How the U.S. Government Shutdown Could Impact You

Expect slower growth and more volatility in the short term   February 4, 2019

Main Points

Expect weaker economic growth in Q1 due to the U.S. government shutdown.

Slower economic growth could cause a short-term drop in the stock market.

Increasing policy uncertainty is likely to cause wild swings in financial markets.

We've just experienced the longest partial government shutdown in U.S. history (35 days). And we're at risk of having another shutdown in mid February.
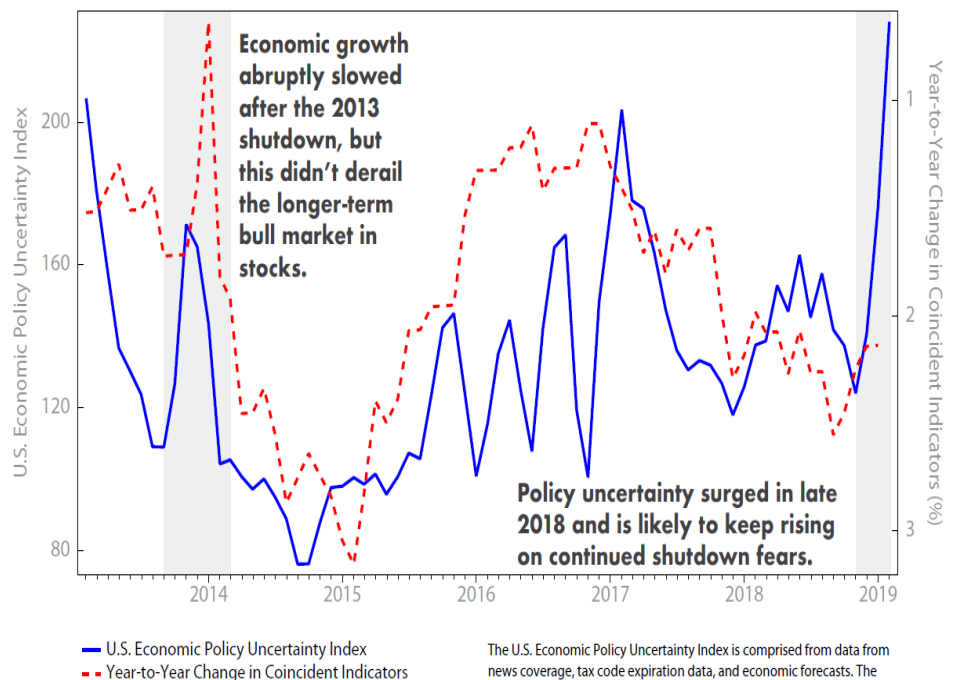
Three ways this could impact you and your portfolio:

1. Expect weaker economic growth in Q1.

Past shutdowns have slowed economic growth in the months that have followed. **Economic slowing after shutdowns is typically short-lived, but may linger longer this time**.

Estimates vary between 0.1% and 0.2% subtraction from real GDP growth for every two weeks that the government was partially closed. According to the Bureau of Economic Analysis, the 2013 shutdown, which lasted for 16

days, subtracted 0.3% from real GDP growth in Q4 of that year. Trump's own economic policy advisors think the impact could be worse – a reduction of 0.13% each week the shutdown continued.

2. Slower economic growth could cause the stock market to drop.

Stock market performance is driven by expected economic growth and earnings expectations. So weaker-than-expected growth could cause short-term weakness in stocks, but it shouldn't derail the longer-term bull market.

3. Increasing policy uncertainty is likely to cause wild swings in financial markets.

The dysfunction in Washington has resulted in a spike in the Economic Policy Uncertainty Index, a measure of sentiment, as **shown below**. Policy uncertainty has historically been detrimental to business spending and weighs on overall economic growth.

Investors don't like uncertainty -- so **expect more wild swings in the financial markets** until the cloud of uncertainty is permanently lifted**.**

Increased policy uncertainty weighs on economic growth

Economic growth abruptly slowed after the 2013 shutdown, but this didn't derail the longer-term bull market in stocks.

Policy uncertainty surged in late 2018 and is likely to keep rising on continued shutdown fears.

— U.S. Economic Policy Uncertainty Index
----- Year-to-Year Change in Coincident Indicators

The U.S. Economic Policy Uncertainty Index is comprised from data from news coverage, tax code expiration data, and economic forecasts. The data shown represents a 3-month moving average. High index values are typically associated with weaker economic activity.
Coincident Indicators are a measure of U.S. economic growth. The data is shown in an inverted scale.
Source: Haver Analytics