

Shutdown the Drama

Key Takeaways

- The latest government shutdown will add to the wall of worry but does not equate to another government default potential.
- Government shutdowns are sadly not uncommon. Since 1976, there have been 20 shutdowns of varied length with an average time of 8 days.
- Government shutdowns are high drama but have historically had limited impact on the economy and markets, and thus does not warrant portfolio changes on its own.

Here we go again

Once again, the dysfunction in Congress could lead to a government shutdown if a deal is not reached by September 30, 2023. For many, this may be confusing, as we just went through another debacle earlier this year. While this shutdown could be disruptive to many public sector functions, it doesn't rise to the level of a possible debt default by the United States, as last seen in June 2023. Regardless, the ongoing dysfunction will add to the uncertainty and confusion. In this special edition, we take a look at the historical impact of government shutdowns on the economy and stocks.

Don't get sucked into the drama

Government shutdowns are sadly not new, but the good news is that history tells us about the impact on the economy and markets is limited. Since 1976, there have been 20 government shutdowns with varied length. The

longest one lasted 35 days in 2019, and the shortest one was for one day in 1982. The average length of the shutdown was eight days. Goldman Sachs estimates that each week of government shutdown reduces GDP growth by 0.15 to 0.2% percentage points¹ depending on the depth and length of the shutdown. However, much of the losses are recouped because federal employees receive retroactive salaries after the shutdown ends, and any impact on economic loss is recovered and thus limited.

For the markets similarly, we have seen limited impact. Looking at the S&P 500 across the 20 shutdowns in the chart below, stocks have been up 50% of the time during the actual shutdown period and have been flat on average over all periods².

For clients, it is important to maintain the perspective that government shutdowns are high drama but have a limited impact on the economy and the markets.

S&P 500 performance around federal government shutdowns				
Shutdown Start	# of Days	Week prior	During shutdown	Week after
09/30/76	10	-1.6%	-3.4%	-1.6%
09/30/77	12	1.6%	-3.2%	-0.6%
10/31/77	8	0.8%	0.7%	-0.1%
11/30/77	8	-1.3%	-1.2%	-2.2%
09/30/78	17	0.7%	-2.0%	1.0%
09/30/79	11	0.4%	-4.4%	1.6%
11/20/81	2	0.0%	-0.1%	3.8%
09/30/82	1	-2.7%	1.3%	7.0%
12/17/82	3	-1.5%	0.8%	3.4%
11/10/83	3	0.6%	1.3%	1.0%
09/30/84	2	0.3%	-2.2%	-2.1%
10/03/84	1	-2.3%	0.1%	-0.2%
10/16/86	1	1.6%	-0.3%	-0.1%
12/18/87	1	5.9%	0.0%	-1.4%
10/05/90	3	1.8%	-2.1%	-3.7%
11/13/95	5	0.7%	1.3%	0.8%
12/15/95	21	-0.2%	0.1%	-0.7%
09/30/13	16	-1.2%	3.1%	-0.3%
01/19/18	2	1.5%	0.8%	2.2%
12/21/18	34	-7.1%	10.3%	3.7%
Average return	8	-0.1%	0.0%	0.6%
% Positive		60%	50%	45%

Data source: Trust IAG, FactSet, History, Art & Archives, U.S. House of Representatives.
²Past performance does not guarantee future results.

¹ <https://www.goldmansachs.com/intelligence/pages/the-cost-of-a-us-government-shutdown.html>

² <https://www.truist.com/wealth/insights/market-perspective/government-shutdowns-inject-volatility>

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