Is it better to borrow from the market, or from the bank?

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Is it better to borrow and pay interest, or sell and miss out on investment returns?

Key points

- When it comes to raising cash, investors have two main choices: They can sell investments (borrow from the **market**), or they can tap into their borrowing capacity (borrow from the **bank**).
- There are a few considerations to weigh when deciding between these choices. Taking out a loan will incur interest expenses, while selling investment may result in opportunity cost (foregone returns) and unnecessary taxes.
- In some situations—such as when interest rates are relatively low, when raising funds through sales may be tax-inefficient, or when expected returns are attractive—borrowing strategies may be worth considering as an alternative to selling investments.
- In this article, we explore the trade-offs of selling versus borrowing and share some guidelines to discuss with a financial advisor.

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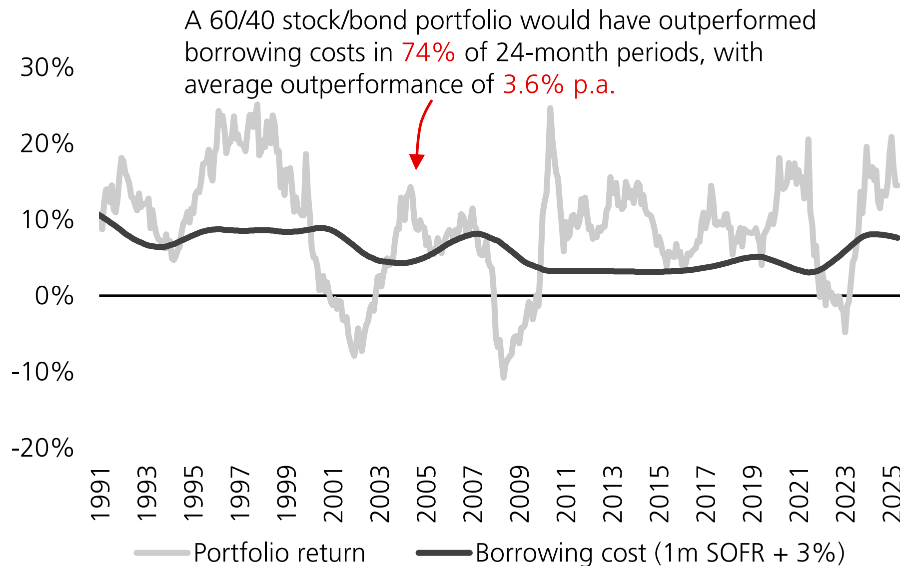
How have borrowing strategies performed historically?

Historically, as illustrated in **Figure 1**, borrowing has often been an attractive alternative to selling investments, allowing investors to benefit from continued portfolio growth and deferred capital gains taxes.

Figure 1 - Portfolio returns have often outpaced borrowing costs
2-year rolling returns for a 60%/40% S&P 500/Bloomberg US Government Bond Index portfolio compared to borrowing costs (1-month LIBOR/SOFR plus a 3% spread).



Source: Bloomberg, UBS, as of 24 February 2026. Past performance is not indicative of future results.

Case study

Whereas **Figure 1** shows the historical results for a series of two-year rolling periods, **Table 1** illustrates a hypothetical case study capturing the results for one such period: the past two years (January 2024 to January 2026).

Table 1 reflects the hypothetical results of two different strategies:

- In Option 1, the investor sells portfolio assets to raise $1 million, realizing $400,000 of long-term capital gains, taxed at a 23.8% tax rate.
- In Option 2, the investor borrows $1 million and pays a borrowing cost of 6.8% (3.8% SOFR + 3% spread), with the loan balance compounding for the two-year period.

Over this period, Option 2 (Borrowing from the credit line) would have resulted in a higher ending portfolio value than Option 1 (Liquidating investment assets) by a margin of **$397,619** (4.0% of the starting portfolio value) net of interest expenses. $302,419 of this resulted from a higher net investment return; the remaining $95,200 owed to deferred capital gains taxes.

If the interest expense of the loan were tax-deductible against net investment income at a 40.8% tax rate (37% federal income tax + 3.8% net investment income tax), it would reduce taxes and increase the net portfolio value by a further **$64,616**, bringing the borrowing strategy's total margin of outperformance to **$462,235**. This analysis assumes that the increased investment returns are in the form of tax-deferred growth (e.g., unrealized capital gains).

Table 1 - How would borrowing have impacted results over the last 2 years?

Hypothetical portfolio growth of a $10 million 60%/40% stock/bond portfolio, assuming a $1 million withdrawal at the beginning and a borrowing cost tied to 1-month LIBOR/SOFR plus a 3% spread

	Option 1 Fund spending from portfolio	**Option 2** Fund spending using credit line
Assets before spending	**$10,000,000**	**$10,000,000**
Spending from portfolio	-$1,000,000	$0
Spending from credit line	$0	-$1,000,000
Taxes due on realized capital gains	-$95,200	$0
Starting gross portfolio value	**$8,904,800**	**$10,000,000**
Starting credit line balance	**$0**	**-$1,000,000**
Gross portfolio growth	$3,746,581	$4,207,373
Accrued credit line interest	$0	-$158,372
Net investment return	**$3,746,581**	**$4,049,001**
Ending gross portfolio value	**$12,651,381**	**$14,207,373**
Ending credit line balance	**$0**	**-$1,158,372**
Ending net portfolio value	**$12,651,381**	**$13,049,001**

Source: Bloomberg, UBS, as of 24 February 2026. Portfolio invested in S&P 500 and Bloomberg US Government Bond Index. Past performance is not indicative of future results.

Is now a good time to sell, or to borrow?

While the historical record is helpful for gauging the range of possible outcomes, past performance is not an indicator of future results. It's important to consider the current environment and individual investor circumstances.

When deciding whether to sell or borrow, here are a few factors to consider:

1. Expected borrowing costs and portfolio returns

CIO research maintains "a positive outlook on global equity markets, underpinned by resilient economic growth, supportive monetary and fiscal policies, and robust earnings growth." In the CIO base case forecast, global stocks will rally over 10% through year-end, alongside a 4-5% return for high-quality bonds.[1]

Even before accounting for potential Fed rate cuts, interest rates have already come down, with the one-month Secured Overnight Funding Rate sitting at about 3.7%. Assuming a 3.0% spread, investors face borrowing costs of **6.7% p.a.**

Historically, when borrowing costs were at about this level (6-7%, including a 3% spread), a 60%/40% US stock/bond portfolio would have outperformed the borrowing cost in about **68%** of all 24-month holding periods, with an average excess return of about **8.4%** per year.

2. Tax consequences

Borrowing strategies may help investors from a tax perspective.

First, borrowing can allow investors to raise cash without realizing capital gains taxes. For families with significant unrealized capital gains, the cost of realizing unnecessary capital gains taxes could be comparable or even greater than the interest cost of a loan. Owing to the "step-up" in cost basis for heirs, deferring capital gains until death may ultimately reduce or eliminate a family's capital gains tax liability.

Another consideration is that some investors may be able to deduct their interest expense against net investment income under Internal Revenue Code § 163(d)(1). If an investor faces a borrowing cost of 6.7%, and they can use that interest to offset net investment income taxed at 40.8% (37% top federal marginal income tax + 3.8% net investment income tax), that implies a **tax-adjusted cost of borrowing** of **4.0%**.

For purposes of determining the deductibility of interest, the use of the debt proceeds must be traced back to an investment in securities or other property held for investment.[2] For more details, please see *Tax-Aware Borrowing*, published by the UBS Advanced Planning Group on 15 January 2026.

3. Investment context

Borrowing against a portfolio can offer flexibility, potential tax advantages, and reduced opportunity cost. When weighing whether to sell or borrow to raise cash—for spending, a tax bill, or an investment opportunity—it is important to carefully consider the associated risks, expenses, and opportunity costs.

For example, borrowing strategies may be more appropriate for investors with a well-diversified portfolio and/or reliable sources of income that could be used to service or repay the loan. By contrast, investors with concentrated holdings or limited liquid assets could be more exposed to the risk of significant market declines, which could trigger a margin call or require the sale of assets at an inopportune time.

It is also important to recognize that leveraging a portfolio increases overall portfolio volatility and the potential for losses if forced to sell. Changes in market conditions, interest rates, or personal circumstances can affect an investor's ability to maintain or repay the loan. In some cases, a decline in portfolio value could require additional collateral or result in the forced sale of investments.

Before deciding whether to borrow against a portfolio, it is helpful to weigh the full range of potential outcomes and risks and to consult with a financial advisor who can help assess whether borrowing is an appropriate component of the overall investment strategy. A financial advisor can also help to develop a plan for managing the loan and mitigating the risk of a margin call or other adverse consequences.

End notes

[1] UBS Chief Investment Office. *UBS House View Monthly Letter — So much, too fast?*, published 26 February 2026.

[2] *Metz v. Commissioner*, T.C. Memo. 2015-54 (US Tax Ct. 2015).

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