

ACG Insights: Navigating a US Government Shutdown

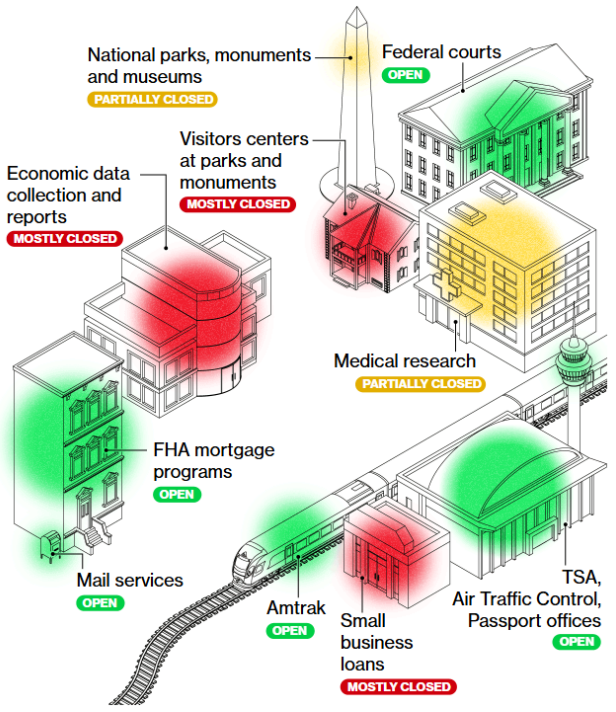
Executive Summary

- **A US government shutdown occurs when Congress fails to pass, or the president refuses to sign, a spending bill to fund the federal government's operations. This results in a funding gap that can cause several government functions to be temporarily disrupted.**
- **Since the current budget process was established in 1976, the US government has had 21 funding gaps, resulting in 11 shutdowns for various lengths of time.**
- **Historically, market reaction by stocks and bonds to these events is typically subdued.**

Introduction

As of 12:01 A.M. Wednesday, October 1st funding for the US government ceased as Republicans and Democrats failed to reach an agreement regarding a spending bill. While budget confrontations are actually quite common, the political climate in Washington is historically tense, with both political stalemate and economic uncertainty looming. Drawing from history, the real impacts may depend less on the headlines and more on the shutdown's duration, scope, and the economy's present vulnerabilities.

Exhibit 1: Government Agencies Impacts[1]



Understanding the Shutdown Mechanism

Not all government operations are shut down when Congress doesn't get a new spending bill passed. Essential workers, covering national security, air traffic control, and related services, continue as normal, while others deemed non-essential may be furloughed without pay (with back pay

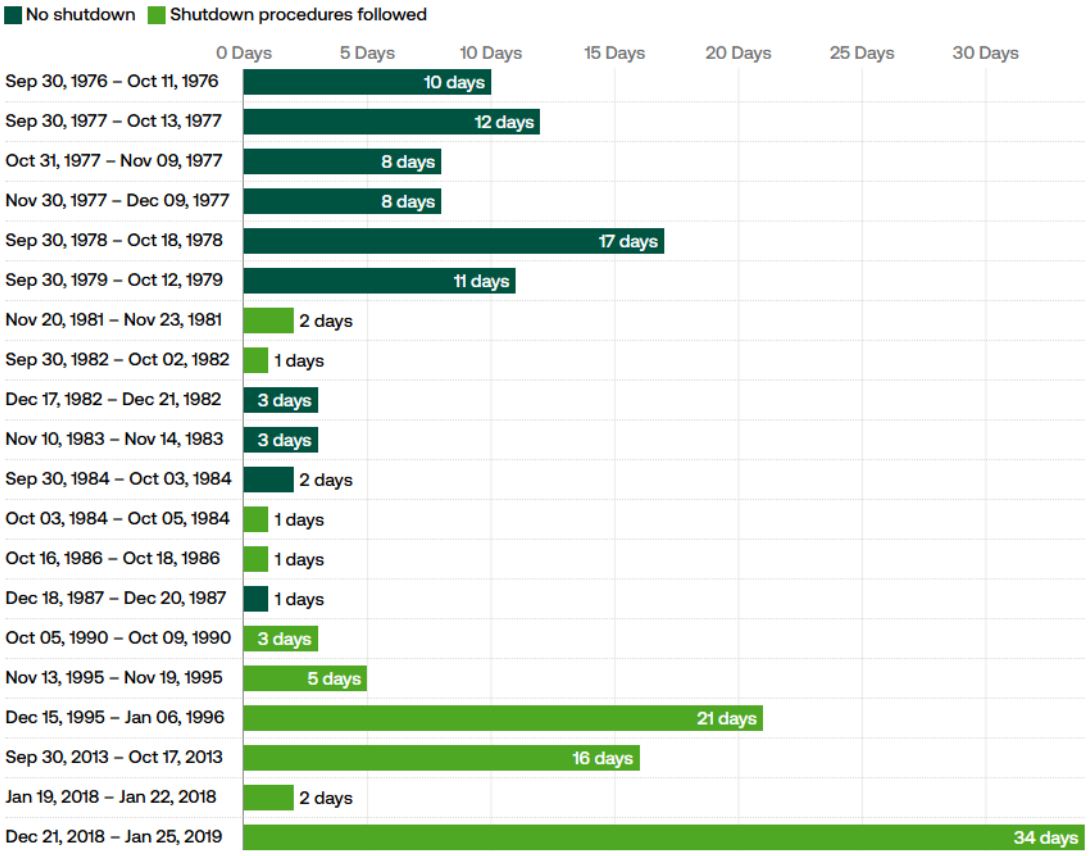
[1] Sources: Bloomberg. Agency plans. Status of visitor centers based on previous shutdown guidance.

historically granted after the fact). Roughly 40% of federal workers, more than 800,000 people, could be put on temporary leave.

Historical Context and Potential Impacts

Looking back, the last partial government shutdown occurred in 2019 in part over disagreements regarding President Donald Trump's proposal to fund and build a wall between the US and Mexico. The most recent complete government shutdown occurred in 2013, lasting 16 days, and concluded when the debt ceiling was ultimately raised.

Exhibit 2: Historical Government Funding Gaps and Shutdowns [2]



Historically, the economic effects depend largely on how long the government stays closed. Most shutdowns have been short, but the last few have trended longer, raising risks of more pronounced economic impacts. Analysts estimate GDP growth could fall by approximately 0.1% to 0.2% per week of a shutdown.

A unique risk this year is the prospect of permanent job cuts, not just temporary furloughs, as the Trump administration has suggested, which could amplify both economic and labor market effects. In addition, the shutdown comes during a time when the economy appears to be near an inflection point and the Federal Reserve has just shifted their focus from stable prices to boosting economic growth. Furthermore, delayed data releases, including the monthly jobs report and CPI, may result in diminished insight for the Federal Reserve and investors, complicating near-term policy decisions.

[2] U.S. House of Representatives

Financial Markets Reaction

Markets have historically been resilient through shutdowns, typically showing only slight declines before a shutdown, modest reactions while it's ongoing, and often recovering quickly once resolved (Exhibit 3). In the bond market, 10-Year Treasury yields are relatively stable but do tend to rise slightly during the actual event.

Exhibit 3: Market Reaction Around Government Shutdowns[3]

Shutdown Start	# of Days	S&P 500 returns			10-year U.S. Treasury moves		
		Week prior	During	Week after	Week prior	During	Week after
09/30/76	10	-1.6%	-3.4%	-1.6%	0.01%	-0.20%	-0.04%
09/30/77	12	1.6%	-3.2%	-0.6%	0.02%	0.13%	0.00%
10/31/77	8	0.8%	0.7%	-0.1%	0.06%	-0.02%	-0.05%
11/30/77	8	-1.3%	-1.2%	-2.2%	0.03%	0.08%	0.04%
09/30/78	17	0.7%	-2.0%	1.0%	0.00%	0.06%	0.03%
09/30/79	11	0.4%	-4.4%	1.6%	0.17%	0.64%	0.53%
11/20/81	2	0.0%	-0.1%	3.8%	-0.04%	0.30%	-0.31%
09/30/82	1	-2.7%	1.3%	7.0%	-0.21%	-0.22%	-0.68%
12/17/82	3	-1.5%	0.8%	3.4%	-0.02%	-0.10%	-0.11%
11/10/83	3	0.6%	1.3%	1.0%	-0.12%	0.07%	-0.08%
09/30/84	2	0.3%	-2.2%	-2.1%	-0.02%	0.05%	-0.24%
10/03/84	1	-2.3%	0.1%	-0.2%	0.18%	-0.22%	-0.08%
10/16/86	1	1.6%	-0.3%	-0.1%	0.20%	0.03%	-0.08%
12/18/87	1	5.9%	0.0%	-1.4%	-0.44%	0.05%	0.01%
10/05/90	3	1.8%	-2.1%	-3.7%	-0.15%	0.17%	-0.06%
11/13/95	5	0.7%	1.3%	0.8%	0.00%	-0.03%	-0.05%
12/15/95	21	-0.2%	0.1%	-0.7%	0.04%	-0.09%	0.06%
09/30/13	16	-1.2%	3.1%	-0.3%	-0.09%	-0.02%	-0.07%
01/19/18	2	1.5%	0.8%	2.2%	0.11%	-0.01%	0.04%
12/21/18	34	-7.1%	10.3%	3.7%	-0.10%	-0.03%	-0.07%
Average	**8**	**-0.1%**	**0.0%**	**0.6%**	**-0.02%**	**0.03%**	**-0.06%**
Positive %		**60%**	**50%**	**45%**	**45%**	**50%**	**30%**

Other market impacts include companies planning IPOs that may experience significant delays, with potential disruptions to earnings and business operations. At the same time, a standoff of an extended duration could prompt credit rating agencies to re-examine the US government's creditworthiness. While an outright default could be considered a low probability event, persistent fiscal stand-offs have the potential to erode confidence in the US credit profile over time. The three major rating agencies, S&P, Fitch, and Moody's have referenced governance and fiscal trajectory in prior downgrades.

Exhibit 4: US Sovereign Credit Ratings[4]

Agency	Previous Rating	Current Rating	Year Downgraded
S&P	AAA	AA +	2011
Fitch	AAA	AA +	2023
Moody's	Aaa	Aa1	2025

[3] Truist, FactSet, Bloomberg, U.S. House of Representatives
[4] S&P, Fitch, Moody's

Conclusion

While the Washington spectacle can be unsettling, markets have seemingly learned to look through political infighting and generally become more immune to those types of headlines. If the shutdown is resolved relatively quickly, as others have been historically, it will likely not materially impact the economy, and markets will have been justified in their calm view. Should the shutdown persist, market volatility, especially in the short term, may lead to additional instability. At present, most prognosticators expect a short duration to the shutdown (somewhere between 1-2 weeks). However, there is an elevated risk that it could be more prolonged, as there is no obvious catalyst for reopening the government beyond political pressure.

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