

- Rating agency Standard and Poor's estimates the overall impact from the partial government shutdown could shave a modest \$1.2 billion off the \$19 trillion U.S. economy for each week the shutdown continues.
- Historically, the U.S. stock market has proven resilient during past shutdowns. A review of market performance during the 20 government shutdowns dating back to 1976 shows that, on average, the Standard & Poor's 500 stock index (a broad gauge of the U.S. market) has posted a decline of 0.4%. In addition, the S&P 500 Index climbed during 12 of the past 21 shutdowns and rose an average of 13% in the 12 months after the government reopened.
- The U.S. government shutdown will not have an immediate impact on the country's economy, but a prolonged crisis could impact longer-term economic growth as turmoil in Washington continues.

The partial U.S. government shut down started on December 22, 2018, when Congress could not agree on a funding deal to keep it open. The current shutdown is now the longest on record, beating the 21-day record set in 1995. The current shutdown is only a partial one, as Congress has already funded 75% of the federal government until September 2019. An estimated 800,000 federal workers remain without pay until a resolution is reached. Several (but not all) government services are closed, including parts of the IRS and the SEC. Other financial regulatory services remain open to support securities trading and market operations.

### The impact on the stock market

Start	End	Number of Days	S&P 500 Index Return	S&P 500 Index Return 12 Months After End
09/30/76	10/11/76	12	-3.4%	-6.6%
09/30/77	10/13/77	14	-3.2%	12.0%
10/31/77	11/09/77	10	0.7%	1.5%
11/30/77	12/09/77	10	-1.2%	3.2%
09/30/78	10/18/78	19	-2.0%	3.1%
09/30/79	10/12/79	13	-4.4%	24.7%
11/20/81	11/23/81	3	-0.1%	9.3%
09/30/82	10/02/82	3	1.3%	36.2%
12/17/82	12/21/82	5	0.8%	18.0%
11/10/83	11/14/83	4	1.3%	-0.4%
09/30/84	10/03/84	4	-2.2%	13.5%
10/03/84	10/05/84	3	0.1%	12.6%
10/16/86	10/18/86	3	-0.3%	18.4%
12/18/87	12/20/87	3	0.0%	11.9%
10/05/90	10/09/90	5	-2.1%	23.5%
11/13/95	11/19/95	7	1.3%	22.8%
12/15/95	01/06/96	21	0.1%	21.3%
10/01/13	10/17/13	17	2.3%	8.9%
01/20/18	01/22/18	3	0.8%	?
02/09/18	02/09/18	1	1.5%	?
12/21/18	?	?	7.4%*	?
<b>Average (before current shutdown)</b>			<b>-0.4%</b>	<b>13.0%</b>

Source: LPL Research, Bloomberg 01/10/19

\*Data as of 01/10/19; the current government shutdown is ongoing.

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

Despite the anxiety and hardship that accompanies a government shutdown, it has historically been a non-event for the stock market. According to an analysis from LPL Financial Research, over the previous 20 government shutdowns since 1976, on average the S&P 500 declined by 0.4%. Meanwhile, the stock market has performed much better during recent shutdowns, with the S&P gaining ground during each of the last five government shutdowns going back to 1995. In addition, looking forward to the 12 months after the government reopened, the index has historically performed well, showing that any economic impact from a shutdown wasn't enough to derail market rallies. The S&P 500 Index climbed during 12 of the past 21 shutdowns and rose an average of 13% in the 12 months after the government reopened.



### The impact on the economy

The economic impact from shutdowns can be mixed. Global rating agency S&P Global Economics estimates that the current partial shutdown will have a modest impact on the \$19 trillion economy in real terms. Specifically, the firm projects that the potential impact from a partial shutdown could cut economic growth by approximately \$1.2 billion off real GDP for each week of the partial shutdown. However, even with the negative short-term repercussions, economic growth is typically largely recouped over the following quarters, especially if government workers receive back pay. Of course, while the current economic growth loss may not make a significant dent in the U.S. economy, it certainly has a meaningful impact to those workers trying to cover costs without a paycheck.

### Conclusion

The government shutdown becomes one more worry for investors amid a host of other concerns, such as rising interest rates and ongoing trade and tariff uncertainties. While political uncertainty such as a government shutdown certainly can create anxiety and stress for investors, the impact on the economy and the markets have historically not been overwhelming. However, I want to make it abundantly clear that I am not in any way suggesting that a government shutdown is good for the stock market or the broader economy, but simply summarizing what history has shown to provide perspective on the current situation.

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