

Does borrowing make sense in 2025?

UBS House View Briefcase

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Key message

The Fed has resumed its easing cycle, cutting rates by 25 basis points in September in response to a softening US jobs market. 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.

- Evidence of a weakening labor market led the Federal Reserve to cut rates by 25bps in September, with projections for a further 50bps of rate cuts by the end of this year.
- The Swiss National Bank has already bought its policy rate down to zero.
- 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

An ongoing government shutdown has delayed the release of key economic data that Fed officials rely on for policy decisions. This includes the September jobs report. This week's update on consumer prices for last month will also be pushed back. But markets can expect guidance on the Fed's mood from the Beige Book, a survey of regional conditions.

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?

- 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.

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