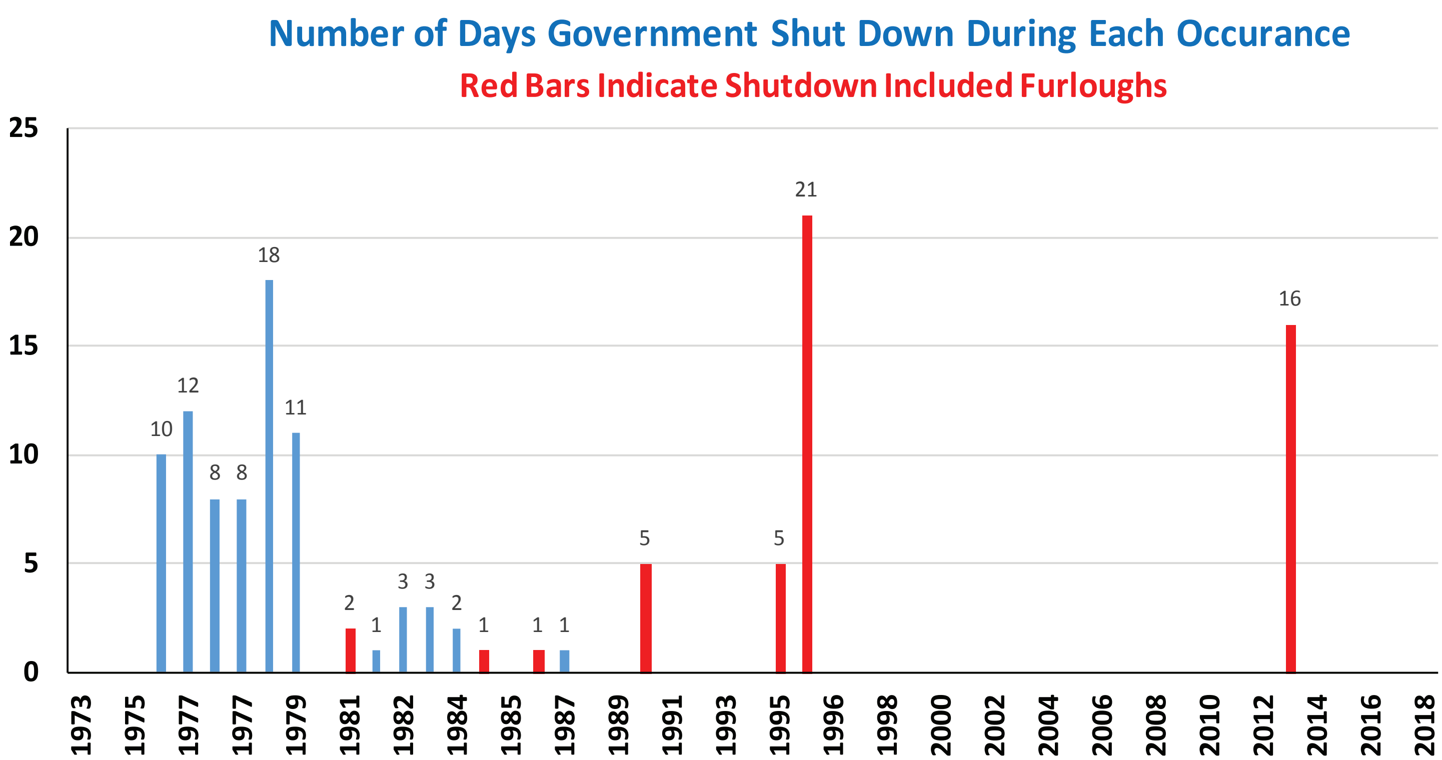
Market Performance and Government Shutdowns

Concerns of a January 19, 2018 government shutdown are rising as Congress has yet to sign a new appropriations bill replacing the current bill that is set to expire. As talk of a government shutdown comes under increased focus during nightly news cycles, investor anxiety and market volatility is likely to increase as well. Below, we review the history of government shutdowns and the effect they have had on stocks and bonds.

With the Budget Act of 1974, whenever a federal funding gap occurs and Congress and the President fail to pass the necessary appropriations bill to continue funding operations, then a government "shutdown" is required.

From 1974 to present, the U.S. has had budget funding gaps leading to 18 government shutdowns, with some years experiencing multiple shutdowns. Federal employee furloughs occurred during 7 of the 18 shutdowns. The graph below shows the history of U.S. government shutdowns and the number of days each lasted.



Source: Wikipedia, Century Management

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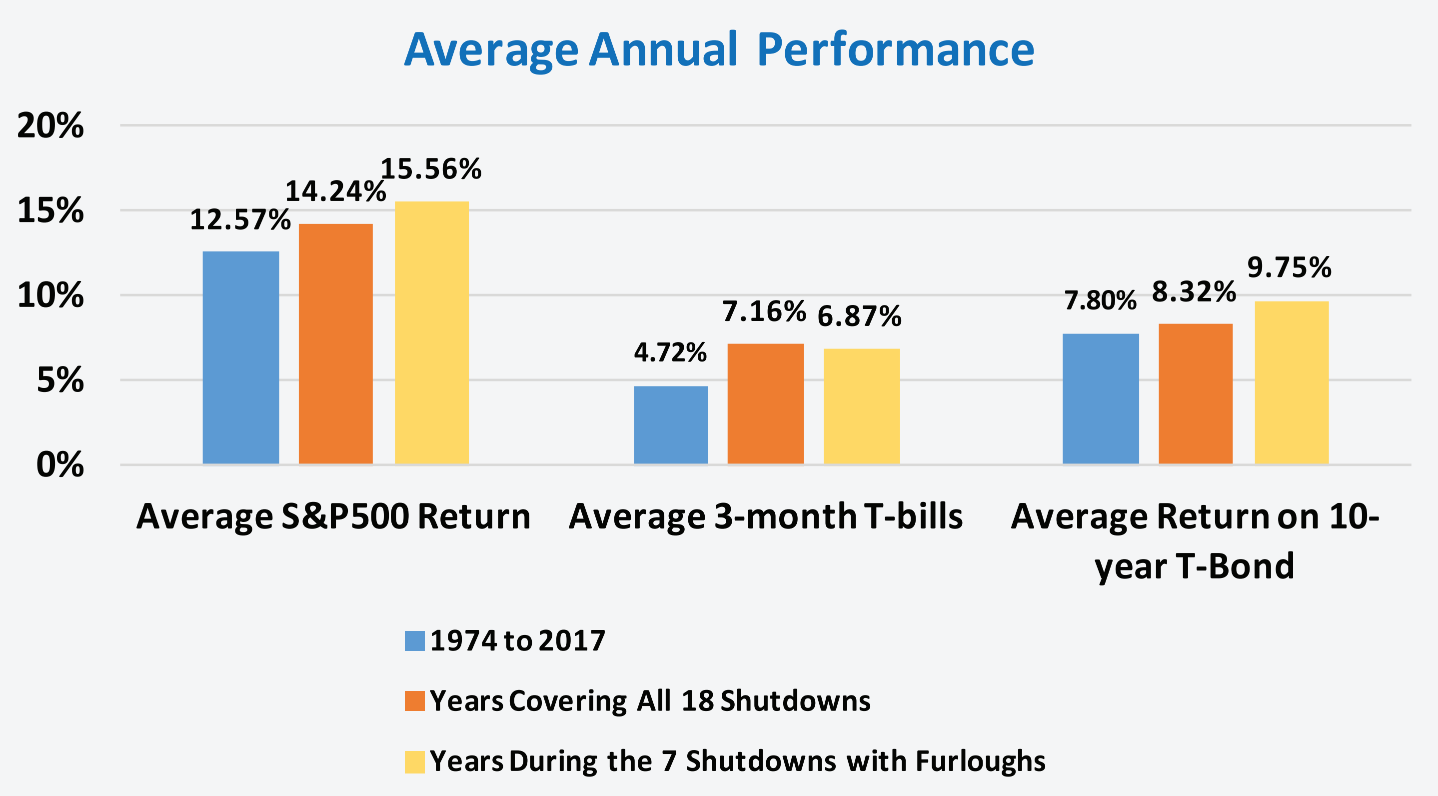
Without a new appropriations bill (or at least a short-term continuing resolution), the government will be forced to shut down on January 19, 2018. The table below compares the average annual returns of the S&P500, the 3 month T-bills, and the 10-year Treasury bond during all 18 shutdown events, the 7 shutdowns with furloughs and the entire period since the Budget Act of 1974.



Source; NYU Stern School of Business, Century Management. **Past performance is not indicative of future results.** Note: The raw data for Treasury bond and T-bill returns is obtained from the Federal Reserve database in St. Louis (FRED). The return on stocks includes both price appreciation and dividends. The Treasury bill rate is a 3-month rate and the Treasury bond is the constant maturity 10-year bond, but the Treasury bond return includes coupon and price appreciation. It will not match the Treasury bond rate each period.

History's On Investors' Side

We can see in the graph above that previous shutdowns have historically not had a negative effect on the average annual returns of stocks and bonds. In fact, average returns in the years during shutdowns have been higher than the average annual returns for the entire period from 1974 (when the Budget Act became law) through 2017. So while media coverage of a potential government shutdown is sure to stir anxiety for many and may increase near-term price volatility, we believe the history of government shutdowns suggests investors can sleep soundly in the week ahead.

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