

Policy Note



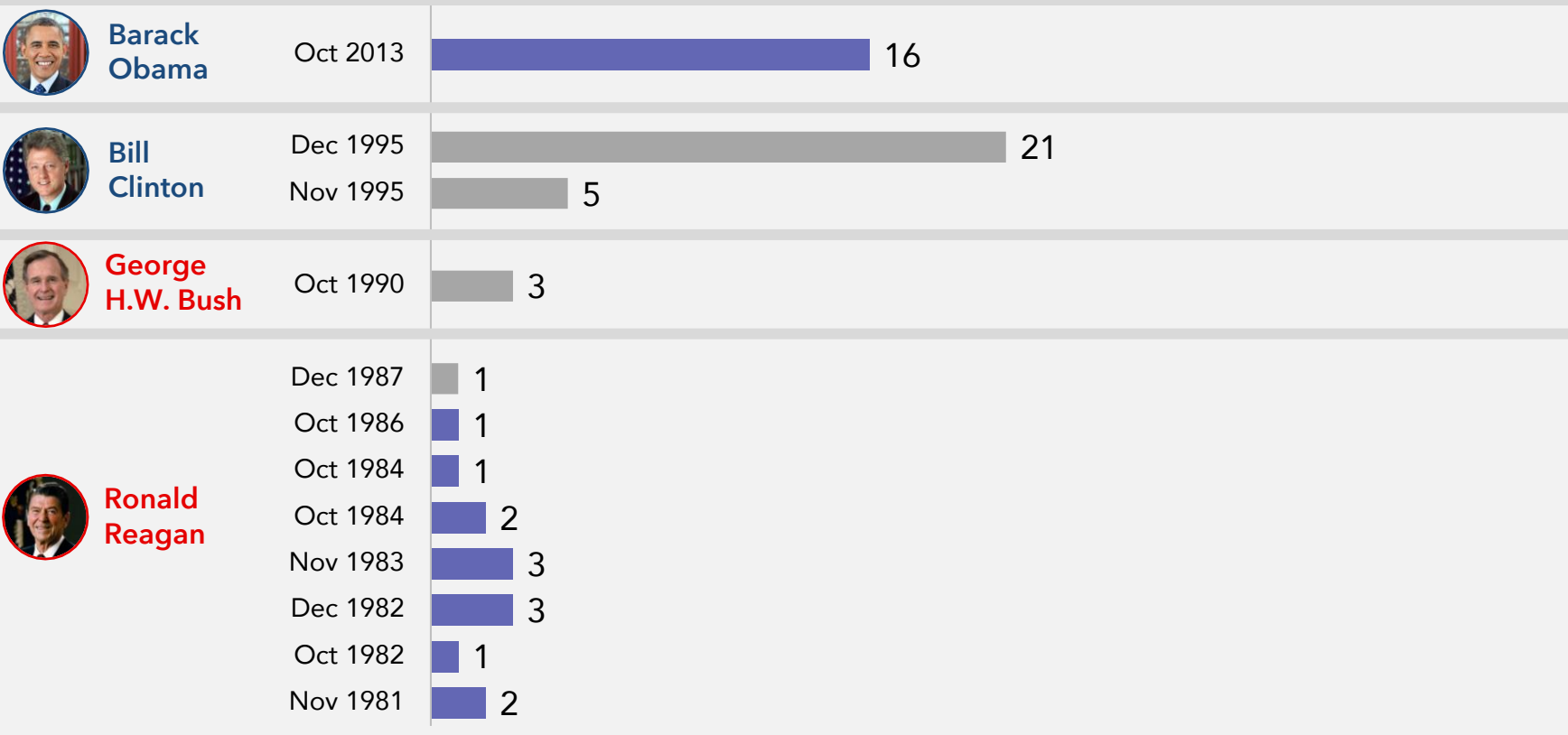
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Length of US Government Shutdowns

The US Gov't has shutdown over 20 times since 1976, most having occurred under divided government, and the longest during President Trump's first term in 2018-19. Generally speaking, **shutdowns have become less frequent but longer over recent decades**, and are much more manageable for markets than debt ceiling deadlines which raise concerns around the global risk free security, US Treasuries.

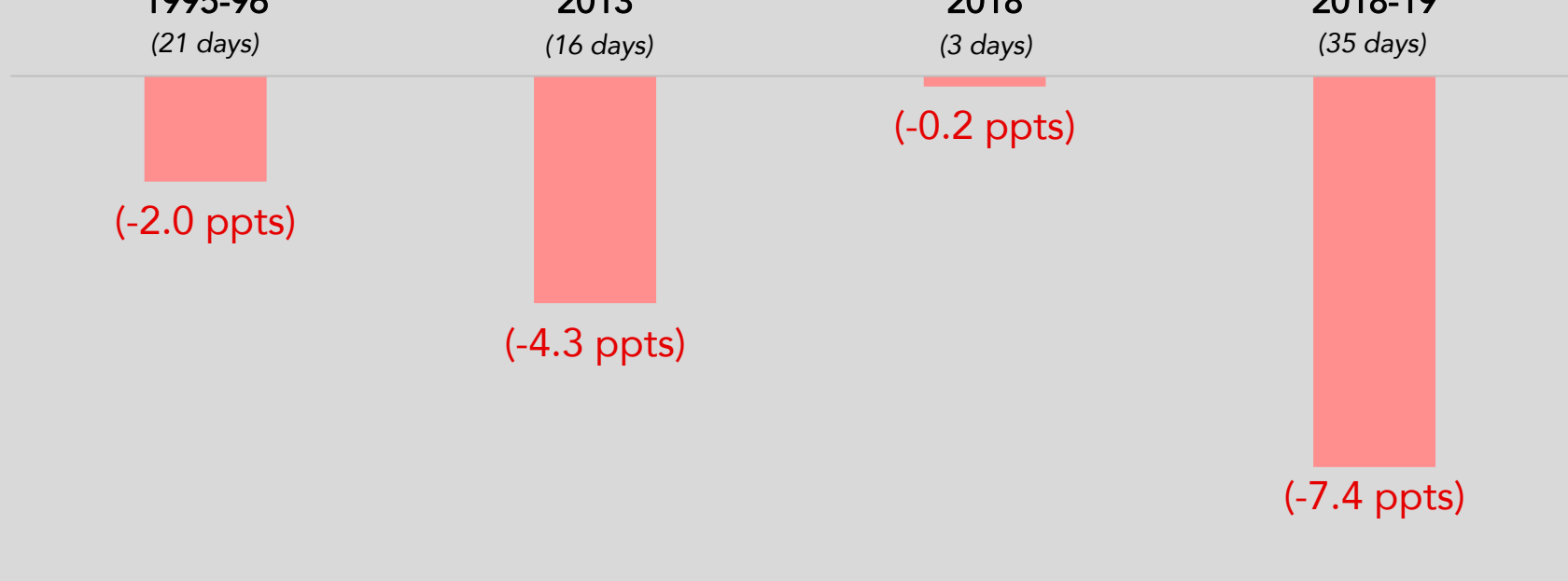
Duration of federal government shutdown, days



Consumer Sentiment Has Soured During Recent Shutdowns

US Gov't shutdowns cost the US economy an estimated \$10-15 billion in GDP per week (< 0.1%), which tends to be recouped upon reopening. **However, the magnitude of impact on GDP and consumer sentiment varies significantly based on the length and severity of the shutdown itself.** The University of Michigan has found that shutdowns can noticeably impact consumer sentiment, which experienced a 7% decline during the lengthy 2018-19 shutdown. The cessation of US economic data reporting also becomes more problematic for markets with time.

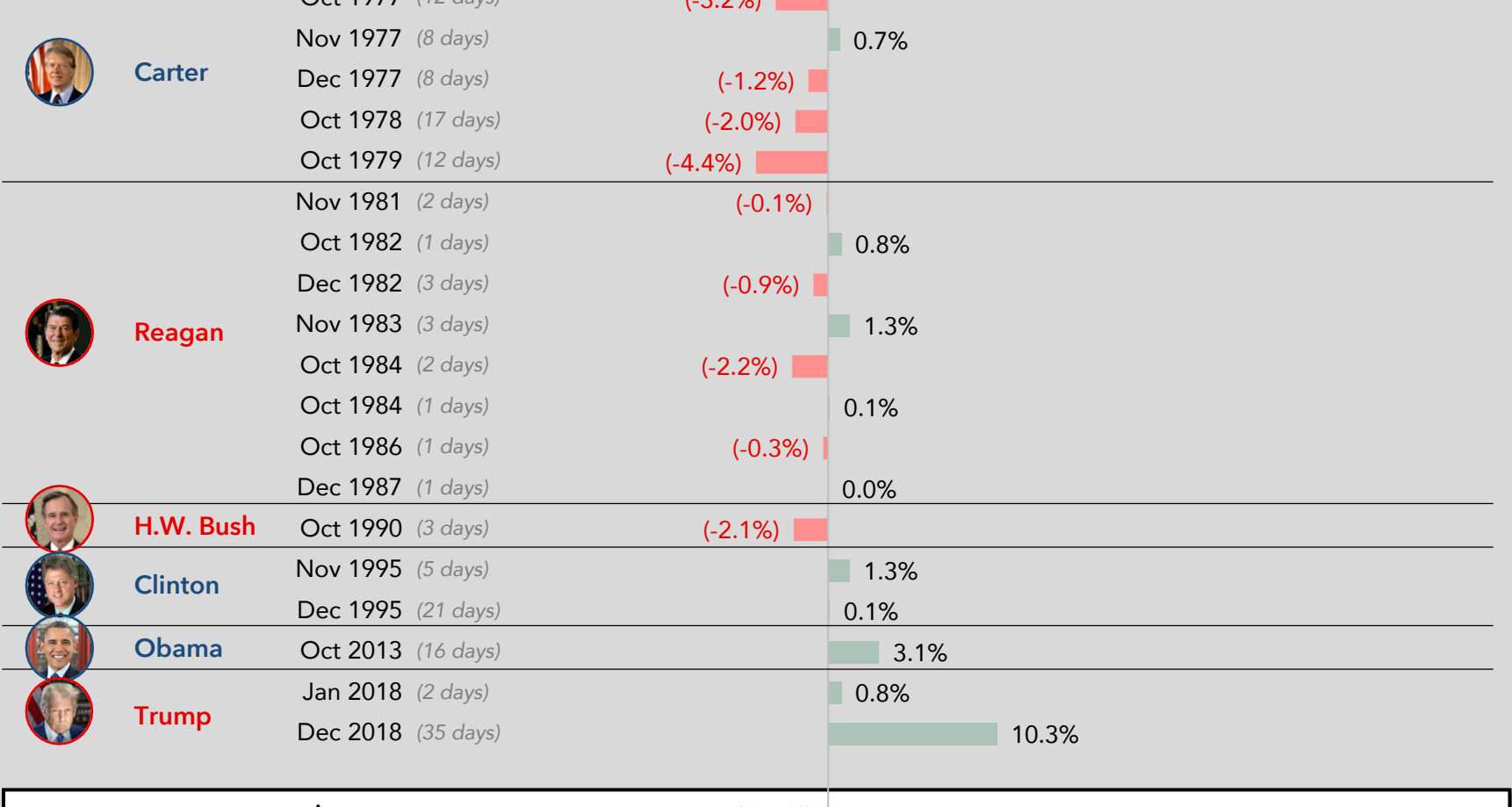
Change in consumer sentiment from month prior to shutdown, ppts



Equity Markets Resilient During Shutdowns

US equity markets have historically shown strong resilience during government shutdowns, with only modest volatility and short-term declines, and a tendency to recover quickly thereafter. **Average equity market declines in shutdowns since 1976 have been only (-0.1%).** During the lengthy 2018-19 shutdown, stocks actually rallied on Fed policy pivots. Comparatively, markets react more sharply to debt ceiling standoffs.

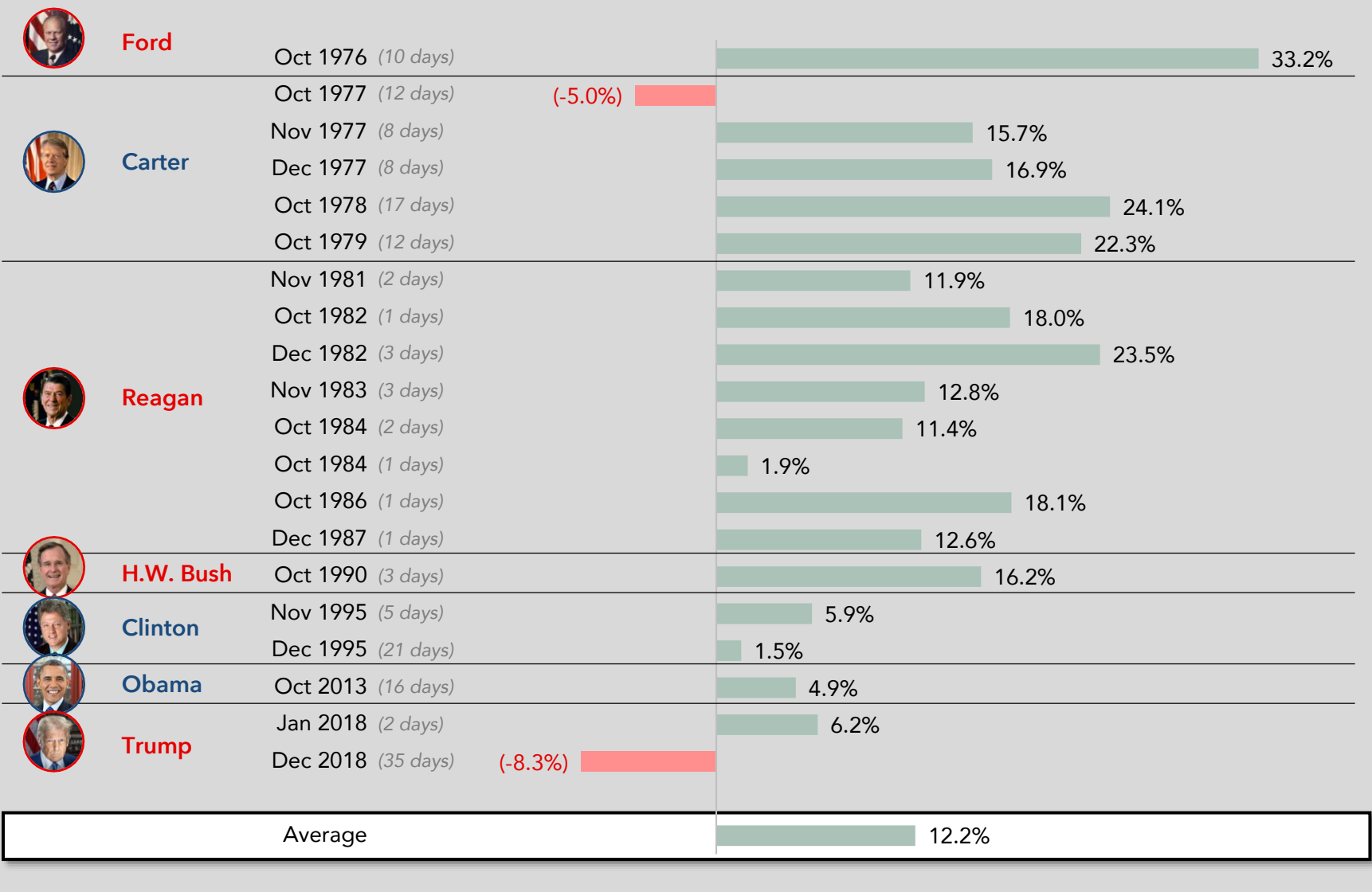
S&P 500 returns during shutdown



Equity Markets Typically Rally After Shutdowns

Equity markets have generally performed strongly after US government shutdowns, having posted positive returns in the year following 18 of 20 shutdowns since 1976, with **double digit returns on average.**

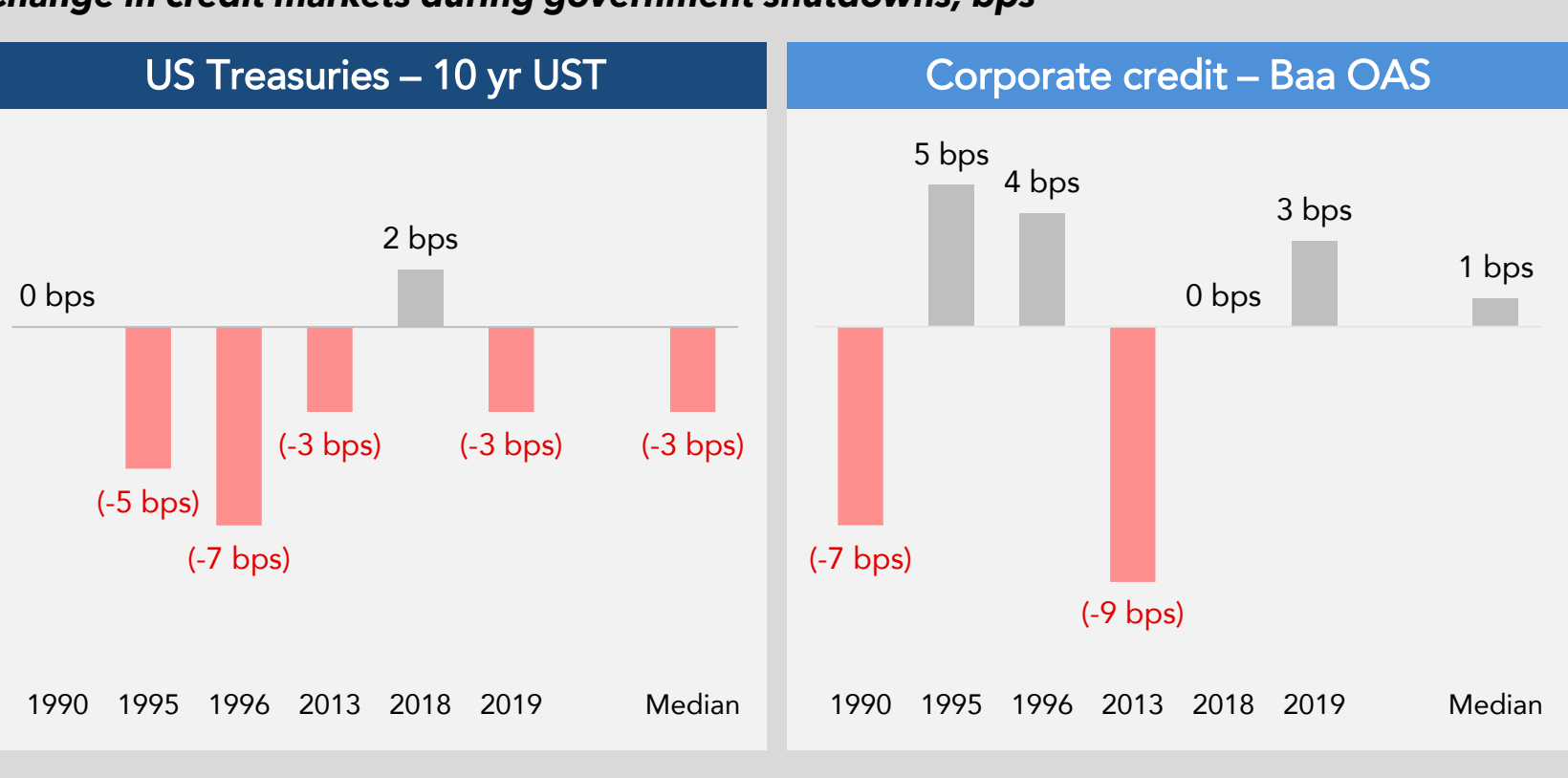
S&P 500 returns in following year after shutdown



Treasuries Typically Rally During Shutdowns

US Government shutdowns typically have only a modest and temporary impact on credit markets, with effects most consistently evident in lower UST yields and a slight tick higher in US Gov't credit default swaps (CDS).

Change in credit markets during government shutdowns, bps



Shutdown Impact on US Gov't Services

US Government services are highly disrupted during government shutdowns, with most non-essential federal operations paused and nearly one million federal employees furloughed. President Trump has also signaled his **intent to utilize the essential vs. non-essential designations during the shutdown to guide thousands of Federal layoffs**, a move unprecedented in US history.

Not impacted	Impacted
Treasury interest payments	Nonessential government employee pay delays, including active military
Medicare, Medicaid, Social Security payments	FDA inspections, CDC coordination, NIH clinical trials
US Postal Service	National parks and monuments
IRS operations	SEC and CFTC; delayed IPOs
Federal Aviation Administration (FAA) and TSA	Federal Emergency Management Agency (FEMA)
Oil, natural gas, coal permit reviews	EPA permit reviews
Food stamps	Government data releases
Student loan bills, federal grants	SBA new loans
Law enforcement, federal courts	Cybersecurity and Infrastructure Security Agency (CISA)
Military veterans' benefits	FHA and HUD loans
US Customs and Border Protection	SNAP benefits*; Head Start programs

Source: (1) US House of Representatives. Congressional Research Service. (2) Bloomberg. Consumer sentiment is University of Michigan. (3-4) Bloomberg. Morningstar. (5) Bloomberg. FRED. Baa spread is Moody's seasoned Baa corporate bond yield net of the 10yr Treasury yield. (6) The Committee for a Responsible Federal Budget. *SNAP benefits available until funding runs out.

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"Macro stability isn't everything, but without it, you have nothing."