

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-90% 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. The Bank of England cut its policy rate by 25 basis points to 4% last week.

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

There were mixed signals last week from US data on whether higher tariffs are rekindling inflation. The consumer price index for July—while confirming that levies have been pushing up prices—suggested a muted effect. Data later in the week showing the largest monthly gain in producer prices in three years was less encouraging. Even so, markets are still pricing a high probability of a 25-basis-point cut at the next Fed meeting in mid-September.

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.

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