US Shutdown: Politics Versus Portfolios

What has happened

On 1 October, the US Government entered a shutdown after Congress failed to agree on a new budget or temporary extension for the new fiscal year. This means parts of the federal government now have no legal authority to spend money.

This is not unusual. Since 1976, there have been 20 shutdowns. The longest, in 2018, lasted 35 days before President Trump eventually reopened the government.

The current dispute reflects deep political division in Washington, particularly around healthcare and spending priorities. Around 750,000 federal workers could be temporarily furloughed, costing an estimated 400 million dollars a day.

What it means for markets

We are monitoring three key areas.

1. **Economic data releases:** Departments such as the Bureau of Economic Analysis and the Bureau of Labor Statistics are affected. This will likely delay major data releases, including payroll and inflation figures. The Federal Reserve will have to make decisions with less information, which may cause short term volatility. However, past shutdowns have not caused lasting market declines.

2. **GDP growth:** Shutdowns can temporarily slow US growth by 0.1 to 0.2 percentage points (annualised) per week. These losses are usually recouped once government workers receive back pay and spending resumes.

3. **Market sentiment:** The political backdrop is already under scrutiny. The dollar has had its weakest start to a year since 1973, and investors are questioning the strength of US leadership. We are watching Treasury yields closely for any sign of changing investor confidence.

Despite the headlines, our constructive view on US equities remains unchanged. Most large US listed companies earn revenues globally, have strong balance sheets, and lead in innovation. These businesses are insulated from short term political disputes.

Our view

Shutdowns are a recurring feature of the US system rather than a structural break. Markets have absorbed many similar events, and their effects have historically been short lived.

At TAM, we continue to focus on the broader economic trends that matter for long term returns. We are monitoring developments closely, especially any delay to economic data or change in sentiment, but we see no reason to adjust our positioning at this stage.

Events like this are also a reminder of the importance of diversification. A balanced portfolio across assets, sectors, and regions remains the best protection against short term political noise. Our portfolios are built with that in mind. Shutdowns may make headlines, but they rarely change the long term story.

Want to discuss how this impacts your clients?

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