Government shutdown 2025: What investors need to know

October 9, 2025 | Elizabeth Varley, Senior Vice President, Government Affairs Office; Nicolas Janvier, CFA, Head of Equities, North America; Gene Tannuzzo, CFA, Global Head of Fixed Income

Assessing the economic and market implications.

Historically, shutdowns have had no meaningful impact on the broader economy. Given the current political environment, could this time be different? The short answer — we believe — is no. Here's why.

Why a shutdown now

As of October 1, 2025, the federal government has entered a shutdown that is shaping up to be more extensive than earlier funding lapses. At the center of the impasse is the fate of enhanced premium tax credits under the Affordable Care Act, which are set to expire at the end of 2025. With Democrats making the extension of these credits a top priority, but Republicans pushing to get the government opened and then negotiate, the resolution of this stalemate will have significant implications for stakeholders in health care as well as macroeconomic issues that could reset the political landscape for the 2026 midterms.

Two scenarios are possible

There are two different scenarios in play. One scenario is a very lengthy shutdown, with escalating moves by the Trump administration to cut government workers and funding restrictions. These moves will be subject to more litigation and likely prolong the stalemate. Or, what increasingly appears probable, is a short-term continuing resolution that would temporarily fund the government, coupled with a handshake type of agreement among a group of lawmakers to negotiate a resolution of the premium tax credit enhancements.

There has been limited progress on resolution, as significant attention has been directed toward the One Big Beautiful Bill Act (OBBBA). With three Senate Democrats now voting with Senate Republicans, the impact to federal worker payroll on October 10 and then two weeks later on October 24, may have more influence on ending the shutdown.

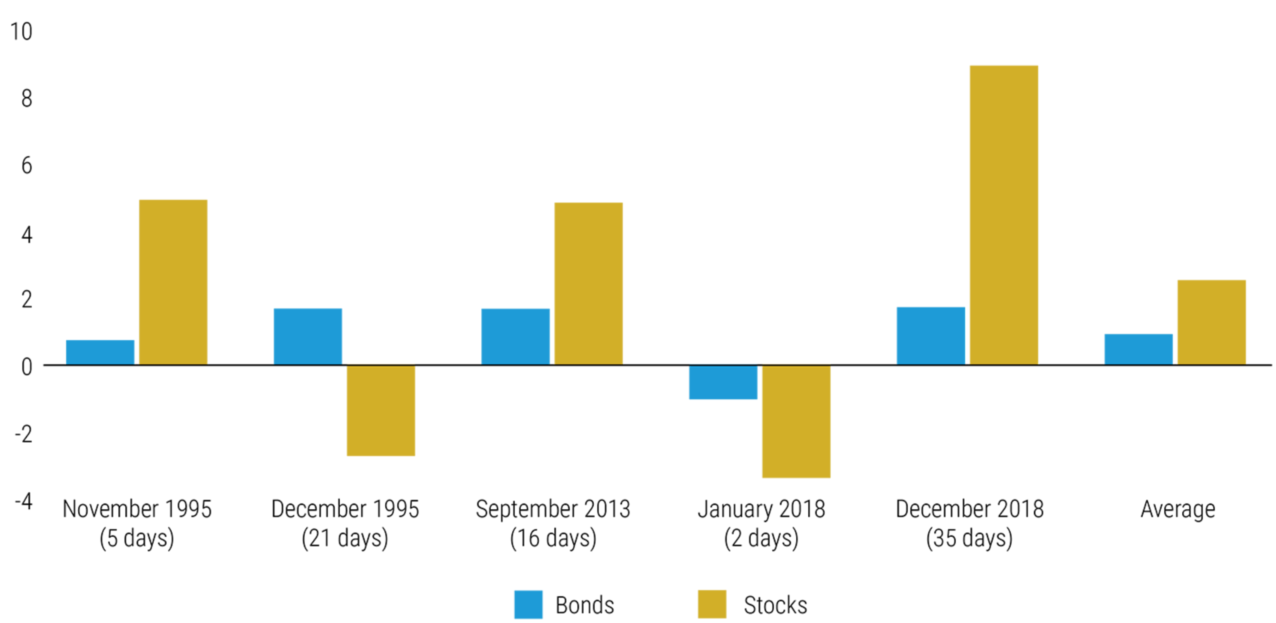
There have been more than 20 shutdowns since 1976, averaging eight days. However, since the mid-1990s shutdowns have been getting longer, averaging a little more than two weeks. The last U.S. federal government shutdown, which lasted from December 22, 2018 to January 25, 2019, was the longest in American history at 35 days. It stemmed from a standoff between President Donald Trump and Congress over $5.7 billion in funding for a U.S.–Mexico border wall.

Muted market impact so far (again)

When it comes to markets, government shutdowns have largely been political theater. Historically, and regardless of length, financial markets have mostly shrugged off government shutdowns. While the current impasse adds drama, its economic impact should remain limited given that non-essential spending is a small slice of GDP. However, if the shutdown results in federal workforce layoffs or additional spending cuts, a more significant economic impact could be expected.

Stocks and bonds have posted positive returns after a shutdown

Returns one month after shutdown begins (%)



Source: Bloomberg, L.P. as of October 7, 2025. Stocks are represented by the S&P 500. Bonds are represented by the 10-year U.S. Treasury. An Investment cannot be made in an index. Past performance does not guarentee future returns.

The real complication this time lies in delayed government economic data, such as the latest jobs report, which policymakers rely on to guide monetary decisions. Concerns about the quality of government data aren't new. With investors anticipating a rate cut at the Fed's late-October meeting, missing key data could inject uncertainty and short-term volatility into markets.

The bottom line

Even after the shutdown ends, the political drama will not. There are other outstanding items that Congress should address before the end of the year, including reauthorization of the National Defense Authorization Act, the Cybersecurity and Infrastructure Security Act (CISA), the National Flood Insurance Program (NFIP) and a handful of other tax provisions. For investors, it's important to remember that while an additional round of fiscal wrangling may add noise and some volatility to markets, a shutdown is unlikely to lead to far-reaching economic implications. As always, staying the course, remaining disciplined and keeping a long-term perspective are key to navigating short-term uncertainty.

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