



CIO believes a falling-rate environment in 2025 may be one where proactive borrowing approaches, with judicious use of debt as a tool for achieving financial goals, is worthy of investors' attention. (UBS)

# Prudent borrowing can play multiple roles that support financial goals

19 December 2024, 2:32 pm CET, written by UBS Editorial Team US Editorial Team

**While the Fed struck a more hawkish tone to end 2024, we expect the global rate-cutting cycle to continue next year.**

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 financial plan, subject to awareness of its risks.

**While the Fed ended 2024 in a hawkish manner, global rates looked primed to fall in 2025.**

- The Fed's December rate cut was accompanied by a more hawkish dot plot and Powell commentary, with the dot plot showing a median of two US cuts in 2025.
- Nevertheless, other major central banks such as the European Central Bank, Swiss National Bank, and Bank of England look poised to lower rates next year.
- Falling borrowing costs don't just reduce returns on cash, they also potentially boost the appeal of borrowing as part of a financial plan.

**Prudent borrowing can play multiple roles that support financial goals.**

- Borrowing may provide immediate funds without selling assets, avoiding taxable gains and transaction costs.
- Investors with concentrated wealth can borrow against less liquid assets and invest proceeds elsewhere to diversify their overall portfolios, potentially improving risk-adjusted returns
- Borrowing to invest can yield higher long-term returns if expected returns exceed borrowing costs.

**With the right risk management, borrowing strategies may grow in appeal in 2025.**

- Borrowing comes with risks that investors should 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.

**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 suggests such a balanced portfolio's performance would have exceeded 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 be one where proactive borrowing approaches, with judicious use of debt as a tool for achieving financial goals, is worthy of investors' attention. By leveraging debt wisely, investors have the potential to enhance portfolios, manage risks, and improve the likelihood of achieving long-term financial goals.

Main contributors: Matthew Carter, Christopher Swann, Vincent Heaney

Original report: [Does borrowing make sense in 2025?, 19 December 2024.](#)

**The document and the information contained herein is intended for UBS internal use only and solely for the UBS employee to whom it was provided.** It may in no circumstances be distributed outside of UBS. Information contained in this document has not been tailored to the specific needs, investment objectives, personal and financial circumstances of a client or any other recipient outside of UBS. This document shall not be construed to include any legal or tax advice, investment research, sales prospectus, an offer or a solicitation of an offer to enter in any investment activity. Neither UBS nor its directors, employees or agents accept any liability for any loss or damage arising out of the use of all or any part of this document. For further information, please contact the document owner.

**Important information**

As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at [www.ubs.com/workingwithus](http://www.ubs.com/workingwithus).

© UBS 2024. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.

There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.