Weekly Market Perspectives

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Is The U.S. Government Headed For A Partial Shutdown?

With investors and lawmakers soon ready to focus their attention on the holidays, President-elect Trump and his key allies tossed a surprise curve ball on Wednesday that essentially threw out House Speaker Mike Johnson's deal to fund the government through March. If lawmakers cannot soon agree on a continuing resolution to temporarily fund the government, the U.S. will enter a partial government shutdown on Saturday at 12:01 am EST.

The scrapped 1547-page deal struck by the outgoing Congress to fund the government through March 14 included $100.4 billion for disaster relief funding caused by hurricanes Helen and Milton and $10 billion in economic assistance for farmers. However, the bill also included pay raises for Congress, reauthorization of a Department of Homeland Security program allowing Federal agencies to counter threats from drones, and several other "nonessential" spending items.

Bottom line: The spending bill originally proposed outraged fiscal hawks, especially based on an outgoing Congress. President-elect Trump and allies like Elon Musk quickly turned to social media on Wednesday after the bill's release on Tuesday to air their disapproval of several of the bill's nonessential spending items that ultimately tanked the legislation. Trump stated that a new deal to temporarily fund the government should include an agreement on the debt ceiling, which ends on January 1. Note: Even though the current suspension of the debt ceiling ends on January 1, the U.S. Treasury can use extraordinary measures to pay America's bills for several months into 2025.

On Thursday, House lawmakers scrambled to put together a new 116-page bill that would have extended government funding for three months, provided $100 billion in disaster relief and farm aid, and stripped out a series of other nonessential spending provisions in the earlier bill. Notably, the new bill included suspending the nation's borrowing limit for two years. In a hastily called vote on Thursday night, several dozen GOP House members joined Democrats in rejecting the new bill, which President-elect Trump endorsed.

So, where does this leave us? Obviously, we look to be headed for a partial government shutdown if lawmakers can't strike a deal before tonight at midnight (Dec. 20). Notably, including a debt ceiling increase or suspension was not discussed by lawmakers in the original bill and offers a challenge in a still currently divided Congress, and one where debt ceiling negotiations have more recently accompanied deeper compromises on spending.

In our view, the market may become more volatile next week if a government shutdown lingers through the weekend and into early next week. It's likely one reason stocks failed to gain traction throughout the trading session on Thursday following Wednesday's steep stock declines following the Fed decision**. Bottom line: Investors are paying closer attention to Washington these days, given uncertainties surrounding the incoming Trump administration and growing concerns about U.S. deficits and the country's mounting debt issues.** We would expect markets to react negatively, at least on the margins, to a government shutdown and headlines that show an impasse on quickly moving a continuing resolution forward to fund the government.

From a market and government data perspective, nonessential operations are usually affected the most during partial government shutdowns. Government data from the likes of the Bureau of Economic Analysis and the Labor Department, for example, could be delayed depending on how “essential” and “nonessential” is defined in each area. PCE data is out today and won’t be affected. If a shutdown occurs and it lingers through next week, Durable Goods, New Home Sales and weekly jobless data could be key reports affected.

Nevertheless, in terms of government releases, and on a possible delay during an extended government shutdown, we wouldn’t worry too much on this front — at least over the very near term. Now, through the end of the year, market-moving government data is light. However, in a worst-case scenario where a government shutdown lingers into January, it could affect the December nonfarm payrolls report, which is scheduled for release on January 3.

In the 2018-2019 government shutdown, the nonfarm payrolls report was released because it was deemed “essential.” However, during the 2013 government shutdown, the nonfarm payrolls report wasn’t released until after the shutdown ended. In our view, it will depend on what the Bureau of Labor Statistics determines “essential” and what functions and data it prioritizes. As an alternative to a delayed nonfarm payroll report early next year, the December ADP private payrolls could carry more weight than it usually does that week. At the end of the day, fundamental conditions in the U.S. economy appear solid, and investors will eventually receive any delayed economic reports from the government should such a situation arise.

Bottom line: While market reactions can vary from shutdown to shutdown, stocks, in general, do not perform well heading into the shutdown when uncertainty is ramping higher. However, stocks can start to perform better during the shutdown as lawmaker’s backs are against the wall to get a deal done and before they begin to take on potential political damage from their constituents. And once the shutdown is over, stocks tend to bounce back and recenter on the fundamentals that drive stock prices longer-term, such as growth, profits, and the level of interest rates. In our view, each of these measures remains positive heading into next year, as outlined in our 2025 Outlook and Themes reports released this week.