Truist Advisory Services, Inc.

Market Perspective from the Investment Advisory Group

Government shutdown and debt ceiling dramas impact typically fleeting

September 29, 2021

Keith Lerner, CFA, CMT
Co-Chief Investment Officer
Chief Market Strategist

Michael Skordeles, AIF®
Senior U.S. Macro Strategist
Senior Vice President
Portfolio & Market Strategy

What happened

Two pressing political issues in the U.S.—a government shutdown and increasing the debt ceiling—are confronting investors and policymakers. While they are truly independent issues, they are being linked politically as both parties use them as leverage in the ongoing negotiations for two pending spending bills for infrastructure and social programs.

Looming government shutdown

If Congress fails to agree on a federal budget or a temporary stop-gap measure known as a Continuing Resolution by October 1, certain government functions will shut down.

There have been 21 government shutdowns ranging from one to 35 days since the current budget process was instituted in 1976. During these periods, non-essential employees are furloughed, while most safety and security work continues.

Debt ceiling likely to be reached around mid-October

Every president since Herbert Hoover has presided over increases in the debt ceiling and added to the national debt. There have been 78 occurrences since 1960, or more than one increase a year on average.

The debt ceiling restricts the government from borrowing—that is, issuing debt—to meet spending priorities. It does not necessarily stop government operations nor does it actually restrict spending, which are authorized in the appropriations process. If federal revenue streams are sufficient, the government may continue normal operations. If not, then the U.S. Treasury will be unable to pay expenditures that have already been incurred. However, the U.S. Treasury has discretion over certain payments and can prioritize the timing so as to avoid a default for a brief period.

Most recently, in August 2019, Congress passed the 2020 budget that funded government spending and suspended the debt ceiling for two years, until August 1, 2021. Yesterday, Treasury Secretary Yellen estimated that the timing of payments could extend the deadline to about October 18.

Our take

Both parties appear hardened in their positions, making a government shutdown a growing possibility. Nevertheless, nothing prevents Congress from quickly passing a Continuing Resolution before October 1—however brief—that would buy more time to negotiate a budget deal. Similarly, it looks as if a budget to avoid a government shutdown and increasing the debt ceiling will be negotiated together politically, albeit passed separately.

Government shutdown

Although individuals and private businesses can be greatly impacted—by the loss of income and sales—there tends to be minimal macroeconomic impact from a shutdown, especially if it is as brief as a few days. It tends to mimic a winter storm, generally delaying activity rather than cancelling it.

Ultimately, while there is uncertainty on how this impasse will be resolved, investors should be aware that political showdowns tend to be short-lived and generate little permanent effect on the stock market.

During historical shutdown periods, the S&P 500 has averaged a return of 0.1%. The worst decline over a shutdown period was 4.4% in 1979. The most recent and longest shutdown was in late 2018, and this period showed the best returns. However, markets had sold off sharply ahead of this shutdown primarily on concerns that the Federal Reserve was becoming overly restrictive.

This suggests other factors, such as the longer-term economic trend, market fundamentals, and monetary policy play a role in market direction sufficient to overwhelm any short-term effects of a government shutdown.

S&P 500 performance during federal government shutdowns

Shutdown start	# of days	During shutdown
09/30/76	10	-3.4%
09/30/77	12	-3.2%
10/31/77	8	0.7%
11/30/77	8	-1.2%
09/30/78	17	-2.0%
09/30/79	11	-4.4%
11/20/81	2	-0.1%
09/30/82	1	1.3%
12/17/82	3	0.8%
11/10/83	3	1.3%
09/30/84	2	-2.2%
10/03/84	1	0.1%
10/16/86	1	-0.3%
12/18/87	1	0.0%
10/05/90	3	-2.1%
11/13/95	5	1.3%
12/15/95	21	0.1%
10/01/13	16	2.3%
01/20/18	2	0.8%
02/09/18	1	1.5%
12/22/18	35	10.3%
Average	**8**	**0.1%**
Median	**3**	**0.1%**
% Positive		**52%**

Source: Truist IAG, Congressional Research Service, FactSet
Past performance does not guarantee future results

Debt ceiling

The U.S. has been in debt every year except for 1835 and, in each instance the government eventually negotiated a budget. Further, there is no evidence among major economic data, e.g., real gross domestic product (GDP) or the unemployment rate, that either event would generate a measureable economic change in momentum or direction.

Lastly, the U.S. can afford to pay its debts and can easily service the interest on its debt. There is no practical risk of a default by U.S government.

Bottom line

Both the debt ceiling and government shutdowns are arbitrary high profile/low impact fiscal nuisances. While uncertainty around these events tends to heighten investor angst and add to short-term market volatility, the historical evidence suggests a minimal impact on the direction of the market.

Disclosures

Advisory managed account programs entail risks, including possible loss of principal and may not be suitable for all investors. Please speak to your advisor to request a firm brochure which includes program details, including risks, fees and expenses.

Truist Wealth is a marketing name used by Truist Financial Corporation. Services offered by the following affiliates of Truist Financial Corporation: Banking products and services, including loans and deposit accounts, are provided by SunTrust Bank and Branch Banking and Trust Company, both now Truist Bank, Member FDIC. Trust and investment management services are provided by SunTrust Bank and Branch Banking and Trust Company, both now Truist Bank, and SunTrust Delaware Trust Company. Securities, brokerage accounts and /or insurance (including annuities) are offered by Truist Investment Services, Inc., and P.J. Robb Variable Corp., which are each SEC registered broker-dealers, members FINRA, SIPC, and a licensed insurance agency where applicable. Life insurance products are offered through Truist Life Insurance Services, a division of Crump Life Insurance Services, Inc., AR license #100103477, a wholly owned subsidiary of Truist Insurance Holdings, Inc. Investment advisory services are offered by Truist Advisory Services, Inc., GFO Advisory Services, LLC, Sterling Capital Management, LLC, and Precept Advisory Group, LLC, each SEC registered investment advisers. Sterling Capital Funds are advised by Sterling Capital Management, LLC.

While this information is believed to be accurate, Truist Financial Corporation, including its affiliates, does not guarantee the accuracy, completeness or timeliness of, or otherwise endorse these analyses or market data. Revise

The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Truist Financial Corporation makes no representation or guarantee as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. The information contained herein does not purport to be a complete analysis of any security, company, or industry involved. This material is not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions and information expressed herein are subject to change without notice. TIS and/or its affiliates, including your Advisor, may have issued materials that are inconsistent with or may reach different conclusions than those represented in this commentary, and all opinions and information are believed to be reflective of judgments and opinions as of the date that material was originally published. TIS is under no obligation to ensure that other materials are brought to the attention of any recipient of this commentary.

Comments regarding tax implications are informational only. Truist and its representatives do not provide tax or legal advice. You should consult your individual tax or legal professional before taking any action that may have tax or legal consequences.

Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance.

TIS/TAS shall accept no liability for any loss arising from the use of this material, nor shall TIS/TAS treat any recipient of this material as a customer or client simply by virtue of the receipt of this material.

The information herein is for persons residing in the United States of America only and is not intended for any person in any other jurisdiction. Investors may be prohibited in certain states from purchasing some over-the-counter securities mentioned herein.

The information contained in this material is produced and copyrighted by Truist Financial Corporation and any unauthorized use, duplication, redistribution or disclosure is prohibited by law.

TIS/TAS's officers, employees, agents and/or affiliates may have positions in securities, options, rights, or warrants mentioned or discussed in this material.

Asset classes are represented by the following indexes. An investment cannot be made directly into an index.

S&P 500 Index is comprised of 500 widely-held securities considered to be representative of the stock market in general.

CN2021-3491 EXP12-2021