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Leveraged ETFs: return boosters?

For many investors, ETFs (Exchange Traded Funds) are considered the epitome of passive investing. Originally, the concept was simple: The first ETFs replicated well-known indices such as the MSCI World or S&P 500, enabling cost-effective, broadly diversified investments. But contrary to popular belief, ETFs are no longer exclusively passive – the ETF world is now significantly more diverse. In addition to actively managed ETFs, leveraged products in particular are increasingly gaining attention. Their principle sounds tempting: If the underlying index rises by two percent, a two-fold leveraged ETF should generate a four percent return, a potential boost for wealth creation.

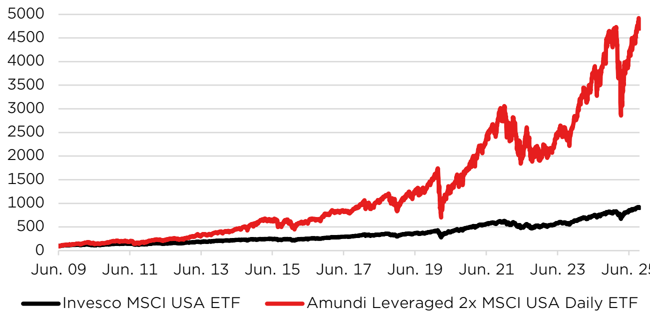
But this leverage also brings with it risks and pitfalls that investors should not underestimate. In this issue, we examine what investors should pay attention to and who might benefit from an investment.

Return boost with side effects

In contrast to passive ETFs, there are currently only a few leveraged products with a long data history. One exception is the double-leveraged MSCI USA ETF. Since its launch in June 2009, it has achieved an impressive average annual return of 25 percent, while its unleveraged counterpart achieved 14 percent over the same period. Even the latter annual return is above average for the US stock market in a long-term comparison.

Despite its superior performance, however, the leveraged ETF "only" achieved about 1.8 times the return, not double. The main reason for this is the so-called volatility drag. This effect can be seen in a simple example: If the price of an ETF falls from 100 euros to 80 euros (-20 percent) and then rises again by 25 percent to 100 euros, the loss is offset. For a double-leveraged ETF, the same trend initially leads to a decline to 60 euros (-40 percent, the leverage works downwards in a similar way) and then a subsequent increase of 50 percent to only 90 euros. Thus, the original level is not reached again. Especially during longer and more pronounced downward phases, the volatility drag significantly impacts performance, a risk that investors should not underestimate.

Performance: MSCI USA in USD

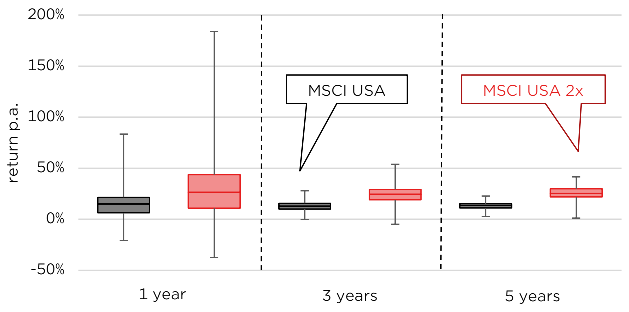


source: LSEG Datastream

Timing matters: extreme return spreads

The actual return achieved by an investment depends significantly on the entry and exit points. Depending on when investors invest, the result can prove to be extremely advantageous or disappointing. To make this effect visible, we examined all historically possible entry points in both the double-leveraged and unleveraged versions.

The results speak for themselves: First, the return distribution for the double-leveraged ETF is significantly wider than for its unleveraged counterpart. Over an investment period of one year, the double-leveraged MSCI USA ETF achieved a return of almost 184 percent in the best case scenario (unleveraged: 83 percent), while in the worst case scenario, a loss of -38 percent was recorded (unleveraged: -21 percent).



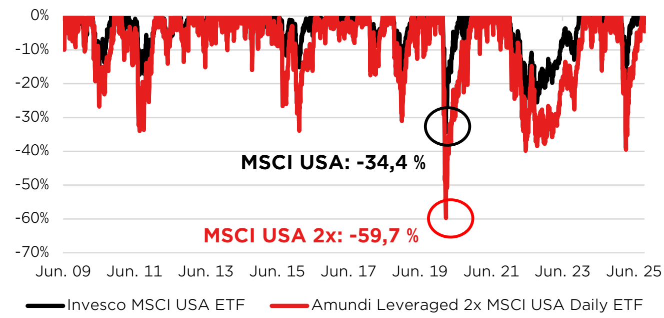
source: LSEG Datastream and own calculations

Second, the longer the investment period, the smaller the gap between the best and worst annual returns becomes. With a holding period of five years, the worst annual return for the leveraged ETF was 1.2 percent, while the best was 41.5 percent – thus, extreme fluctuations become less likely with increasing investment period. For the unleveraged ETF, the range shrank to between 2.6 percent and 22.7 percent.

Leverage products in stress test: sharp declines and a lot of patience

A key risk measure is the so-called maximum drawdown, the largest hypothetical loss of value. While this value is not exactly twice as high for the 2x leveraged ETF as for its unleveraged counterpart during our observation period, the difference is still clearly noticeable: During the coronavirus pandemic in March 2020, investors in the leveraged ETF had to endure a maximum loss of -59.7 percent, compared to "only" -34.4 percent for the traditional ETF.

In concrete terms, this means: Anyone who had invested 100,000 euros in mid-February 2020 saw their investment in the leveraged product temporarily shrink to just 40,300 euros. With the unleveraged ETF, they would still have 65,600 euros left. Therefore, their personal risk tolerance must be significantly higher to withstand such extreme fluctuations.



source: LSEG Datastream

A similar picture emerges for the maximum recovery period, i.e. the maximum time that elapses in the worst case until losses are offset: This is also longer for the double-leveraged ETF (545 trading days) than for the unleveraged ETF (509 trading days).

What is our conclusion?

The analysis makes it clear: Anyone investing in leveraged ETFs needs strong nerves and should be aware of the extraordinary volatility. Not only the high price fluctuations, but also the risk of an unfavorable entry point significantly influences performance. A supposed return booster can quickly become a return killer. A long investment horizon can help limit the range of possible outcomes and reduce extreme downward outliers.

However, it is also clear: Leveraged products are by no means suitable as a primary instrument for long-term wealth accumulation. The additional risk – measured, for example, by the maximum drawdown – significantly outweighs the potential additional return. Those who nevertheless have a long investment horizon and a very high risk tolerance can consider adding leveraged ETFs to their portfolio in a small amount.

However, it's always important to keep an eye on the portfolio's risk profile, especially if country-specific, sectoral, or stylistic priorities have already been established. Ultimately, leveraged ETFs should only be used cautiously and in moderation.

Simon Landt

Market data

Stock marktes	As of 24.10.2025 07:42	Change versus 17.10.2025 -1 week	23.09.2025 -1 month	23.07.2025 -3 months	23.10.2024 -1 year	31.12.2024 YTD
Dow Jones	46735	1,2%	1,0%	3,8%	9,9%	9,8%
S&P 500	6789	1,9%	2,0%	6,8%	17,1%	15,4%
Nasdaq	22942	1,2%	1,6%	9,1%	25,5%	18,8%
DAX	24208	1,6%	2,5%	-0,1%	24,9%	21,6%
MDAX	30010	1,7%	-0,8%	-4,8%	11,1%	17,3%
TecDAX	3741	2,3%	2,7%	-2,5%	9,8%	9,5%
EuroStoxx 50	5668	1,1%	3,6%	6,1%	15,2%	15,8%
Stoxx 50	4786	0,9%	4,1%	5,8%	7,9%	11,1%
SMI (Swiss Market Index)	12557	-0,7%	3,8%	4,0%	3,4%	8,2%
Nikkei 225	48642	2,2%	6,9%	18,1%	27,7%	21,9%
Brasilien BOVESPA	145721	1,6%	-0,5%	7,6%	12,8%	21,1%
Indien BSE 30	84308	0,4%	2,7%	1,9%	5,3%	7,9%
China CSI 300	4651	3,0%	2,9%	12,9%	17,1%	18,2%
MSCI Welt	4344	1,1%	1,2%	5,5%	17,5%	17,1%
MSCI Emerging Markets	1381	1,5%	2,6%	9,2%	21,0%	28,4%
Bond markets						
Bund-Future	129,97	0	179	-61	-274	-347
Bobl-Future	118,50	-13	83	52	-44	64
Schatz-Future	107,15	-6	17	-21	24	16
3 Monats Euribor	2,07	6	7	13	-102	-65
3M Euribor Future, Dec 2025	2,02	1	0	23	11	12
3 Monats $ Libor	3,95	-5	-5	-46	-78	-42
10 year US Treasuries	4,00	2	-9	-39	-23	-57
10 year Bunds	2,60	6	-11	4	29	23
10 year JGB	1,66	5	1	9	71	58
10 year Swiss Government	0,14	-5	-9	-27	-36	-14
US Treas 10Y Performance	641,78	0,0%	1,2%	4,3%	6,5%	8,5%
Bund 10Y Performance	568,09	0,0%	1,6%	0,8%	0,6%	0,6%
REX Performance Index	461,80	-0,2%	1,0%	0,4%	2,3%	2,0%
IBOXX AA, €	3,01	-1	-12	0	0	-2
IBOXX BBB, €	3,31	-1	-11	-2	-18	-15
Commodities						
MG Base Metal Index	466,24	2,1%	6,8%	6,8%	8,2%	15,0%
Crude oil Brent	65,73	7,3%	-2,8%	-3,6%	-12,3%	-12,1%
Gold	4106,99	-3,2%	8,7%	20,3%	51,5%	56,4%
Silver	48,95	-5,7%	11,1%	24,5%	45,0%	69,4%
Aluminium	2870,71	2,9%	8,8%	8,3%	8,6%	13,6%
Copper	10843,00	2,4%	9,5%	9,8%	15,6%	25,3%
Iron ore	105,55	0,2%	0,1%	7,4%	0,9%	1,9%
Freight rates Baltic Dry Index	2057	-0,6%	-6,5%	-3,0%	42,4%	106,3%
Currencies						
EUR/ USD	1,1602	-0,7%	-1,6%	-1,1%	7,8%	11,7%
EUR/ GBP	0,8712	0,0%	-0,1%	0,7%	4,7%	5,4%
EUR/ JPY	177,44	1,0%	1,8%	3,4%	7,8%	8,8%
EUR/ CHF	0,9234	-0,2%	-1,2%	-0,8%	-1,1%	-1,9%
USD/ CNY	7,1233	-0,1%	0,1%	-0,5%	-0,1%	-2,5%
USD/ JPY	152,59	1,3%	3,3%	4,1%	-0,1%	-2,9%
USD/ GBP	0,75	0,6%	1,6%	1,9%	-2,7%	-5,9%

Source: LSEG Datastream

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