

Navigating government shutdowns



S&P 500 Performance During and After Government Shutdown

Start of Shutdown	Reopen Date	Length (Days)	S&P 500 Return	S&P 500 12 Months After End	President	Senate	House
Sep. 30, 1976	Oct. 11, 1976	11	-3.5%	-6.6%	Ford	D	D
Sep. 30, 1977	Oct. 13, 1977	13	-2.5%	12%	Carter	D	D
Oct. 31, 1977	Nov. 9, 1977	9	0.4%	1.5%	Carter	D	D
Nov. 30, 1977	Dec. 9, 1977	9	-1%	3.2%	Carter	D	D
Sep. 30, 1978	Oct. 18, 1978	18	-2%	3.1%	Carter	D	D
Sep. 30, 1979	Oct. 12, 1979	12	-4.4%	24.7%	Carter	D	D
May 1, 1980	May 1, 1980	1	-0.8%	25.8%	Carter	D	D
Nov. 20, 1981	Nov. 23, 1981	3	0.7%	9.3%	Reagan	R	D
Sep. 30, 1982	Oct. 2, 1982	2	0.3%	36.2%	Reagan	R	D
Dec. 17, 1982	Dec. 21, 1982	4	2.4%	18%	Reagan	R	D
Nov. 10, 1983	Nov. 14, 1983	4	1.6%	-0.4%	Reagan	R	D
Sep. 30, 1984	Oct. 3, 1984	3	-2.2%	13.5%	Reagan	R	D
Oct. 3, 1984	Oct. 5, 1984	2	-0.6%	12.6%	Reagan	R	D
Oct. 16, 1986	Oct. 18, 1986	2	0.0%	18.4%	Reagan	R	D
Dec. 18, 1987	Dec. 20, 1987	2	2.5%	11.9%	Reagan	D	D
Oct. 5, 1990	Oct. 9, 1990	4	-2.1%	23.2%	G.H.W. Bush	D	D
Nov. 13, 1995	Nov. 19, 1995	6	1.2%	22.8%	Clinton	R	R
Dec. 15, 1995	Jan. 6, 1996	22	0.0%	21.3%	Clinton	R	R
Oct. 1, 2013	Oct. 17, 2013	16	3.1%	8.9%	Obama	D	R
Jan. 19, 2018	Jan. 22, 2018	2	0.8%	-7.1%	Trump	R	R
Feb. 9, 2018	Feb. 9, 2018	1	1.5%	3.4%	Trump	R	R
Dec. 21, 2018	Jan. 25, 2019	34	10.3%	23.7%	Trump	R	R
Average		8.2	0.3%	12.7%			
Median		4.0	0.1%	12.3%			

Now that the U.S. government is in another shutdown—and this one with the potentially higher stakes of some permanent federal job cuts—the question has become: "What is an investor to do?" Without offering specific advice, as everyone's situation is different, let's take history as a potential guide.

Our chart this week displays the dates and durations of government shutdowns since 1976, along with the names of the presidents and the party with the majority in each house of Congress. As we can see, government shutdowns appear to be a bipartisan event. They have occurred under presidents of both parties and with both parties controlling both the House of Representatives and the Senate. This was one of the more interesting aspects of the data. Intuitively, it would seem to make more sense that we would have more disagreements leading to a shutdown if there were mixed leadership between the Executive branch and the Legislative branch in Washington. Instead, the longest shutdown, lasting 34 days, occurred during President Trump's first administration with control of both houses of Congress. And I did not recall the frequency and duration of the multiple shutdowns during the Jimmy Carter administration from 1977 to 1980. And in fairness, President Reagan, the Great Communicator, had a string of shutdowns as well, although they tended to be shorter.

Clearly, government shutdowns are not new, nor are they the product of one political party over another. What is also apparent, if we look at the performance of the S&P during, and then twelve months post the shutdown, is that investors are generally not hurt by these actions. It is not surprising that the price action during the shutdown is more mixed. On any given day or week, the market's direction can vary. And any time we lengthen investment horizons, the percentage of positive outcomes goes up, but there have only been three instances of stocks being negative twelve months post a government shutdown, with an average return of over 12%.

Much of this might come from the fact that, despite the reasons for the shutdown, the solution normally results in more government spending and faster economic growth. Does this mean higher government spending is the key to economic growth? Of course not. But higher government spending is additive to growth as measured by GDP, and in the end, stock investors like growth a lot more than austerity.

So, back to the original question, "What is an investor to do?" Stick with the plan you have in place. And if you don't have a plan? Let's talk.