Does borrowing make sense in 2025?

UBS House View Briefcase

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Key message

Although the Federal Reserve's pause continues for the time being, we expect easing to resume in the coming months as growth slows. Elsewhere, the global rate-cutting cycle has continued in recent months. Falling borrowing costs may raise the appeal of borrowing strategies as a tool to manage liquidity, diversify, boost returns, and avert ill-timed asset sales. Borrowing can form part of a prudent financial plan, although the risks should be carefully considered.

House view

01 **The global easing cycle from central banks has continued, raising the appeal of borrowing strategies.**

- US data for July suggests that hiring has moderated, while GDP growth roughly halved between the first six months of 2025 and the last half of 2024. Both add to the case for a resumption of Fed easing.
- Markets are pricing a near-80% chance of a Fed cut at its September meeting at the time of writing.
- While the European Central Bank refrained from cutting rates in July after eight consecutive reductions, we still expect one further reduction most likely in October. The Bank of England cut its policy rate by 25 basis points to 4% in August.

02 **Against this backdrop, prudent borrowing can play multiple roles that support financial goals.**

- It may provide immediate funds without selling assets, avoiding taxable gains and transaction costs.
- Investors looking to fund new private market investments may find it more efficient to borrow against diversified bond portfolios rather than hold excess cash to meet capital calls.
- Borrowing to invest can yield higher long-term returns if expected returns exceed borrowing costs.

03 **With the right risk management, borrowing strategies may grow in appeal this year.**

- Borrowing comes with risks that investors must be willing and able to bear. Investors should compare loan interest rates with expected returns; if returns are lower, borrowing may not be viable.
- A borrowing strategy's robustness must be assessed against market risks and spending plans. Key factors in choosing a borrowing strategy include loan duration, refinancing potential, and interest rate expectations.

New this week

Investors attached a higher likelihood to US interest rate cuts in September after Fed Chair Jerome Powell's presentation 22 August to an audience of economists and policymakers at the Fed’s annual conference in Jackson Hole, Wyoming. The market-implied probability of a September cut rose to 88% based on Reuters data after Powell noted the “curious kind of balance" in the US jobs market where supply of and demand for workers were both slowing and how it implied "...that downside risks to employment are rising. And if those risks materialize, they can do so quickly.”

One liner

Subject to careful planning and risk management, borrowing may help manage liquidity, improve portfolio diversification, help navigate currency swings, and boost return potential in the year ahead.

Did you know?

- Two of the 12 voting members of the Fed's policy-setting committee dissented in favor of a rate cut at July's meeting—the first time since 1993 the committee has seen multiple dissents.
- Historical analysis, while no guarantee of future performance, suggests borrowing to invest in diversified portfolios may bear fruit. CIO analysis of 24-month rolling returns for a 60/40 portfolio of US stocks (S&P 500) and US government bonds between 1998 and August 2024 finds such a portfolio would have generated returns ahead of US dollar borrowing costs on nearly 75% of occasions (and by an average 3.4% each year).

Investment view

We believe a falling-rate environment in 2025 may accommodate proactive borrowing approaches, with judicious use of debt as a tool for achieving financial goals. By leveraging debt wisely, investors have the potential to enhance portfolios, manage risks, and improve the likelihood of achieving long-term financial goals.

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

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In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

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- Private Equity: There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
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