the risk profile of VC, placing a higher loss risk on a smaller portion of the market. Deal value concentration can also disguise a challenging market by projecting the illusion of strength. The current concentration results from market conditions and will shift again as liquidity improves and returns increase.

The past four years have been particularly impactful. Not only did these years occur during a prolonged period of illiquidity, but they also followed an expansionary market phase during the pandemic and related ZIRP era, along with a perceived era of high technological advancement driven by AI. Deal value has focused on foundational models, as a somewhat circular economy has developed among chip manufacturers, LLM developers, and public hyperscalers. As these groups continue to form partnerships and build the future economic ecosystem, VC provides additional private growth capital to LLMs to help cover the rising costs of compute and other expenses.

Structural shifts in investment strategies and composition have changed how LPs allocate and invest capital. The move to registered investment advisors for many large megafunds has fundamentally altered their investment approaches, enabling ultra-late-stage investments with extended holding periods for public company shares, especially if these LLM developers go public.

Even as liquidity markets open, these dynamics may be too developed to lead a quick shift in concentration. Deal value concentration will continue to be driven by horizontal models, subsidizing business models until cost inputs decrease enough to limit cash burn. And though increased distributions will lead to LP interest, new funds, and new firms, the Bay Area, as well as New York, Boston, and LA, are best situated with dry powder to keep activity centralized.

Ultimately, the next few years of VC may simply be a more concentrated model than the market is used to.

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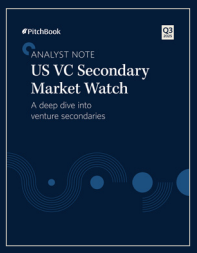
## Additional research:




**Q3 2025 PitchBook Analyst Note: US VC Secondary Market Watch**

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**2026 US Venture Capital Outlook**

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