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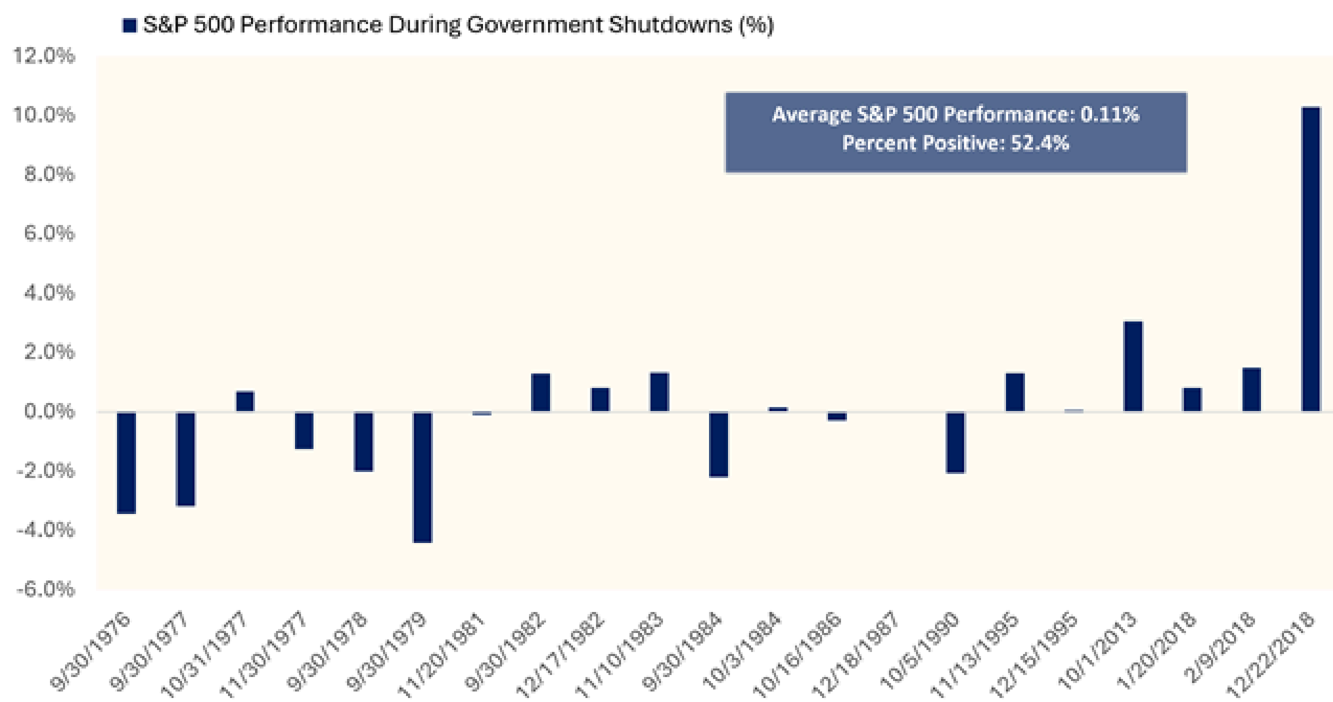
The Sandbox Shutdown
October 1, 2025

The October 1 deadline has passed, and the U.S. government has shut down. While political gridlock is never ideal, history suggests that shutdowns tend to be short-lived and have minimal sustained impact on the economy or the stock market. They are largely about political posturing and therefore don't take long to get resolved. Simply put, delaying Social Security checks is not a winning political strategy, so it almost certainly won't happen (we can't make guarantees, but this is close).

Republicans do need votes from Democrats, and **we know there hasn't been much nice playing in the sandbox in Washington, D.C. lately, introducing the possibility of an extended shutdown.** Democrats are seeking healthcare concessions, including reversing Medicaid cuts and extending Affordable Care Act subsidies. Meanwhile, the Republicans are threatening more public-sector layoffs in areas not aligned with the President's priorities, as each side stakes out its position. Investors have looked past budget disruptions throughout history, focusing on traditional fundamental drivers of the economy and stock market such as corporate earnings, consumer spending, business investment, inflation, and interest rates. That said, sectors heavily reliant on government contracts — such as defense and life sciences — may experience some short-term volatility. An extended shutdown, which could delay key economic data releases, including the October 3 jobs report, could detract slightly from economic growth but is unlikely to be material.

Since 1976, the U.S. has experienced 20 shutdowns, averaging just eight days in duration. The longest, in 2018–2019, lasted 34 days. Importantly, the S&P 500 has historically posted average gains of 1.2% and 2.9% in the one- and three-month periods following budget resolutions, underscoring the market's resilience, though past performance does not guarantee future results. Even if investors ignore the government shutdown, a pause may be in order given how far stocks have come since April — even as more tariffs are absorbed. **The below graph measures S&P 500 performance during government shutdowns. Positive returns have occurred roughly half the time and on average, performance is essentially flat.**



While we see a market correction as probable in the next couple of years due to lofty valuations, risk to this bull market over the longer term appear low thanks to a resilient economy, strong earnings, the resumption of the Fed's rate-cutting cycle, and long-term catalysts like AI-driven productivity gains and fiscal stimulus from the One Big Beautiful Bill Act (OBBBA). For additional perspective on tariffs, AI, and the state of the US economy, click **here.** **Against that backdrop, a pullback could offer an attractive buying opportunity; we are positioned to take action and make a tactical shift from bonds to stocks if the S&P 500 drops past certain levels.**

In short, while near-term volatility is possible, or perhaps even likely, the broader outlook remains constructive. As long-term investors, we encourage you to focus on stock market fundamentals over political theater headlines and talking heads and join us in considering pullbacks as potential buying opportunities.

It continues to be our privilege to be your partner in growing and preserving your family or institution's treasure. Thank you for your confidence in and support of our efforts and don't hesitate to reach out if we can be of service.

Sincerely,

Brian Bernatchez

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Managing Director, CIO

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All data is provided as of October 1, 2025.

All index data from FactSet.

The Standard & Poor's 500 Index (S&P500) is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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