

Client Commentary | October 10, 2025

# Market Commentary

Investing Insights

## How Will the Government Shutdown Impact Markets?

As readers are well aware, the U.S. government officially shut down after lawmakers failed to reach a funding deal. To date, paychecks for hundreds of thousands of federal employees have been paused, and some national parks and agencies have been shuttered, including the Bureau of Labor Statistics, which supplies jobs and inflation data.

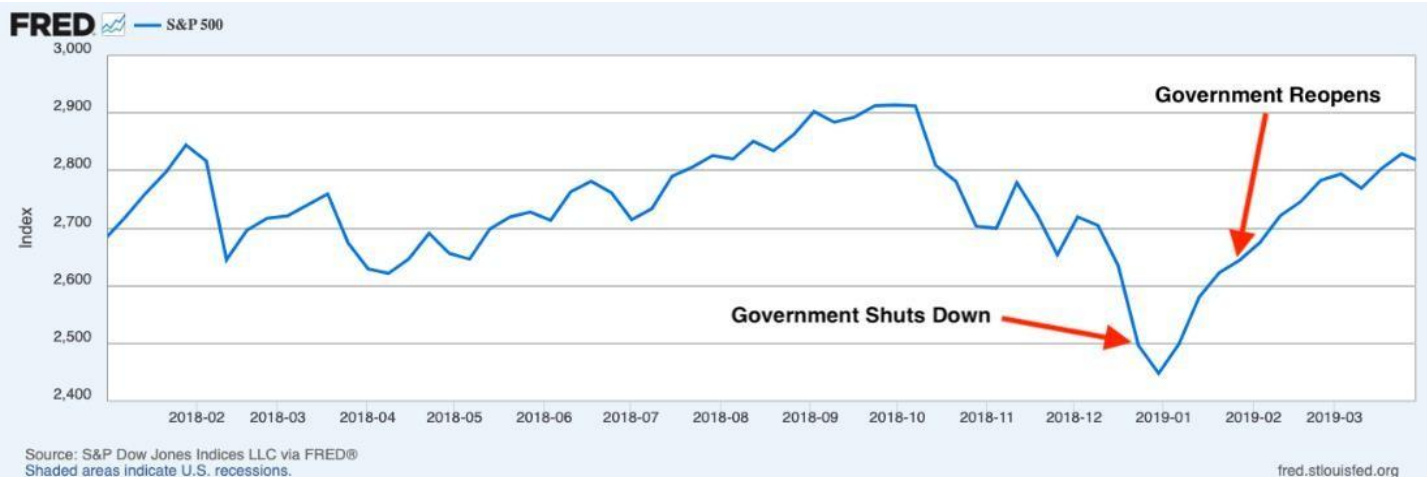
Government shutdowns almost always get constant media attention, perhaps understandably so. They are disruptive and create plenty of short-term uncertainty. <sup>1</sup>

But for investors, they need not be a source of stress or urgent concern. History tells us, quite clearly, that shutdowns have not been a source of meaningful and certainly not lasting economic impact.

Since 1976, there have been more than 20 shutdowns of varying lengths. None has caused a recession. None has triggered a bear market. And in many cases, stocks moved higher during the shutdown and in the months immediately after. The longest shutdown on record, 35 days spanning late 2018 into early 2019, coincided with a strong equity rally (see chart below).

### S&P 500 from January 1, 2018 – March 31, 2019

Source: Federal Reserve Bank of St. Louis<sup>2</sup>



If we parse out the data even more, going back to all shutdowns since 1976, we find that the S&P 500 was up an average of 12.1% in the year following a shutdown. In the second longest shutdown (21 days in late 1995 and early 1996), stocks went up 3.1% in the month after the shutdown, and +21.3% in the following year.

This is not to say shutdowns come without consequences and should be completely ignored. Hundreds of thousands of federal employees are furloughed without pay, while others, such as members of the military and air traffic controllers, continue working but receive their paychecks later. Businesses that depend on government contracts can see delays, and data collection also halts—which means key economic reports, including the monthly jobs and inflation data, are delayed. In an environment where the Federal Reserve is highly data-dependent, that could momentarily complicate monetary policy decisions.

Still, the broader economic footprint of a shutdown is surprisingly small. Most of the federal budget keeps flowing even when Washington hits a stalemate. Social Security, Medicare, and interest payments on U.S. debt continue, covering roughly three-quarters of total federal outlays. Mandatory programs don't shut down. And when the government reopens, furloughed workers are paid retroactively, meaning much of the lost income and spending returns to the economy in short order.

For investors, that's an important distinction. Shutdowns are inherently temporary, and markets know it. A federal funding impasse has yet to alter corporate earnings trends, long-term inflation trajectories, or consumer behavior in any meaningful way. In fact, markets often rise during shutdowns precisely because investors have seen this story before and know how it ends. The government eventually reopens, paychecks resume, and the economic data catch up.

Some commentators have worried about the potential for a shutdown to weigh on consumer confidence or market sentiment. That's possible in the short term, especially if the headlines grow louder and political rhetoric intensifies. But even in those cases, the effect tends to fade quickly. The same pattern has repeated across decades, with temporary volatility followed by quick stabilization as markets refocus on fundamentals.

### **Bottom Line for Investors**

The question for investors, then, is: are the economic fundamentals still strong enough for markets to look through the shutdown?

In my view, the answer is yes. Growth has moderated from last year's pace, but the economy continues to expand. The jobs market is showing signs of leveling off, but unemployment remains low. Business investment remains solid, thanks in large part to AI investment, and corporate profits are holding up well. Our colleagues at Zacks Investment Research have been noting for some time now that forward estimates continue to trend higher, signaling confidence in corporate America. The U.S. financial system also remains in fine shape, with healthy lending activity in a monetary easing cycle.

In this kind of environment, it takes more than a political impasse to derail the broader trend.

<sup>1</sup> Wall Street Journal. October 1, 2025. [https://www.wsj.com/politics/policy/how-government-shutdowns-affect-the-economy-94446606?mod=economy\\_more\\_article\\_pos2](https://www.wsj.com/politics/policy/how-government-shutdowns-affect-the-economy-94446606?mod=economy_more_article_pos2)

<sup>2</sup> Fred Economic Data. October 6, 2025. <https://fred.stlouisfed.org/series/SP500#>

## THE STEADY INVESTOR: Key Weekly Events

- **Understanding the “U.S. Dollar Debasement Trade”**
- **Markets rise despite Government shutdown**
- **Refinancing surges as rates dip**

### Understanding the “U.S. Dollar Debasement Trade”

The rise of the so-called “debasement trade” has become one of 2025’s standout market stories, largely tied to gold’s performance. As the media frames it, investors are increasingly concerned that fiscal policy, political instability, and ballooning debt could erode the value of traditional currencies, especially the U.S. dollar. Rather than park cash in Treasuries or bank accounts, many investors are reaching for perceived alternatives like gold and silver. The appeal isn’t necessarily about inflation protection or a looming crisis. In fact, what makes this rally unique is that it’s happening during a period of relative market calm, not amid a crisis. Instead, many see it as a hedge against future policy missteps, with ever-widening deficits and growing pressure on central banks to lower rates. The question investors need to step back and ask, however, is whether the dollar is truly at risk of losing its standing. In short, we think the answer is no. The U.S. dollar remains deeply embedded in

global finance. According to the Bank for International Settlements, it was on one side of nearly **90% of all foreign exchange trades** so far in 2025, up slightly from previous years. That dominance has proven remarkably stable despite political shocks, tariff waves, and budget brinkmanship. Investors have not sold dollars en masse, and there is little evidence of a rapid shift away from Treasuries in global reserve portfolios. Some argue the Chinese yuan is gaining in marginal share in FX transactions, but it still accounts for less than 9% of global trade activity and less than 3% of cross-border payments, per SWIFT. In our view, the “debasement trade” likely reflects investor enthusiasm for momentum-driven assets and diversified hedges, not legitimate concern that the dollar is on the brink of collapse.<sup>1</sup>

### The Shutdown Continues, But the Stock Market Does Not Seem to Mind

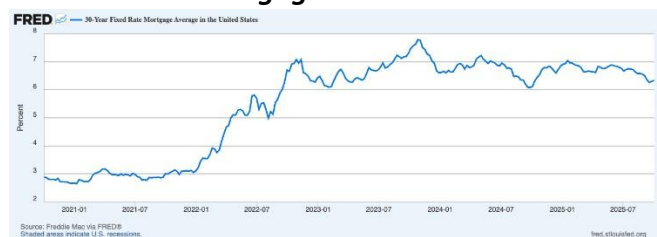
As the U.S. government shutdown stretches into its second week, markets are doing what they often do in the face of Washington gridlock: going up. Since the shutdown began on October 1, the S&P 500 has notched multiple all-time highs, which may seem counterintuitive to many readers given higher levels of uncertainty. But the market’s behavior is consistent with the history of government shutdowns. After the five-week government shutdown that ended in January 2019, the S&P 500 surged 36% over the following year. Following the 1982 shutdown, it jumped nearly 20% in 100 days. Of course, not every shutdown sees gains: In 2018, the S&P fell in the months following the standoff. But even then, losses were relatively modest. Why the resilience? Remember, markets are forward-looking. They tend to discount short-term noise, like shutdown headlines, and focus instead on

long-term fundamentals. Past data show that any GDP lost during a funding lapse is typically made up once government operations resume. Meanwhile, essential functions, including interest payments on U.S. debt, continue uninterrupted.<sup>2</sup>

## A Sign that Homeowners are Eager for Lower Mortgage Rates

A recent dip in mortgage rates sparked a brief but intense surge in refinancing, offering a glimpse at just how eager homeowners are to reduce their monthly payments. The average 30-year mortgage rate fell to 6.26% in mid-September, the lowest level in 11 months. In response, refinancing activity jumped 80% over three weeks, according to the Mortgage Bankers Association. That momentum quickly stalled when rates ticked back up, but the burst in activity underscored a growing sensitivity to even modest rate changes.<sup>3</sup>

### 30-Year Fixed Mortgage Rate



Source: Federal Reserve Bank of St. Louis<sup>4</sup>

Homeowners who bought during the last few years (when borrowing costs were elevated) are especially eager to refinance. In Q2, 90% of all rate-and-term refinancings were for loans originated in 2023 and 2024. Many of these borrowers carry large mortgages and haven't built much equity yet. Lower rates offer them meaningful monthly relief. According to ICE Mortgage Technology, the average debt-to-income ratio among Q2 refinancers dropped to 34%, easing pressure on household budgets. If rates fall to 6%, more than 5.9 million mortgage holders could refinance to save at least 0.75 percentage point, potentially cutting their monthly payments by nearly \$400. The refinancing rebound could also revive activity for

lenders, who have seen volumes drop sharply since the pandemic-era boom. And for the broader economy, cheaper refinancing could unlock spending power, especially if more homeowners tap equity through cash-out refis or home equity lines.

<sup>1</sup> Wall Street Journal. October 7, 2025. [https://www.wsj.com/finance/commodities-futures/a-new-wall-street-trade-is-powering-gold-and-hitting-currencies-62a61fdb?mod=djemMoneyBeat\\_us](https://www.wsj.com/finance/commodities-futures/a-new-wall-street-trade-is-powering-gold-and-hitting-currencies-62a61fdb?mod=djemMoneyBeat_us)

<sup>2</sup> Wall Street Journal. October 7, 2025. <https://www.cnbc.com/2025/10/07/government-shutdowns-stock-market-performance.html>

<sup>3</sup> Wall Street Journal. October 8, 2025. [https://www.wsj.com/economy/housing/homeowners-are-pouncing-on-the-tiniest-drop-in-mortgage-rates-2f66f72d?mod=economy\\_lead\\_pos4](https://www.wsj.com/economy/housing/homeowners-are-pouncing-on-the-tiniest-drop-in-mortgage-rates-2f66f72d?mod=economy_lead_pos4)

<sup>4</sup> Fred Economic Data. October 9, 2025. <https://fred.stlouisfed.org/series/MORTGAGE30US#>

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