

Q&A with Investment Strategy

Countdown to a Government Shutdown (Again)

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GOVERNMENT FUNDING DEADLINE ONCE AGAIN IN FOCUS

It's a familiar story: Government funding is set to run out soon (this year's deadline is March 14) unless a deal is reached, or another continuing resolution is passed. This is not the first time, and it will not be the last! The good news is that volatility stemming from a shutdown is typically short term in nature.

WHAT CAN CONGRESS DO TO AVOID A SHUTDOWN?

Congress must pass legislation to fund the government by March 14 or face a 'shutdown.' There are two options: 1. Pass a funding bill that implements the funding priorities of the US government for fiscal year 2025 (FY25), or 2. pass a 'continuing resolution' that continues the FY24 funding levels.

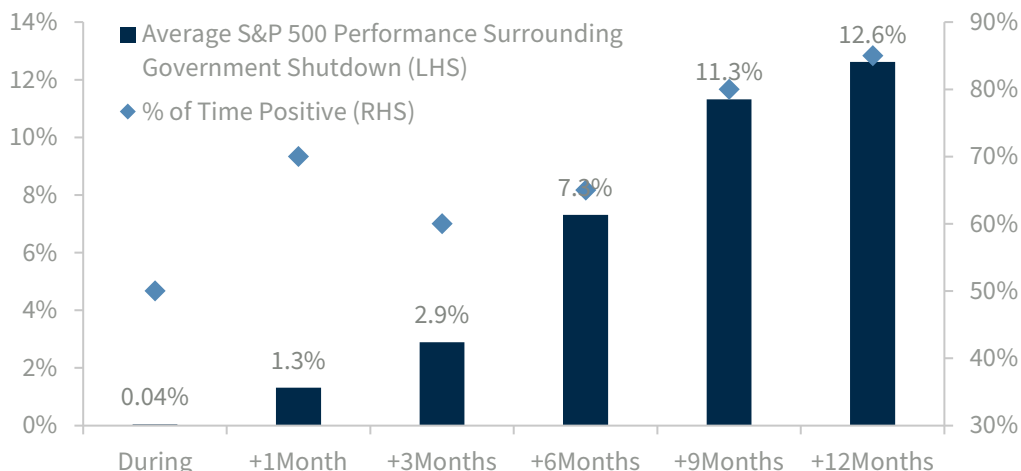
WHAT CAN LEAD TO A SHUTDOWN?

A key policy debate is who controls the 'power of the purse' and what powers the president has to limit the disbursement of Congressionally directed spending. This fight will have a significant impact on the FY25 spending debate, as Democrats are seeking assurances that President Trump will disburse funds as agreed to in the spending bills. Any funding bill requires bipartisan support, as the Senate has a 60-vote threshold for passage (there are 53 Senate Republicans). Without bipartisan support, the funding bill fails, funding lapses, and we are in a partial government shutdown.

HOW DO MARKETS REACT TO A GOVERNMENT SHUTDOWN?

While volatility may increase from a shutdown, we caution investors not to overreact. There have been 20 shutdowns over the last 50 years, ranging from 2 to 35 days in total duration. While the range of performance during the shutdowns has been between down 4% and up 10%, the point is that, on average, from start to finish, the S&P 500 has been flat. More importantly, any sort of volatility stemming from the shutdown has proven to be short term in nature, as the S&P 500 is up ~13% on average (positive 85% of the time) following a shutdown. The reason? Fundamentals (e.g., GDP, earnings growth) remain the driver of the market longer term. In today's case, while there may be short-term volatility stemming from the shutdown, we expect economic and corporate fundamentals to remain on solid footing. Combined with two Federal Reserve rate cuts in 2025, this should support the market moving higher over the next 12 months.

Equity Market Tends to Move Higher Post Shutdown



Source: FactSet, data as of 1/28/2025

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WHAT SERVICES STOP DURING A GOVERNMENT SHUTDOWN?

Each federal agency develops its own plan for operation during a shutdown. Mandatory spending not subject to annual appropriations, such as Social Security, Medicare, and Medicaid payments, will continue. Federal employees not classified as 'essential' are often furloughed. A March 2025 shutdown would be the first one since the implementation of cost-cutting measures by the Department of Government Efficiency (DOGE), and we would be watching to see if a shutdown accelerates DOGE's push for staff reductions.

WHAT IS THE 'X-DATE' AND WHAT DOES IT HAVE TO DO WITH A GOVERNMENT SHUTDOWN?

Nothing. The 'x-date' relates to the debt ceiling: it's the date when the 'extraordinary measures' taken by the Treasury reach their limit and the US government is no longer able to pay its bills. The debt limit and government funding are two separate debates. This year's x-date is estimated to arrive in early summer. Congress has already started the process of increasing the debt limit, with the House voting to increase it by \$4 trillion.

THE BOTTOM LINE

The government has shut down before and will likely do so again in the future. Market volatility may spike during the immediate aftermath, but stocks have historically risen in the twelve months following a shutdown. As a reminder, fundamentals remain the driver of the equity market long term, and volatility stemming from Washington typically turns out to be short-term noise. We will continue to monitor all activity out of Washington DC and keep you abreast of market developments.

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Source: FactSet

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