

Strategic: Optimize your leverage

Optimize your leverage

Author: Sagar Khandelwal, Strategist, UBS Switzerland AG

Why? 1) Borrowing strategies can mitigate tax drags, potentially improve returns, and enhance diversification when carefully managed. 2) Some borrowing capacity can be reserved to build resilience against emergency situations without selling assets. 3) The unique risks of borrowing, including the potential requirement to sell assets to meet a margin call or repay debt, should be carefully managed as part of a well-diversified investment approach.

Borrowing is risky, but we believe that proactive, prudent, and strategic borrowing can enhance an investor's financial plan, especially as the Federal Reserve has joined other central banks in cutting interest rates.

Building on the European Central Bank and Swiss National Bank decisions earlier in 2025, the Federal Reserve has cut US interest rates by 25 basis points each at its September and October meetings. CIO expects the Fed to cut rates by a further 50 basis points by the end of the first quarter of 2026.

Borrowing can help with:

- **Managing liquidity:** A flexible line of credit can provide immediate access to funds without the need to sell assets, reducing the necessity of holding excess cash, money-market funds, or fixed-term deposits. This may be beneficial for handling tax bills, capital calls, or retaining the flexibility to make larger investments.
- **Improving diversification:** Borrowing against existing assets to invest in less correlated assets may help smooth portfolio fluctuations and broaden return sources, with future cash flows used to gradually reduce debt.
- **Currency management:** Borrowing in foreign currencies can help manage exchange rate risks associated with future foreign income and offer additional funds for domestic investments. It may also be more cost-effective to borrow in a foreign currency with a lower funding cost. However, this approach requires careful risk management including tools to limit adverse impacts from an appreciation in the funding currency.



Source: Pexels

Borrowing in a foreign currency should also align with long-term currency management and the wider financial plan for one's needs today, over one's lifetime, and beyond.

- **Boosting return potential:** For those with a high risk-tolerance, borrowing could potentially lead to higher long-term gains if returns exceed borrowing costs, particularly as interest rates decline. However, this strategy is risky, as leverage can amplify both losses and gains.

Before engaging in borrowing, investors should carefully consider both the cost and robustness of any loan.

Costs involve comparing loan rates with expected returns for the investments in which borrowed funds are put to work.

If the expected return of the intended asset is lower than the borrowing cost, then borrowing does not make financial sense. If the expected return is higher than the borrowing cost, then taking on debt could make sense.

It is important to remember that short-term returns often deviate significantly from long-term expected returns. As a result, cost should not be the only criterion for deciding when to use liabilities.

Robustness checks include considering refinancing and interest rate risks, being aware of the potential for margin calls during market fluctuations, and understanding the impact of spending plans on the ability to service or repay a loan. If a family or investor expects to tap a portfolio for

large expenditures, such as university tuition for children or a home purchase, an important consideration would be how long the portfolio could take to recover (the “time underwater”) and the impact that spending might have on a projected loan-to-value ratio.

If, after making such planned expenses, the investor's assets will still hold enough value to avoid a margin call in a worst-case scenario, a borrowing plan can be considered robust. If, however, the plan leaves little margin for error—or if there is a projected shortfall—it may be necessary to reduce leverage.

Whatever the objective of a borrowing strategy, it's vital to develop a specific plan for paying off the loan:

Identify a specific source of funds. This could be the sale of an asset, or projected cash inflows from a business or salary.

Formalize a specific timeline. While it's fine to reassess financial plans as things change, setting out a formal schedule for repayment can stop borrowers from procrastinating and help them stay focused on managing the risk and cost of their debt.

Develop a “Plan B.” It can be advantageous to identify an alternative source of funds to repay debt in case the asset sale or cash inflow initially expected doesn't occur or is delayed. Setting specific criteria for triggering this backup strategy may also be prudent, especially if the liability is growing over time.

Stress test plans. Borrowers would do well to consider how they might deal with unexpected expenses, or with market stresses that impair the asset side of their balance sheet. It is crucial to account for the risk of a margin call and act proactively to keep a buffer against that scenario.

For any investor planning to use leverage as a part of their strategy, we recommend following these three guiding principles:

1. Use debt to diversify and build resilience.
2. Avoid a mismatch between the duration of liabilities and the duration of assets.
3. Manage liabilities proactively.

Investors should be able and willing to bear the unique risks of borrowing and build a flexible financial plan that can adapt to multiple economic scenarios without compromising their long-term financial goals.

Appendix

Risk information

UBS Chief Investment Office's ("CIO") investment views are prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland) or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. Additional disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.

The investment views have been prepared in accordance with legal requirements designed to promote the **independence of investment research**.

Generic investment research – Risk information:

This publication is **for your information only** and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein does not constitute a personal recommendation or take into account the particular investment objectives, investment strategies, financial situation and needs of any specific recipient. It is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS). All information and opinions as well as any forecasts, estimates and market prices indicated are current as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria. UBS may utilize artificial intelligence tools ("AI Tools") in the preparation of this document. Notwithstanding any such use of AI Tools, this document has undergone human review.

In no circumstances may this document or any of the information (including any forecast, value, index or other calculated amount ("Values")) be used for any of the following purposes (i) valuation or accounting purposes; (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or (iii) to measure the performance of any financial instrument including, without limitation, for the purpose of tracking the return or performance of any Value or of defining the asset allocation of portfolio or of computing performance fees. By receiving this document and the information you will be deemed to represent and warrant to UBS that you will not use this document or otherwise rely on any of the information for any of the above purposes. UBS and any of its directors or employees may be entitled at any time to hold long or short positions in investment instruments referred to herein, carry out transactions involving relevant investment instruments in the capacity of principal or agent, or provide any other services or have officers, who serve as directors, either to/for the issuer, the investment instrument itself or to/for any company commercially or financially affiliated to such issuers. At any time, investment decisions (including whether to buy, sell or hold securities) made by UBS and its employees may differ from or be contrary to the opinions expressed in UBS research publications. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, divisions or affiliates of UBS. Futures and options trading is not suitable for every investor as there is a substantial risk of loss, and losses in excess of an initial investment may occur. Past performance of an investment is no guarantee for its future performance. Additional information will be made available upon request. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information.

Different areas, groups, and personnel within UBS Group may produce and distribute separate research products **independently of each other**. For example, research publications from **CIO** are produced by UBS Global Wealth Management. **UBS Global Research** is produced by UBS Investment Bank. **Research methodologies and rating systems of each separate research organization may differ**, for example, in terms of investment recommendations, investment horizon, model assumptions, and valuation methods. As a consequence, except for certain economic forecasts (for which UBS CIO and UBS Global Research may collaborate), investment recommendations, ratings, price targets, and valuations provided by each of the separate research organizations may be different, or inconsistent. You should refer to each relevant research product for the details as to their methodologies and rating system. Not all clients may have access to all products from every organization. Each research product is subject to the policies and procedures of the organization that produces it. The compensation of the analyst(s) who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking, sales and trading or principal trading revenues, however, compensation may relate to the revenues of UBS Group as a whole, of which investment banking, sales and trading and principal trading are a part.

Tax treatment depends on the individual circumstances and may be subject to change in the future. UBS does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon both in

general or with reference to specific client's circumstances and needs. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein. This material may not be reproduced or copies circulated without prior authority of UBS. Unless otherwise agreed in writing UBS expressly prohibits the distribution and transfer of this material to third parties for any reason. UBS accepts no liability whatsoever for any claims or lawsuits from any third parties arising from the use or distribution of this material. This report is for distribution only under such circumstances as may be permitted by applicable law. For information on the ways in which CIO manages conflicts and maintains independence of its investment views and publication offering, and research and rating methodologies, please visit www.ubs.com/research-methodology. Additional information on the relevant authors of this publication and other CIO publication(s) referenced in this report; and copies of any past reports on this topic; are available upon request from your client advisor.

Important Information About Sustainable Investing Strategies: Sustainable investing strategies aim to consider and incorporate environmental, social and governance (ESG) factors into investment process and portfolio construction. Strategies across geographies approach ESG analysis and incorporate the findings in a variety of ways. Incorporating ESG factors or Sustainable Investing considerations may inhibit UBS's ability to participate in or to advise on certain investment opportunities that otherwise would be consistent with the Client's investment objectives. The returns on a portfolio incorporating ESG factors or Sustainable Investing considerations may be lower or higher than portfolios where ESG factors, exclusions, or other sustainability issues are not considered by UBS, and the investment opportunities available to such portfolios may differ.

External Asset Managers / External Financial Consultants: In case this research or publication is provided to an External Asset Manager or an External Financial Consultant, UBS expressly prohibits that it is redistributed by the External Asset Manager or the External Financial Consultant and is made available to their clients and/or third parties.

USA: Distributed to US persons only by UBS Financial Services Inc. or UBS Securities LLC, subsidiaries of UBS AG. UBS Switzerland AG, UBS Europe SE, UBS Bank, S.A., UBS Brasil Administradora de Valores Mobiliarios Ltda, UBS (Brasil) Corretora de Valores S.A., UBS Asesores Mexico, S.A. de C.V., UBS SuMi TRUST Wealth Management Co., Ltd., UBS Wealth Management Israel Ltd and UBS Menkul Degerler AS are affiliates of UBS AG. **UBS Financial Services Inc. accepts responsibility for the content of a report prepared by a non-US affiliate when it distributes reports to US persons.** **All transactions by a US person in the securities mentioned in this report should be effected through a US-registered broker dealer affiliated with UBS, and not through a non-US affiliate. The contents of this report have not been and will not be approved by any securities or investment authority in the United States or elsewhere. UBS Financial Services Inc. is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule.**

For country information, please visit ubs.com/cio-country-disclaimer-gr or ask your client advisor for the full disclaimer.

Additional Disclaimer relevant to Credit Suisse Wealth Management

You receive this document in your capacity as a client of Credit Suisse Wealth Management. Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.

Except as otherwise specified herein and/or depending on the local Credit Suisse entity from which you are receiving this report, this report is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

Version C/2025. CIO82652744

© UBS 2025. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.