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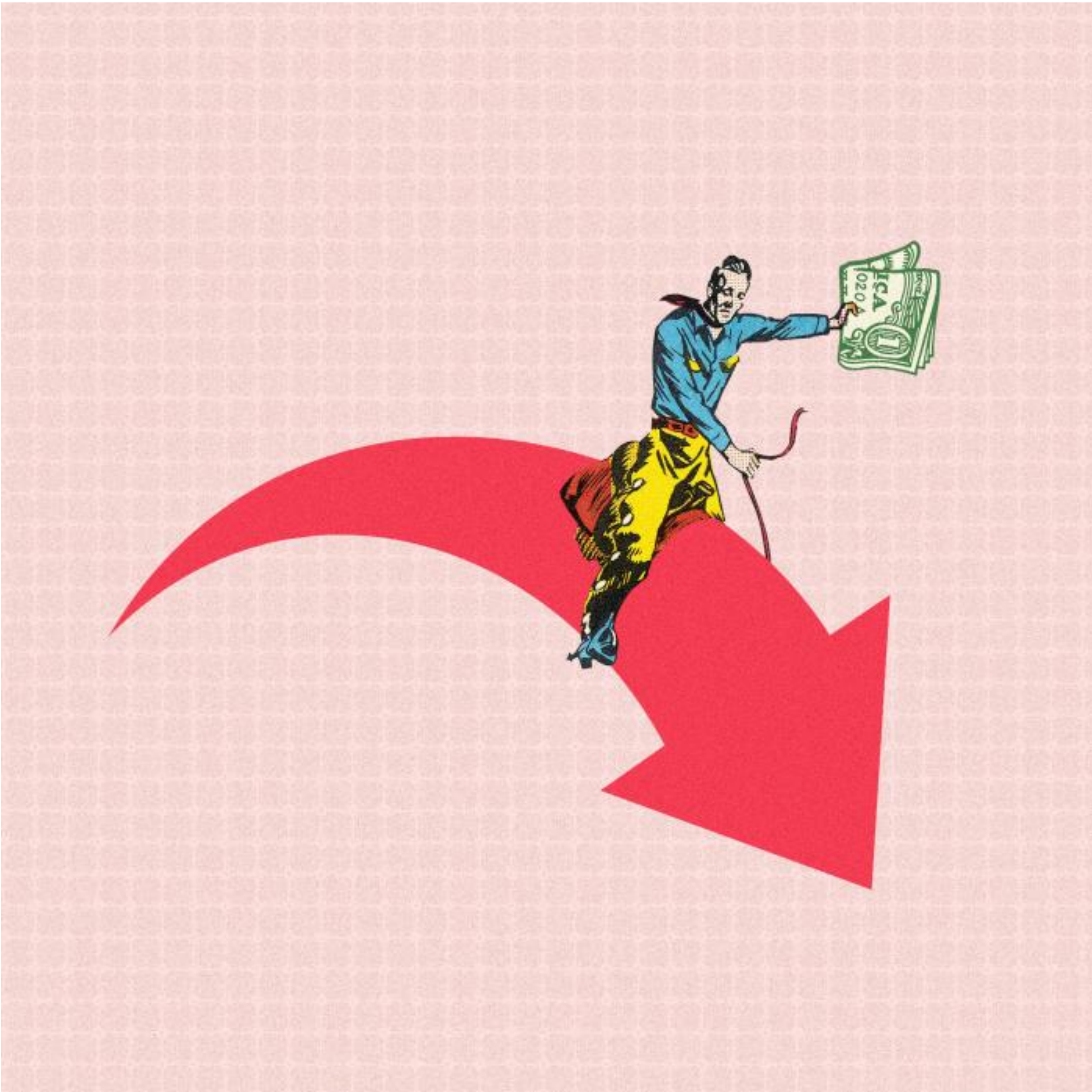
THE WALL STREET JOURNAL.

The Wall Street Journal 23.10.2025

Popular Leveraged Funds Shock Investors With Huge Losses

Some funds offering to double single-stock moves have veered sharply off course from the shares they track



Risky leveraged exchange-traded funds are booming. Their performance over the past year highlights their pitfalls.

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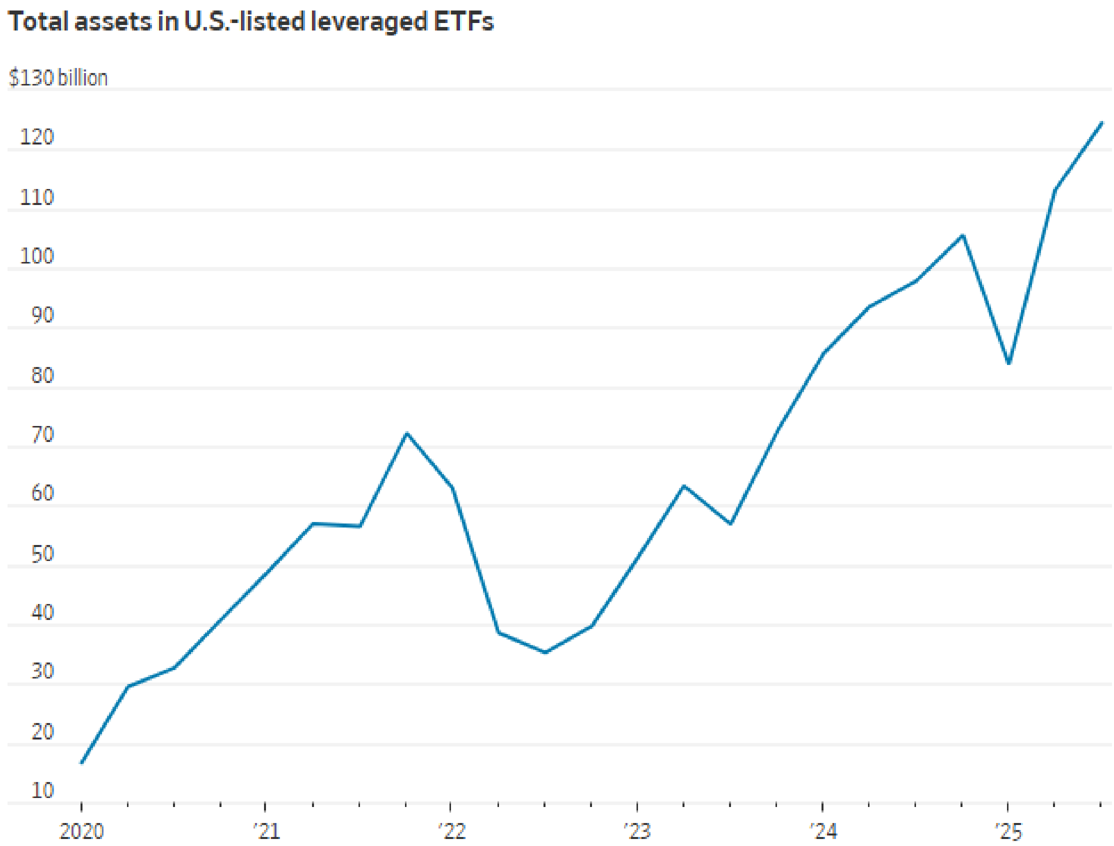
The funds, accessible to anyone through most brokerage accounts, use derivative contracts or borrowed money to amplify the return of an underlying asset. Leveraged funds tracking stock indexes have been around for more than a decade. Their bolder cousin, the leveraged single-stock ETF, was first approved by U.S. regulators in 2022.

Those single-stock funds have grown rapidly in number, and gained a following among individual investors who yearn for even bigger returns than what a record-setting stock-market rally has offered. By mid-October, leveraged single-stock ETFs had accumulated some $40 billion in assets, according to VettaFi data.

While some large managers such as BlackRock and J.P. Morgan Asset Management have avoided these ETFs given their risks, many others have been drawn to the category for the thick management fees they provide. Leveraged ETFs typically collect about 1% on the assets they manage, well above the 0.3% fee averaged by active funds. Roughly 200 leveraged equity ETFs have been launched in 2025 alone, bringing the total number to 701 funds in October, according to Bank of America analysts.

Their surging popularity has exposed more investors to steep losses, particularly among those investors who misunderstood how leveraged funds work.



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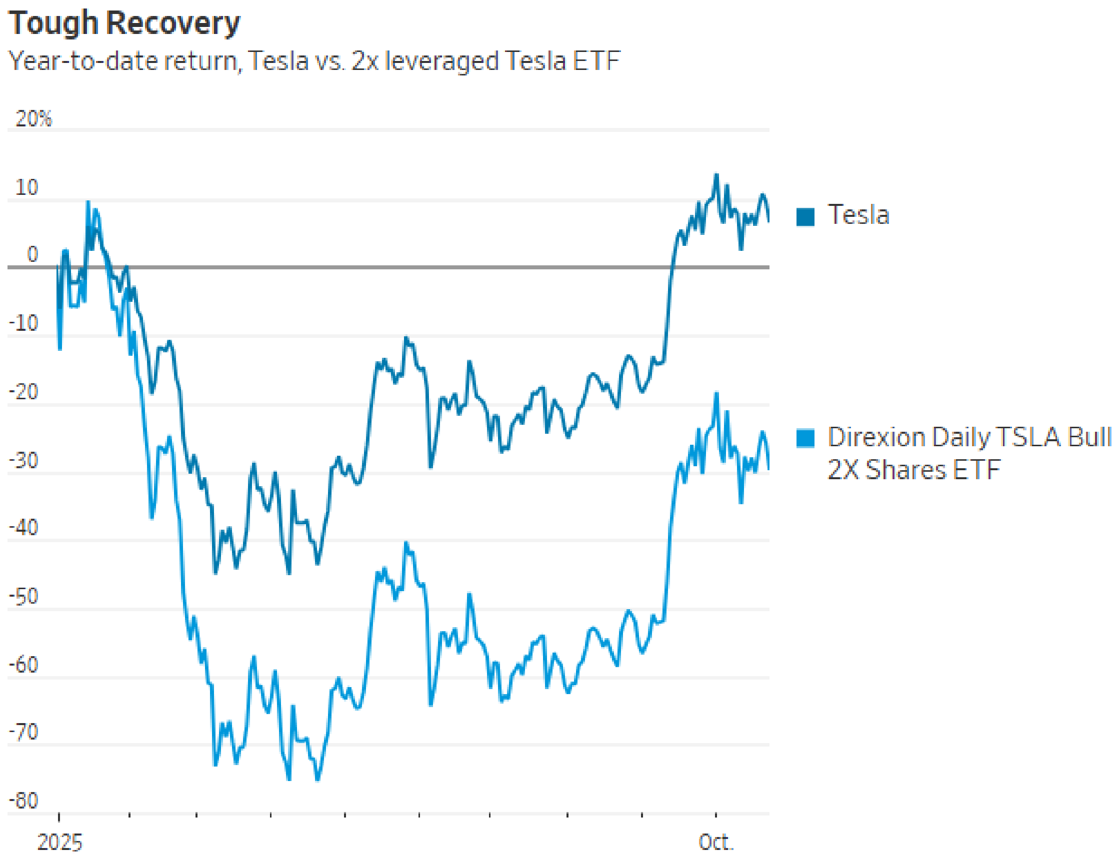
The most common type of leveraged fund offers to double the return of a reference asset on a daily basis. So a 2x leveraged ETF tracking Tesla shares would rise 10% on a day the stock climbs 5%. But the same fund also amplifies losses; if Tesla were to fall 5%, the leveraged ETF would post a decline of 10%.

Over time, those amplified gains and losses can pile up in hurry, and veer from the returns produced by the underlying stock.



One of the most popular funds provides an extreme example. Last November, two recently launched ETFs that offered to double the daily returns of bitcoin-linked stock MicroStrategy (now known as Strategy), began to soar. The outsize gains attracted attention on social media, and thrill-seeking individual investors began to pile in at a pace never seen before for a leveraged single-stock fund.

Many of those investors are now sitting on huge losses, despite the fact that the underlying Strategy shares are up over the past year. Strategy shares rose 28% in the 12 months ended Wednesday, while one of the leveraged funds, the Defiance Daily Target 2x Long MSTR ETF, plunged 65%.

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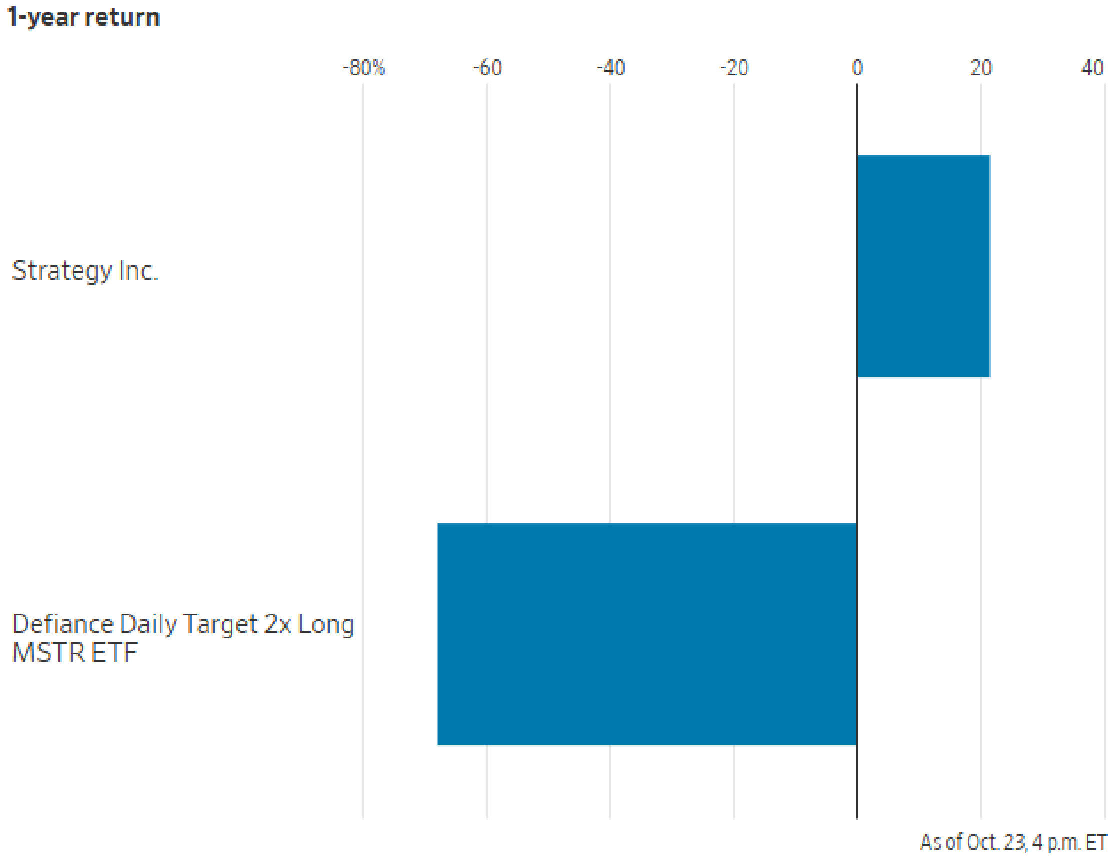

The brutal divergence in performance is caused by what traders call “volatility decay,” or the tendency of price fluctuations to erode the long-term returns of a leveraged fund, even if the underlying asset goes up. And it is why leveraged-fund managers are quick to warn that their funds shouldn’t be held for long periods.

“Everything that is problematic about these funds is more problematic the more leverage or volatility you add to them,” said Dave Nadig, an industry veteran and director of research at ETF.com.

Money managers say that most leveraged funds aim to amplify returns for a single day, and shouldn’t be held for longer periods.

Take a hypothetical stock and a 2x daily leveraged ETF that tracks it, for example. Imagine both the stock and the leveraged fund begin the week with a share price of $10. If the shares fall 30% on Monday, the 2x ETF tracking them will fall 60% to close at $4.

If the stock roars back with a 50% gain on Tuesday, it is now up on the week, trading at $10.50. But even though the 2x ETF would have doubled the shares’ Tuesday performance, rising 100%, the ETF is only back to $8, and is now trailing its underlying asset on the week.

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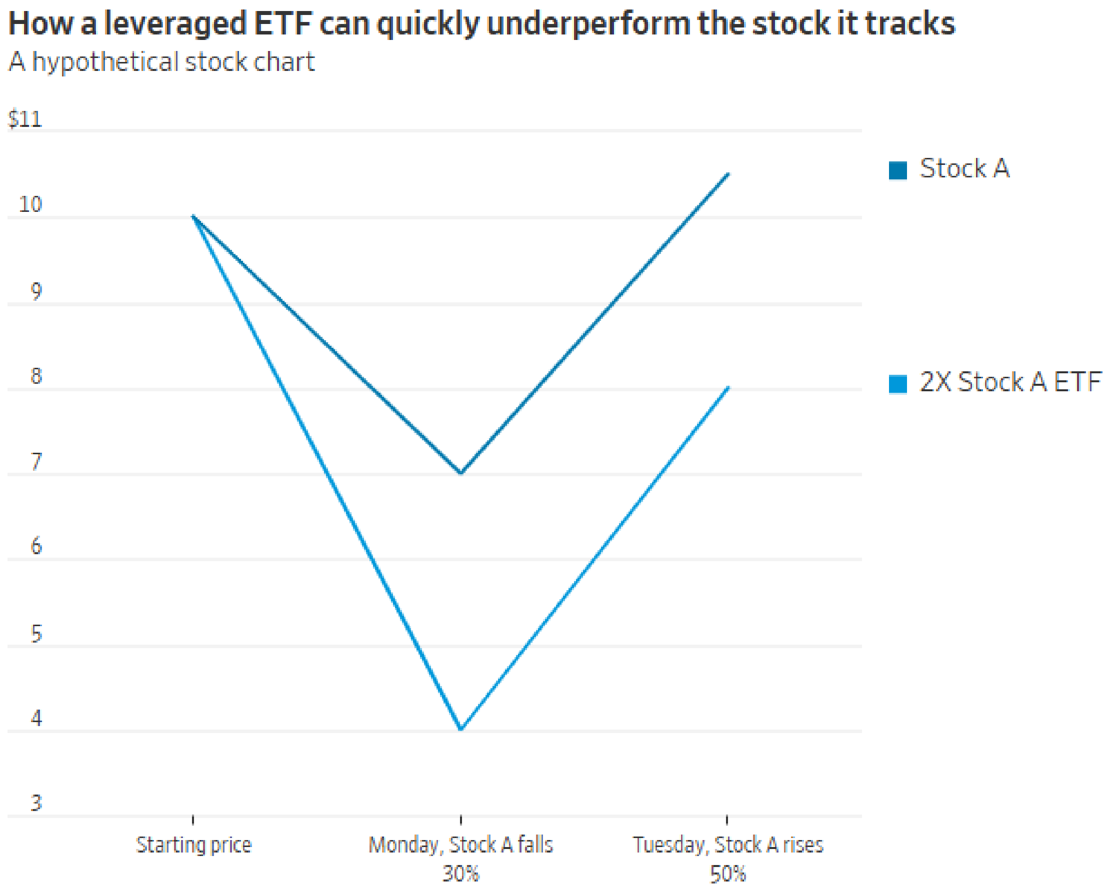

The more volatile the asset, the more the leveraged ETF can diverge from its performance. And the harder it is for investors to climb back from steep losses.

"Are we MSTU and MSTX holders screwed beyond recovery?" one user on a Reddit investing forum asked, referencing the tickers of the two MicroStrategy funds. "If I did not understand price decay before, I do now."

"I learned my lesson and don't plan on playing leveraged ETFs again," one of the thousands of other posters discussing the funds wrote.

Some sophisticated investors have profited from the funds' poor performance. In a letter to investors earlier this year, hedge-fund manager David Einhorn said he had been shorting the leveraged MicroStrategy ETFs in a trade that was "a material winner."

"These products are destined to fail," Einhorn wrote. "Over time, they are likely to bleed out their capital."

After plowing billions into leveraged single-stock funds in 2024, some investors have soured on them in recent months. Traders pulled almost $5 billion from the fund category over the past two quarters, according to Morningstar, the first time the fund category has ever reported outflows.

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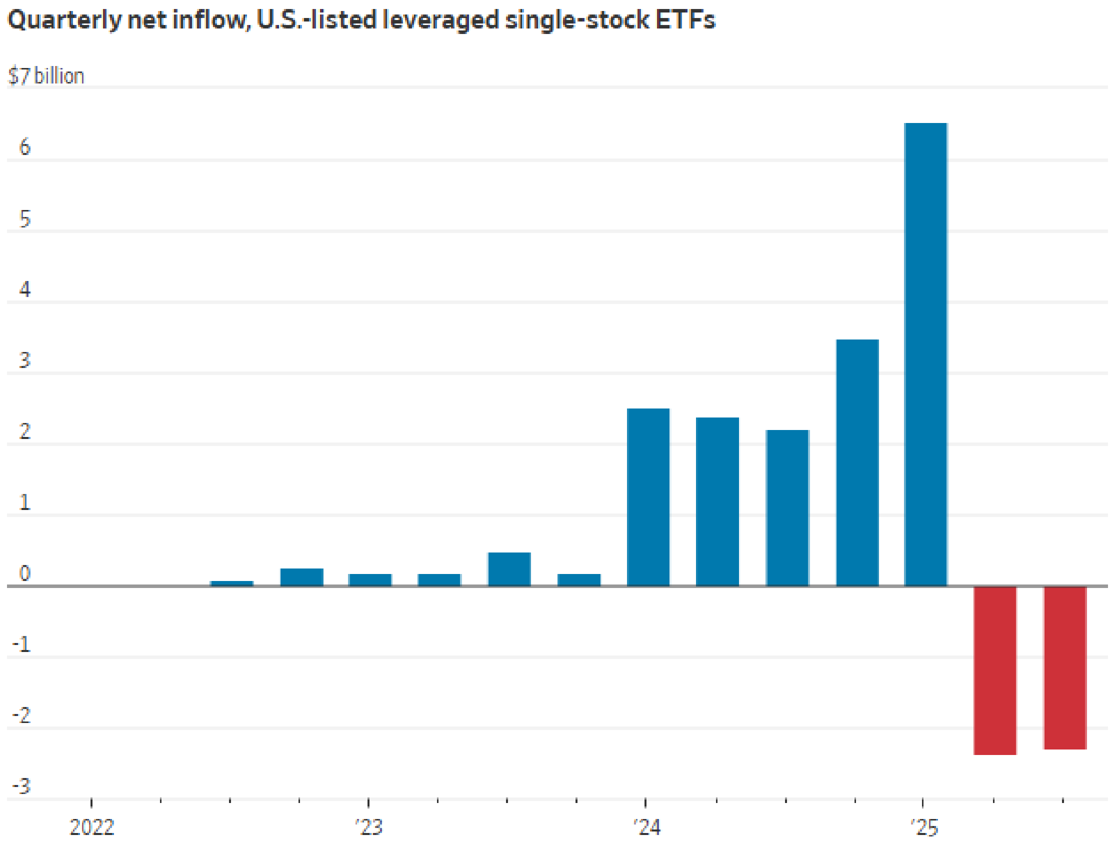

Money managers haven't been deterred. Some have continued to launch leveraged ETFs, seeking to capitalize on investors emboldened by the market's recent rally.

Last week, ETF issuer Volatility Shares filed paperwork to launch 27 highly leveraged ETFs, including what would be the first 5x funds in the U.S. Such funds would go to zero and be liquidated in the event their underlying stock falls 20% in one day.

The Securities and Exchange Commission has voiced opposition to such highly levered funds in the past and could block them from being launched. If the regulator doesn't take action—it currently isn't reviewing fund applications during the government shutdown—the funds will be free to launch 75 days after their application date, analysts said.

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Across the rich world, fiscal crises loom

The Economist

13.10.2025

Across the rich world, fiscal crises loom

The consequences will be profound, argues Henry Curr

Government debt is one of humanity's great inventions. It allows societies to store wealth, fight crises and build for the future. After Britain's superior access to credit helped it defeat Napoleon in 1815, one historian likened the country's credit lines to Aladdin's lamp. Two centuries later, during the covid-19 pandemic, much of the world looked on with similar astonishment as rich countries borrowed freely to splurge on support for households and health care.

The magic of borrowing, though, comes with a temptation—one that David Hume and Alexander Hamilton worried about in the late 18th century. If a country is sufficiently creditworthy to cover its existing debts, it is in a position to borrow more. Having manageable debts means you can manage more debt. And so it is all too easy for debt to grow.

The magic of borrowing comes with a temptation

If this goes on for too long, governments start to face pushback. The bond markets which meet their need for debt start to charge them more. New borrowing gets harder—and so does rolling over old debts. If governments do not then tighten their belts, the country's all-important creditworthiness erodes in a way which can easily spiral out of control.

Historically such debt crises have mostly been a poor-world problem. Yet today the biggest, richest countries have fallen into a dangerous pattern of borrowing ever more. Debts have reached vertiginous highs and bond markets are showing resistance. This special report will predict what happens next.

The Economist

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Across the rich world, fiscal crises loom

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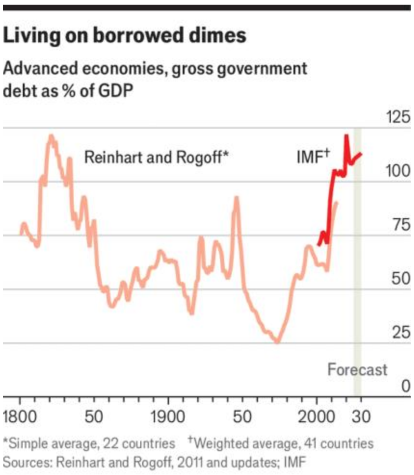

Gross public debt as a share of GDP in advanced economies stands near 110%, close to an all-time high. A rise in interest rates since 2022—initiated by central bankers to control inflation that was caused in part by government spending sprees—has made debts far more burdensome. Rich countries as a whole now spend half as much again on interest as they do on national defence. And they keep on borrowing. This year the average deficit in advanced economies will be over 4% of GDP; in America the figure is over 6% of GDP.

A series of crises is part of the explanation for high debts: the financial crash of 2007-09, the covid-19 pandemic and Russia's invasion of Ukraine. And the kind of long-running short-termism about which Hume and Hamilton worried is also to blame.

Governments have adopted mechanisms to constrain debts, such as America's "pay as you go" rules in Congress or the EU's Stability and Growth Pact. But politicians suspend, abuse or evade them almost as they please.

Investors are demanding higher rates because they sense danger

There is little political appetite for belt-tightening. America has spent whatever windfall it will raise from President Donald Trump's tariffs, and possibly more, by renewing and expanding Mr Trump's deficit-financed tax cuts from 2017. And the White House is entertaining still more tax cuts. France goes through annual political crises as proposals to trim the budget even modestly generate blowback: they are the main reason the country has lost five prime ministers in two years. Japan's incoming prime minister favours expansionary fiscal policy despite sky-high debts. Britain's government will give at least the impression of austerity on November 26th, when it will almost surely raise taxes. But the changes will keep the country only just inside a hyper-forgiving fiscal framework.

Bond markets are responding. For short-term debt, buying a bond is mainly a bet on the path of interest rates set by the central bank over the period the bond will be held—the trick is to get a higher yield than you can expect from cash in the bank. But the longer the duration of a bond, the more investors must pay attention to the risks posed by lax budgeting. It is therefore telling that in most big rich economies, ten-year government bonds yield more today than they did when the central bank started cutting short-term interest rates again in 2024; investors are demanding higher long-term rates because they sense danger.

Shocks and bonds

The prospect investors must worry about is not just—or even mainly—that of default. There is another weapon that can hurt them over long horizons: inflation. Debts are typically fixed in nominal terms, meaning higher prices can erode their real value. Voters dislike high inflation, and it destabilises economies. But as debts mount, inflation becomes relatively more appealing, and the danger that politicians will pressure central banks to bring it about goes up.

The effect of such risks on the bond market can be marked. In September Britain's 30-year bond yield hit its highest point since 1998 in part because investors want compensation for the riskiness of its budget. Japan's hit its highest level ever, having surged over a percentage point this year. The country used to be the best example of low rates making high debts sustainable, but now looks wobbly. France's long-term debt carries yields almost as high as Italy's.

Across the rich world, fiscal crises loom

The Economist

And in the spring of 2025 America's

"yippy" bond market appeared to be the main constraint on President Donald Trump's chaotic policymaking, as the 30-year Treasury yield nearly touched highs not seen since 2007.

The irony of the world's fiscal mess is that economic conditions are benign. No major economy is in a recession. Public debts have fallen slightly in real terms since their pandemic peak (due to inflation). And though interest rates have risen, in many countries they remain below the rate of economic growth.

That means that if the "primary" budget, which excludes interest costs, is in balance, GDP would rise faster than debts would mount. In fact, using five-year bond yields and IMF growth forecasts, The Economist calculates that most rich countries could still run small primary deficits and keep debts stable as a share of their economies, even if they had to refinance all their debt immediately at today's rates. The largest primary surplus required to balance debts is in Britain, at just 0.3% of GDP. That is not large for countries in a pinch. In the late 1990s Italy ran primary surpluses of 3-6% of GDP to bring down debts before joining the euro.

You look like you need a trim

G7 countries, 2025, % of GDP

Country	Government net debt	Government revenue	Austerity required to stabilise debt*
Japan	134.2	36.7	0.7
Italy	127.3	47.5	-0.5
France	108.2	51.9	3.1
US	98.0	31.5	2.3
Britain	95.1	39.5	2.3
Germany	49.6	46.9	1.7
Canada	12.5	42.4	1.2

*Change in primary balance required if average financing costs immediately reflected five-year bond yields
Sources: Bloomberg; IMF; *The Economist*

Unfortunately even modest budget targets are hard to hit if you start far away from them. In Britain and America, deficits are large. The belt-tightening needed to stabilise the debt-to-GDP ratio exceeds 2% of GDP; in France it is greater than 3% of GDP. Another problem in Europe is that taxes are high as a share of GDP, limiting the scope to raise them without doing excessive economic damage. Of the G7 group of big rich economies only Canada enjoys low debt, a small necessary adjustment and the space to raise taxes. France looks bad by all three measures.

Things look worse still when you consider the coming wave of spending on ageing populations, defence and the climate transition. And higher debt interest costs to come are not yet fully accounted for. About half of outstanding debt with a fixed interest rate in the OECD club of rich countries costs less than 2% a year to service—a legacy of having issued the debt when rates were low. American debt worth a quarter of the country's GDP will come due between 2025 and 2027. Reissuing it at 2024 yields would increase the interest rate paid by about two percentage points.

The drift towards crisis could be arrested if budgets were fixed today

The IMF has estimated that debt interest, pensions, health, defence and climate change in Europe's advanced economies will create additional annual spending "pressure" worth nearly 6% of GDP by 2050. In Britain, Spain, Portugal and Switzerland the figure is above 8% of GDP. America is ageing less than Europe. But the Penn Wharton Budget Model, a research group, estimates that America would need to raise taxes and cut spending, by 15% in both cases, to eliminate the future gap between spending and taxes.

Critics pooh-pooh dire fiscal forecasts. Who knows the future? But the problem with budget projections is that they tend to be too optimistic. Britain's fiscal watchdog found this year that, when asked to forecast deficits five years in the future, it had underestimated them by 3.1% of GDP. The IMF has reached a similar conclusion across rich countries. "If history is any guide, the trajectory of debt will be worse than any of us project today, and considerably so," said Gita Gopinath, then of the IMF, in a speech last year.

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The Economist

The danger of relying on ChatGDP

One reason is that forecasters tend to be too optimistic about growth. Perhaps, with the help of breakthroughs in artificial intelligence, that could change. But the AI boom is concentrated in America, and faster growth there tends to mean higher global interest rates, making debts more expensive to service.

And even when policy has been aimed at stabilising debt-to-GDP, the ratio has ratcheted higher due to crises. It would be naive to think that such shocks—like another pandemic or war—will not strike again.

How will the global budget mess end? There is no law of economics that says the debt-to-GDP ratio can rise to a certain level and no further. It is up to markets and voters. If investors doubt an electorate's mettle for servicing their country's debts and start selling off bonds, governments can be forced into excruciating choices. Interest costs can rise so much that only enormous primary surpluses, requiring deep austerity, can restore economic stability. The other option of a country in such a crisis is to default or to inflate away debts.

The drift towards crisis could be arrested if budgets were fixed today. But one reason that looks so unlikely is the subject of the next chapter: the increasingly sorry condition of welfare states.

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Blackstone says era of bumper private-credit returns...

FINANCIAL TIMES

Financial Times 23.10.2025

Blackstone says era of bumper private-credit returns has ended

Comments by president Jonathan Gray come as private capital group reports better than expected results

Blackstone has said the era of excess returns in private credit has ended, with a golden age of mid-teens returns on private lending having given way to more muted investment results.

The world's largest private capital group, which manages more than $500bn in credit and insurance-based assets, said that returns earned by its credit business were declining as central banks cut interest rates.

"Base rates and spreads have come down, so the absolute returns reflect that," Blackstone president Jonathan Gray told the Financial Times.

"Some of that excess return, when you were getting mid-teens returns as a lender in senior credit two-and-a-half years ago, has gone away. So, yes, there has been some loss of absolute return," he added.

Private capital groups' returns on predominantly floating-rate loan portfolios surged between 2022and late 2024 after the swiftest rate rising cycle in a generation led to soaring borrowing costs.

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FINANCIAL TIMES

Investors responded by pouring more than $100bn of new money into Blackstone's credit fundsduring those years in search of yields that often exceeded 15 per cent.

Gray said that while returns had fallen, Blackstone's loans continued to yield substantially morethan alternatives in liquid debt markets. "This just reflects the world, which is that returns in fixedincome are lower, but returns in private credit are higher than they are in public credit," he said.

Blackstone's private credit investments earned 2.6 per cent in the third quarter, while its liquidcredit investments earned 1.6 per cent, implying annualised yields of 10.4 per cent and 6.4 percent, respectively.

Falling financing costs have also helped fuel the return of takeover activity as private equity buyersassemble financing for buyouts, helping to lift Blackstone's quarterly results.

Two years ago, Blackstone "could barely borrow any money" when acquiring a $14bn division fromindustrial conglomerate Emerson, but a recent abundance of bank financing has helpeddealmakers pursue ambitious transactions, said Gray.

On Tuesday, Blackstone and TPG struck a $18.3bn buyout of healthcare diagnostics companyHologic, a deal Gray said would have been impossible to pull off in previous years due to a scarcityof financing.

Gray's comments came as Blackstone reported better than expected third-quarter earnings. Thegroup sold $30bn of investments during the quarter, generating lucrative performance fees, and itsdistributable earnings — a metric favoured by analysts as a proxy for its cash flows — jumped 50per cent from this time last year.

Its fundraising also accelerated amid widespread demand for Blackstone deals from largeinstitutions, individual investors and insurance companies that have hired the company tooriginate higher-yielding private loans for their clients. Blackstone attracted $54bn in newinvestment capital during the third quarter.

Gray rejected the idea that the recent bankruptcies of two large subprime lenders and of auto partsroll-up First Brands were portents of a credit crunch that could batter the portfolios of large privatecapital groups.

"This feels pretty certainly much more idiosyncratic to me and coming from the banking system,"Gray said of the corporate failures. "But the idea that this reflects a broader credit issue in thesystem, or particularly in private credit, that doesn't make any sense to us."

He added that Blackstone was seeing signs of stress among poorer consumers, evidence of a so-called K-shaped economy where wealth is growing at high income levels while economic strains arerising at the bottom.

"Aggregately, the economy is resilient. Where we see weakness is in Europe generally and thenlower-income consumers in the US," he said.