



# How a U.S. government shutdown hits the strategist desk

As of 7:30am, 1 October 2025

## Takeaways

- On Wednesday, U.S. government funding lapsed for 5<sup>th</sup> time since 2000, triggering a government shutdown that may last days or weeks. Around 750,000 federal workers have been furloughed.
- Length of the shutdown remains unclear. Republicans require 7 Democratic votes in favor of their bill to fund the federal government; Democrats are unwilling to vote in favor of the bill unless it includes an extension of health care subsidies, which are scheduled to expire at the end of the year.
- In the near term, government data releases – starting with Friday’s jobs report – are on pause. Treasury auctions will go on as scheduled, and programs like Social Security, Medicare, and Medicaid will continue to be funded. Ultimately what is deemed “essential” will depend on the administration.
- Longer term, the government shutdown could amplify concerns about U.S. policy stability, particularly amid broader geopolitical shifts and attention to global debt sustainability. Gold would likely benefit at the expense of duration.
- Investors can operate under a simple rule of thumb: the longer a shutdown lasts, the greater its effects on consumer confidence, economic activity, and market outcomes.

## *A refresher on the mechanics of a government shutdown*

At 12:01am Wednesday, government funding lapsed for the 22<sup>nd</sup> time since the modern budget process was established in 1976, including a 16-day standoff in 2013 over Affordable Care Act (ACA) funding and a record 35-day shutdown in 2018-2019 over border wall funding. While most shutdowns since 1976 have been short-term funding gaps, lasting fewer than 3 days, more recent shutdowns have been *lengthy* and largely unsuccessful – the ACA went forward unchanged in 2013 and border wall funding was not included in the final appropriations package in 2019.

Key things to know about government shutdowns:

- All federal workers are impacted. Essential workers, including air traffic controllers and aviation security teams, work without pay for the length of the shutdown. All federal workers are given backpay once the government reopens.
- The government has wide latitude to determine essential vs nonessential work. For example, President Obama closed the national parks during the 2013 shutdown; President Trump kept the parks open during the 2018-2019 shutdown.
- Treasury issuance, along with Social Security payments, Medicare, and Medicaid are unaffected by a shutdown.
- Economic data, however, will not be released, a shutdown feature we haven’t seen since 2013 (more on this below).



*The Fed may need to drive blind in data scarcity fog*

If and as the shutdown extends, the Department of Labor would postpone all data releases, including the September jobs and CPI reports originally scheduled for this Friday and October 15<sup>th</sup>, respectively. This practice would likely mirror the 2013 shutdown experience, in which jobs and inflation data, among others, were delayed by the length of the shutdown – over two weeks – until the government reopened. An extended shutdown would interrupt data collection, compromising the quality and timeliness of economic releases for the month of October.

The timing of this potential data drought is very challenging for policymakers and investors. The Federal Reserve is already trying to reconcile mixed signals about the strength of the economy and the labor market. Our team leans on the cautious side of easing expectations for 2025, expecting one further cut rather than two priced into the futures market. If the shutdown lasts long enough such that the Fed lacks both September's jobs and inflation reports at its October 28-29 meeting, we believe they would be even more likely to not deliver a cut, holding interest rates steady in the absence of critical data inputs.

*A shutdown would need to be lengthy to dent the engine of U.S. economic growth: the consumer*

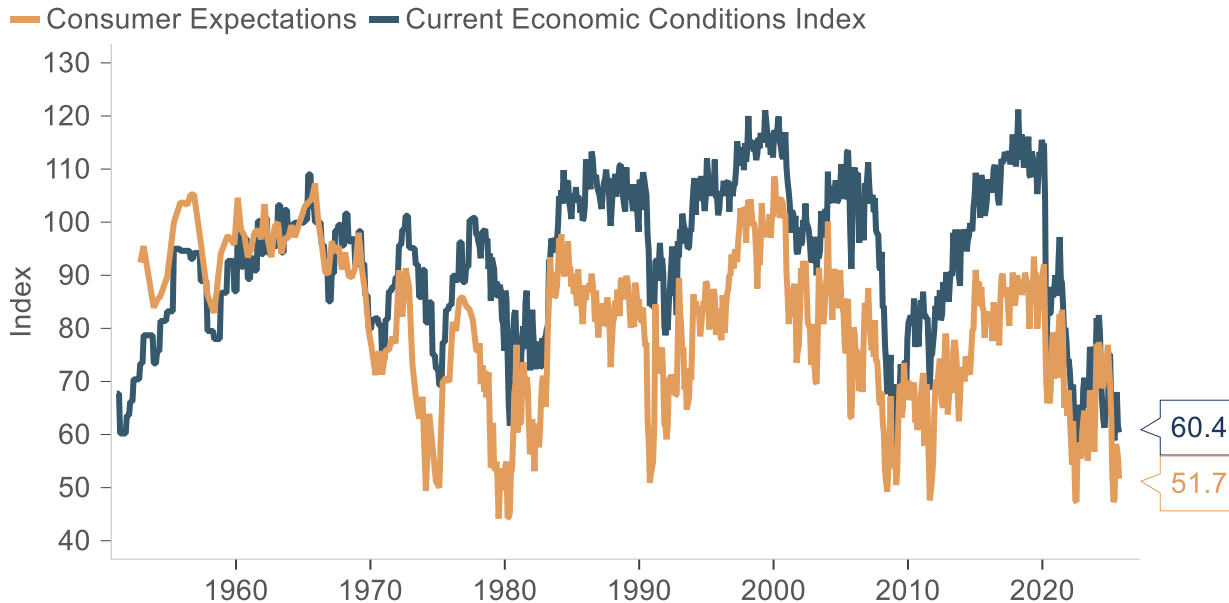
Data aside, the real economic impact of the shutdown will hinge on its length. In prior shutdowns, it is estimated that economic growth declined between 0.1% and 0.2% for each week of the disruption, with much of that activity made up in the following quarter.

That said, the U.S. economy has been primarily driven by strong consumers. With approximately 3 million federal employees furloughed, working without pay, or fired – more on that below – we need to spend a moment on consumer behavior during shutdowns.

*Federal employees:* Studies show furloughed workers cut spending by about 10–20%, but the assurance of back pay and short duration of most shutdowns has limited the broader economic impact. This time around, however, President Trump has threatened to fire – rather than furlough – many federal workers. Though the legality of the move would be questioned, federal employee households may be more likely to pull back spending more sharply than in past shutdowns.

*Everyone else:* The longer shutdowns last, the more they weigh on consumer sentiment: per the University of Michigan consumer survey, the 35-day 2018-2019 shutdown coincided with a 7% hit to confidence. With confidence already near historically depressed levels, this episode could have a more pronounced effect than usual.

## Consumer sentiment and expectations are already sitting near historic lows



Sources: New York Life Investments Global Market Strategy, University of Michigan, U.S. Bureau of Labor Statistics (BLS), Macrobond, September 2025.

## *Shutdowns are not necessarily market movers in the moment...*

There is no way to isolate the impact of a shutdown on capital markets conditions, relative to everything else happening at the time. Generally speaking, equities rally during shutdowns; Treasuries rally modestly as investors seek safety; the dollar underperforms by a small margin. Given the current macroeconomic context – a shifting geopolitical landscape, heightened concerned for global debt sustainability, and investor questions about U.S. policy stability – gold is also likely to see a bid.

What we can isolate in a historical look-back of movements in the S&P 500 Index, the U.S. dollar, and the 10Y Treasury yield: **the longer the shutdown, the greater volatility, as measured with peak-to-trough size of market movements, within the shutdown period.**

## The 2018/2019 shutdown featured a V-shaped equity recovery while yields rallied



Sources: New York Life Investments Global Market Strategy, S&P Global, U.S. Department of Treasury, Macrobond, September 2025. The S&P 500 measures the performance of 500 large-cap companies listed in the U.S. Past performance is no guarantee of future results. It is not possible to invest directly in an index.

### ...but fiscal dysfunction feeds into our bigger-picture investment views

You've heard us discuss many times that *when an event highlights or exacerbates existing trends, that event is more likely to matter for investors*. Today's shutdown, in that it is a recurrent symptom of fiscal and political dysfunction in the U.S., is no exception.

This summer, we published [our research](#) on the sustainability of government spending and sovereign debt globally (**watch a replay of last week's webinar, in which our Head of Global Relationship Management, John Pavese, hosted GMS's Julia Hermann, [available here](#)**). Our U.S. case study highlighted that policy credibility – the government's commitment to service its debt – has been a long-standing bipartisan area of failure. This failure, in turn, risks how affordably the U.S. can service its debt, particularly as long-term Treasury rates have risen off post-Global Financial Crisis lows. While long rates have rallied this year, providing some much-needed relief to U.S. interest payments, the long-term risks are little changed and are on display in today's shutdown. This view factors into our near-term view on a credible 10Y yield range for this cycle (3.75-4.50%) and our high-conviction view to sell duration at current levels.

Please see our latest [Macro Pulse for October](#) and [register for our upcoming Macro Pulse webinar](#) on Thursday, October 16, 1pm Eastern, for more extensive investment ideas.



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