

CHIEF INVESTMENT OFFICE

Investment Insights

Shutdown, Showdown Then Uptown

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Government funding legislation was not passed by early this morning October 1. Without funding many government offices across the nation are temporarily shuttered and non-exempt government employees furloughed. Although we have experienced this event many times in the last five decades each time the broader economic and investment environment is different. This time around we have just begun an interest rate cutting cycle that is expected to continue into and through 2026. Employment data was specifically cited by the Federal Reserve (Fed) as a main catalyst to the federal funds rate cut in September. Given the shutdown, it is more than likely that key economic data releases such as the non-farm payroll report on Friday October 3 are not released. This could cause some concern in the capital markets in the short term. However, we expect the “shutdown to include a showdown before turning to an uptown” move in the markets as focus shifts to profit momentum.

In prior shutdown periods, depending on the length of the actual event, the economic impact has been modest overall. Capital market volatility in the Equity, bond, and foreign exchange markets have been limited and, over time, equity markets have eventually turned back positive on a 6- and 12-month basis a large majority of the time.

When examining a similar macro and market environment of prior shutdown periods, we see similar, but not exact, characteristics to the shutdown in 1995. We experienced a shutdown November 13, 1995—5-day shutdown—and again on December 15, 1995—21-day shutdown. During these episodes, the S&P 500 was trending positively in the preceding 3 months (up 5.7%) and rallied between about 18% (December shutdown case) and 24% (November shutdown case) some 12 months later.

In 1995, we were still building out the internet and the Fed held rates steady while economic growth was still healthy. Sound familiar? Today, we are in the midst of an artificial intelligence capital investment boom, the economy is showing early signs of reaccelerating, and the Fed has begun to lower short-term interest rates. As we discussed before, each government shutdown can happen in various types of environments, but we ultimately expect the shutdown to end, the economy and corporate profits to grow at a healthy rate and any weakness in the capital markets to be a potential buying opportunity for longer-term investors.

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