

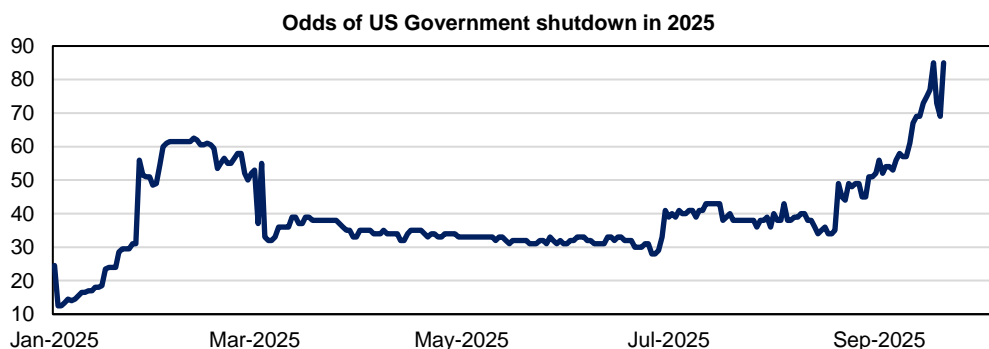
## US Government shutdown: Is 2018 the best comparison for markets?

**Bottom line: With Congress deadlocked and the fiscal year deadline looming, the probability of a US government shutdown has surged to 85% at the time of drafting this report. Partisan divides over healthcare and tax credits and unusual signals from the executive branch — including preparations for layoffs — all point to rising disruption risk. A potential shutdown could furlough staff, stall data releases, and leave the Fed flying blind ahead of its October meeting. Markets face higher volatility, with equities, Treasuries, the dollar, and gold all in play. History shows the economic drag is modest, but confidence and liquidity can suffer quickly. Market reaction in 2018 was rather acute with US equities experiencing a bear market in Q4 that year. We discuss whether that is the right comparison for markets now.**

### Why a government shutdown looks more likely

Congress has not passed the twelve annual funding bills, and a stopgap continuing resolution (CR) remains stalled due to partisan disagreements, leaving no appropriations or viable short-term fix as the fiscal year deadline approaches at 12:01 AM Eastern Time (8:01 AM Gulf Standard Time) on October 1. Entrenched positions on healthcare and tax credits persist, with Democrats seeking extensions of Affordable Care Act premium credits and Republicans favouring a “clean” CR with a longer extension, resulting in few opportunities for compromise before the deadline. Leaders have signalled a stalemate, with senior officials indicating that the government is “headed to a shutdown.” Escalatory signals from the executive branch have emerged, as agencies have been instructed to prepare for layoffs – an unusual shift from the standard practice of temporary furloughs – thereby increasing the risk of disruption and uncertainty. Market-implied odds reflect heightened concern, with Polymarket data showing that the probability of a US government shutdown this year has risen sharply in recent days, currently standing at 85% (see exhibit 1). Unless a last minute deal is reached, a US Government is set to be shutdown.

Exhibit 1: US Government shutdown looking very probable



Source: Polymarket, Bloomberg, and ADCB Asset Management

### Economic implications and data flow

During a government shutdown, non-essential staff are furloughed while essential services such as the military, air traffic control, and law enforcement continue operating, though often without pay until funding is restored. Mandatory spending programs like Social Security, Medicare, and Medicaid continue to provide benefits, but administrative services may experience slowdowns. Uniquely, there is now a risk of permanent layoffs rather than just temporary furloughs; if mass firings were to occur, this could increase unemployment and diminish consumer confidence, especially in the Washington, D.C. area. Additionally, a shutdown would trigger a data blackout, with key releases from agencies like the Bureau of Labor Statistics, Bureau of Economic Analysis, and Census Bureau – covering jobs, CPI, GDP, retail sales, and housing – delayed or suspended. This would leave the data-dependent Federal Reserve with reduced visibility ahead of the October 29 FOMC meeting. While one could rely on private high-frequency data proxies, they are in our view imperfect or patchy at the best. The macroeconomic drag of a shutdown depends on its duration: academics estimate small, short-lived negative effects on growth for brief shutdowns, with each week potentially shaving 0.1–0.2 ppt off quarterly GDP. These losses are typically made up after the government reopens, as back pay and catch-up spending help the economy recover.

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## US government shutdowns since 1976

Since 1976, the US has experienced 21 federal government shutdowns, ranging from brief weekend standoffs to multi-week political deadlocks (exhibit 2). The longest – a 35-day shutdown in 2018–2019 – remains the most disruptive in terms of scale, economic drag, and operational paralysis. Alongside the 1995–96 episode, it stands out for its entrenched political gridlock and visibility across markets and public services. A clear pattern emerges: short shutdowns (under five days) tend to have minimal economic or market impact, often absorbed without lasting damage. In contrast, prolonged shutdowns trigger cascading effects – from delayed data releases and regulatory bottlenecks to confidence erosion and sectoral stress. Markets typically respond with increased volatility, especially in sectors tied to government contracts or oversight. Understanding this historical rhythm helps investors and policymakers gauge the real risks: not every shutdown rattles the system, but the longer ones can leave a mark.

**Exhibit 2: US government shutdowns over the past fifty years: different drivers, different durations, different impacts**

Period	Duration	Main Driver	Notes
Sep 30 – Oct 11, 1976	10	Health, Education, Welfare funding dispute	First modern shutdown
Sep 30 – Oct 13, 1977	12	Abortion funding restrictions	One of three in 1977
Oct 31 – Nov 9, 1977	8	Abortion funding	Repeat impasse
Nov 30 – Dec 9, 1977	8	Abortion funding	Third in same year
Sep 30 – Oct 18, 1978	18	Defense spending vs. social programs	Longest until 1979
Sep 30 – Oct 12, 1979	11	Public works, defense, abortion funding	
Nov 20 – 23, 1981	2	Domestic spending cuts	
Sep 30 – Oct 2, 1982	1	Defense vs. social spending	
Dec 17 – 21, 1982	3	MX missile, INF deployment	
Nov 10 – 14, 1983	3	Education, foreign aid	
Sep 30 – Oct 3, 1984	2	Crime bill, water projects	
Oct 3 – 5, 1984	1	Continued disputes	
Oct 16 – 18, 1986	1	Contra aid, welfare	
Dec 18 – 20, 1987	1	Nicaragua aid, welfare	
Oct 5 – 9, 1990	3	Deficit reduction, taxes	
Nov 13 – 19, 1995	5	Clinton vs. Gingrich on Medicare, spending	
Dec 16, 1995 – Jan 6, 1996	21	Balanced budget fight	Longest until 2018
Oct 1 – 16, 2013	16	ACA funding dispute	Major data delays
Jan 20 – 22, 2018	3	Immigration/DACA	Weekend shutdown
Feb 9, 2018	<1	Budget caps	Brief overnight
Dec 22, 2018 – Jan 25, 2019	35	Border wall funding	Longest in history
(Potential) Oct 2025	TBD	Healthcare credits, CR impasse	Market odds ~85%

Source: USA Today, ThoughtCo, and ADCB Asset Management

## Typical behaviour of financial markets during Government shutdowns

- ▷ **Equities:** Historically, mixed reaction; short shutdowns rarely cause permanent damage. This time, prolonged data delays and regulatory slowdowns could elevate near-term volatility, with sector dispersion (government-exposed contractors weaker; defensives and low-gov-exposure names firmer).
- ▷ **Rates and curve:** With official data delayed, markets may lean on Fed guidance and private indicators; scenarios include further curve steepening as rate-cut conviction firms (or a tactical pause if the Fed opts for caution).
- ▷ **FX and gold:** The dollar can soften on governance uncertainty but largely stayed stable; gold typically benefits from safe-haven demand amid data voids and policy ambiguity. Recent trading showed USD subdued and gold firming as shutdown risk rose.
- ▷ **Regulatory plumbing and capital markets:** Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC) likely at skeletal staffing – slowing filings, investigations, and market oversight; IPO pipeline and certain complex transactions could freeze until staff return.



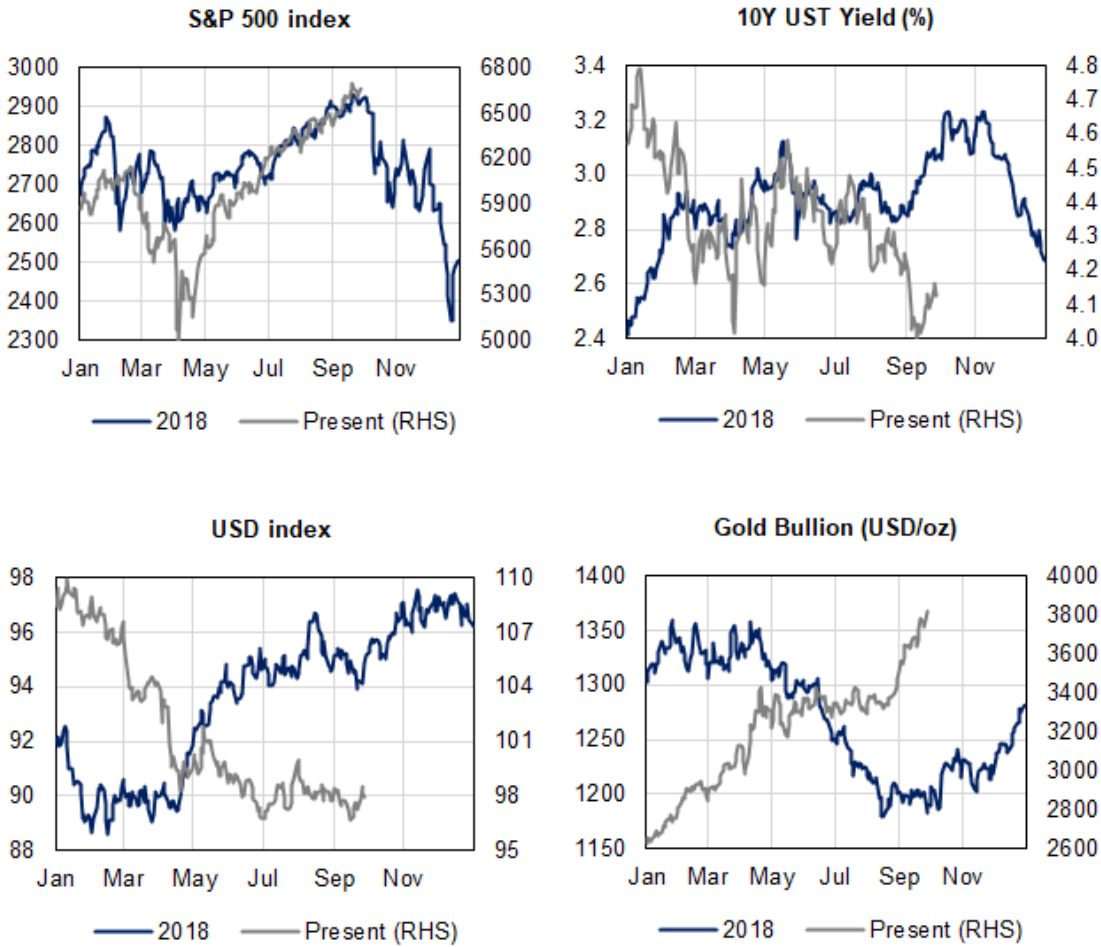
## What happened in the 2018–2019 case

- ▷ **Cause and political backdrop:** The shutdown stemmed from an impasse over President Trump's demand for USD5.7bn in funding for a US–Mexico border wall. The Senate had initially passed a bipartisan appropriations bill without wall funding, but the White House reversed course under political pressure, refusing to sign any bill that excluded it. This triggered a lapse in funding for about one-quarter of the federal government.
- ▷ **Duration and scale:** The shutdown, which lasted 35 days from December 22, 2018, to January 25, 2019, holds the record as the longest in US history. It impacted nine federal departments and numerous agencies, leaving roughly 800,000 federal employees either furloughed or working without pay. Approximately one-fourth of government operations were disrupted, affecting services ranging from national parks to regulatory agencies.
- ▷ **Economic impact:** The Congressional Budget Office (CBO) estimated that the shutdown delayed USD18bn in federal spending and reduced real GDP by 0.1% in Q4'18 and 0.2% in Q1'19. While most activity was recouped after reopening, about USD3bn in output – approximately 0.02% of annual GDP – was permanently lost. Federal workers faced delayed paychecks, and private contractors lost business that was never recovered.
- ▷ **Resolution:** On January 25, 2019, a short-term CR was passed to reopen the government without wall funding. President Trump later declared a national emergency to redirect funds for the border wall, bypassing Congress.
- ▷ **Market context:** Equity markets were already under pressure in late 2018 due to Federal Reserve tightening and ongoing trade tensions, and the government shutdown added further uncertainty, although it was not the primary driver of the December 2018 sell-off. Once the shutdown ended and the Fed shifted to a more dovish stance, equities rebounded strongly in early 2019. During the shutdown, Treasury yields fell as investors sought safety, while the dollar remained relatively stable.

## Then vs. now: financial markets perspective

A quick comparison between 2018 and now confirms Mark Twain's wisdom – history does not repeat but often rhymes (exhibit 3). Equity market performance through the first nine months looks somewhat similar. However, the bear market of Q4 2018 has other drivers apart from the Government shutdown itself. Weaknesses in the manufacturing cycle, profit warnings from a few large US companies, ongoing trade wars etc., all contributed. While some of these same factors are present this time around too, the situation is not fully comparable in our view. The behavior of haven assets – US treasuries, and gold is entirely different now when compared to 2018. Back then, in the run up to Q4, UST yields rose, and gold prices fell, allowing them to reverse course subsequently in Q4 cushioning weakness in equities. This time around, UST yields are already close to their year-lows (indeed the levels are higher now compared to those in 2018) and gold prices are at record highs. This might mean that both assets may not be able to fully cushion any potential weakness in equities. As for the USD, in Q4 2018, it was stable at best after having strengthened through the first nine months of that year. Given the weakness in the greenback so far this year, one can expect it be stable too over the near-term (see our [FX Indicator Chartpack, September 2025](#)). Of course, should investors shun both US equities and US Treasuries this time around, the USD could come under renewed pressure.

**Exhibit 3: 2018 vs now: history does not repeat, it often rhymes**



Source: S&P, LSEG Workspace, and ADCB Asset Management

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