Quick Takes

MARKET UPDATE

OCTOBER 6, 2025

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Investing Through a Government Shutdown

The federal government shut down at midnight on Oct. 1, after lawmakers failed to pass a funding bill. If this sounds familiar, it is. This marked the 22nd shutdown since 1976 and the fourth under President Trump.

The immediate cause is a partisan standoff over healthcare subsidies. Republicans advanced a stopgap bill excluding them, triggering Democrats to suggest they will only approve the bill if the subsidies are extended. Note, only seven Democratic votes are needed along with all of the Republican votes to approve the stopgap bill.

Roughly 750,000 federal workers face furloughs or delayed pay, and the length of this shutdown remains uncertain as negotiations continue. As of Oct. 6, lawmakers remain at an impasse, and there is still no clear timeline for reopening the government.

FIGURE 1

Performance Monitor*		As of September 30, 2025
Asset Class	**1 Week (%)**	**Year-to-Date (%)**
Global Equities	**0.32**	**18.44**
U.S. Equities (65% of GE)	**0.49**	**14.83**
U.S. Large Cap Value	0.50	11.65
U.S. Large Cap Growth	0.22	17.24
U.S. Small Cap Value	(0.37)	9.04
U.S. Small Cap Growth	(1.19)	11.65
International Equities (28% of GE)	**0.26**	**25.14**
Intl. Value	0.56	31.92
Intl. Growth	(0.05)	18.55
Emerging Markets (7% of GE)	**0.00**	**27.53**
Municipal Bonds	**(0.25)**	**2.64**
Taxable Bonds	**(0.12)**	**6.13**

Despite the headlines, U.S. equities broadly advanced on Oct. 1 and continued momentum through the end of the week, led by large-cap growth and technology stocks. Gold also moved higher as investors sought hedges, while bond markets remained steady with Treasury yields little changed. The calm response echoes prior shutdowns, which have rarely caused meaningful damage.

Although the shutdown garnered many investors' attention, it's worth highlighting Q3 ended on a high note. U.S. equities are up 14.83% year-to-date, with large-cap value up 11.65% and large-cap growth even higher at 17.24%. Small caps nearly caught up, with value posting gains of 9.04% and growth 11.65%. Abroad, international developed equities gained 25.14%, with a weaker dollar and improved fundamentals propelling value by 31.92% and growth by 18.55%. Emerging market gains were similarly impressive, adding 27.53%.

Fixed income has been a volatile but positive contributor for 2025. Municipals came in at 2.64% while taxable bonds closed higher at 6.13%. Taken together, the third quarter ended with strong momentum for diversified portfolios (see **Figure 1**).

While portfolios are benefiting from positive year-to-date marks, investors are also asking whether the latest shutdown could shift the economic backdrop going forward.

Shutdowns disrupt many nonessential services but leave essential programs intact. What is deemed essential, however, is determined by each administration. Treasury auctions, Social Security, Medicare and Medicaid remain funded, while government data releases—including September's jobs report and October's inflation update—are currently suspended.

That creates a potential "data blackout" for the Federal Reserve ahead of its Oct. 28–29 meeting. Each week of disruption typically trims 0.1%–0.2% from GDP, often recouped later, but prolonged shutdowns can dent consumer confidence. The record 35-day standoff in 2018–19 coincided with a 7% decline in sentiment as captured by the University of Michigan's Consumer Confidence Survey. Ultimately, the drop proved temporary but there is always the risk a more prolonged deterioration could trickle down to household spending, business investment and hiring.

Past episodes—many of which were resolved within a few days—suggest the impact is usually modest and temporary.

As shown in **Figure 2**, even the record 35-day shutdown in 2018–19, the longest in U.S. history, left little immediate imprint on U.S. equity markets. Our analysis shows that the S&P 500 has generally held steady during shutdown periods and posted gains in the subsequent year, demonstrating that shutdowns on average don't typically derail portfolios.

Past resilience partly reflects the fact that furloughed workers historically returned with back pay and lost activity was eventually recouped. The political tone around the current standoff, however, raises questions about whether those patterns will repeat.

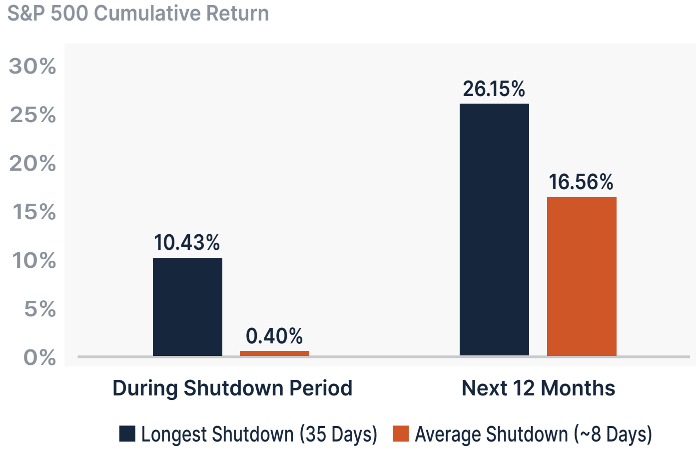
The main differentiator is that this time, the administration has floated the idea of permanently reducing the federal workforce concurrently. This rhetoric is unprecedented, and, if consummated, could turn what has traditionally been a temporary funding gap into a structural shift in government operations. While a smaller federal workforce could ease long-term fiscal pressures by lowering government spending, the economic and social costs of widespread layoffs could potentially outweigh the benefits.

Over the long run, the U.S. government will need to find ways to address persistent deficits, but durable solutions are more likely to come from bipartisan fiscal reforms rather than abrupt workforce reductions. For now, this remains rhetoric rather than policy, but we are monitoring developments closely.

If federal workers believe their jobs may not return, spending could fall more sharply than in prior episodes, with knock-on effects for consumption—the core driver of U.S. growth. Consumer-linked sectors and housing may be most exposed, while other sectors that depend on federal contracts could also face uncertainty.

FIGURE 2

Shutdowns in Perspective



Data as of 10/3/24. Source: Aspiriant analysis. Data from Bloomberg. Average calculated as a simple average, including all 21 shutdown periods since 1976. S&P 500 is a market-capitalization weighted index that includes the 500 most widely held companies chosen with respect to market size, liquidity and industry. All investments can lose value. The performance and volatility of an investor's portfolio will not be the same as the index. Indices are unmanaged and have no fees.

For markets, safe havens such as gold and cash-like instruments may continue to benefit if investors grow wary of prolonged dysfunction. Treasury auctions will proceed, but the risk of reduced fiscal stability could raise the term premium on U.S. debt, steepening the yield curve.

The bigger message for investors is that shutdowns have historically been bumps in the road, not barriers to long-term progress. Diversified portfolios—balanced across equities, bonds, alternatives, and safe havens—are designed to cushion against volatility and capture opportunity when markets misprice risk.

Shutdown headlines will continue to grab attention, but the main driver for markets this month may be the Federal Reserve's late-October policy meeting. With data releases on hold, the Fed could be forced to "drive blind," weighing caution against market expectations for another rate cut.

Either way, diversified portfolios remain positioned to weather near-term noise and stay on track toward long-term goals. Meanwhile, we'll continue to monitor consumer-linked sectors, duration positioning and opportunities to add ballast should gridlock persist.

For clients looking to dive deeper into this and other topics, we invite you to register for our upcoming **webinar**, where our Investment Team will share perspectives on the shutdown, Fed policy, year-end positioning and much more.

Disclosures: Source: Aspiriant analysis. Data from Morningstar, Bloomberg and the Federal Reserve Economic Database (FRED).

*U.S. Equities represented by the S&P 500 Index; a market-capitalization-weighted index that includes the 500 most widely held companies chosen with respect to market size, liquidity and industry. U.S. Large Cap Growth and Value Equities represented by the Russell 1000 Growth and Value Indexes; free float-adjusted market capitalization indexes that are designed to track large cap U.S. companies with either Value (lower price-to-book ratios and lower forecasted growth ratios) or Growth (higher price-to-book ratios and higher forecasted growth ratios) characteristics. U.S. Small Cap represented by the Russell 2000 Index, which measures the performance of the small-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. U.S. Small Cap Growth and Value represented by the Russell 2000 Growth and Value Indices, which measures the performance of the small-cap growth and value segments of the U.S. equity universe. Global Equities represented by the MSCI ACWI Index; a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of 23 developed and 26 emerging markets, including the United States. International Equities represented by the MSCI EAFE (Europe, Australasia, and Far East) Index; a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets excluding the U.S. and Canada. International Large Growth and Value represented by the MSCI EAFE Growth and Value Indexes (Europe, Australasia and Far East); free float-adjusted market capitalization indexes that are designed to measure the equity market performance of large and mid-cap developed markets exhibiting overall growth and value style characteristics, excluding the U.S. and Canada. Emerging Market Equities represented by the MSCI Emerging Markets Index, a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. Municipal Bonds represented by the Bloomberg Municipal Bond Index; an unmanaged index considered representative of the tax-exempt bond market. It consists of a broad selection of investment grade general obligation and revenue bonds of maturities ranging from one to 17 years. Taxable Bonds represented by the Bloomberg U.S. Aggregate Bond Index; a broad-based benchmark measuring investment grade, U.S. dollar-denominated, fixed-rate taxable bonds. No single index represents a benchmark for a globally diversified portfolio.

*The volatility of an index may be materially different than that of a model. Index returns assume the reinvestment of dividends and capital gains.