2 October 2025

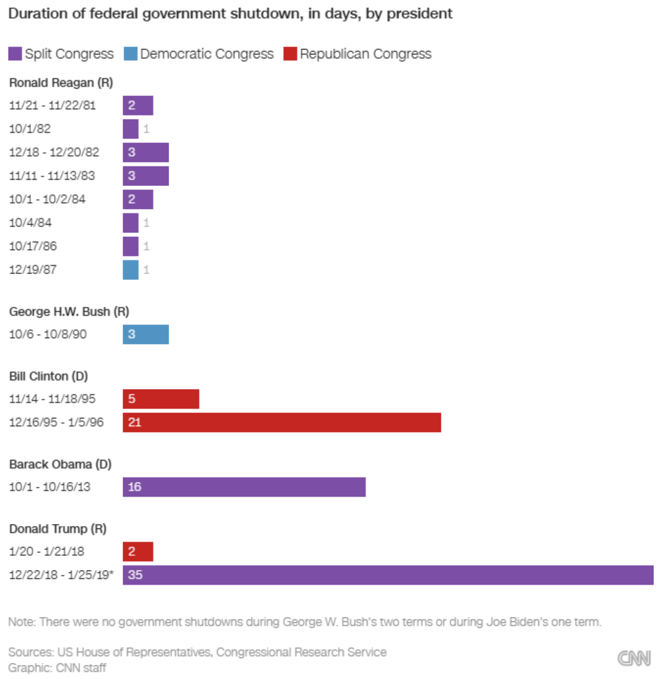
Shutdown Showdown: USA on standby

The current government shutdown, which took effect on October 1, 2025, marks the 15th such shutdown since 1981. Unlike previous episodes, this time the focus is not only on fiscal policy differences, but also on structural reforms of the government apparatus and the future of healthcare for millions of Americans. While capital markets have historically generally taken such government shutdowns in stride, the current situation presents some novel risks that warrant close monitoring.

A foreseeable crisis

The roots of the current shutdown lie in a familiar political constellation: a divided Congress and irreconcilable positions between Republicans and Democrats. Republicans under President Trump are demanding a "clean" interim solution to fund the government until November, while Democrats are insisting on an extension of the Affordable Care Act's expanded health subsidies, which were set to expire at the end of 2025. These subsidies, which have enabled millions of Americans to lower their health insurance premiums since 2021, are at the center of a dispute over more than $1 trillion in health care spending over a ten-year period.

What distinguishes the current shutdown from previous ones, however, is the threat of permanent job cuts by the Trump administration. Estimates suggest that up to 750,000 government employees could be furloughed; they will not receive their pay until Congress approves funding and the shutdown ends. Employees classified as "essential" will remain on duty but will also not be paid until Congress has reached a funding agreement. Unlike traditional furloughs, which are reversed after the shutdown, the Office of Management and Budget is planning so-called "reductions-in-force" (RIFs) – permanent layoffs of federal employees whose work allegedly does not align with the president's priorities. This tactic, which is legally controversial and has already led to union lawsuits, adds a new dimension to the current crisis that goes beyond conventional budget battles. President Trump's budget chief, Russell Vought, is pursuing the goal of a leaner government. Funding cuts would therefore be more than welcome.



Capital market reactions: shutdown versus debt ceiling

Capital markets have traditionally responded to government shutdowns with remarkable composure. An analysis of shutdowns since 1990 reveals a surprising pattern: In most cases, the S&P 500 recorded positive returns during the shutdown. The performance during the 35-day shutdown from December 2, 2018, to January 25, 2019, was particularly remarkable, when the index gained more than 10 percent despite (or perhaps because of) the political paralysis. This counterintuitive development can be explained by several factors: First, market participants now understand that shutdowns are only temporary political dramas that have no lasting impact on corporate profits. Second, markets have become accustomed to the recurring nature of these crises.

There is an important distinction between a government shutdown and a debt ceiling crisis. While a shutdown merely halts the funding of non-essential government functions, a debt ceiling crisis threatens the US's ability to service its existing debt, a scenario with potentially catastrophic consequences for the US and global financial markets.

With the current shutdown, the US can continue to pay interest and principal on its government bonds because the debt ceiling has already been raised. A debt ceiling crisis, on the other hand, would create a default risk for US Treasuries for the first time in modern history. The economic impacts would be correspondingly diverse: While shutdowns typically cause temporary GDP losses of 0.1 to 0.2 percentage points per week, which are largely recovered later, a debt ceiling crisis could result in permanent damage to the US creditworthiness and higher borrowing costs.

US Federal Reserve: Monetary policy without a compass

A particular challenge of the current shutdown is the interruption of key economic data streams. The Bureau of Labor Statistics has already announced that it will not publish any reports during the shutdown, meaning the labor market report scheduled for October 3rd is very likely to be canceled. The Department of Labor's monthly inflation report is also at risk, and with it, important information for the Federal Reserve, which must decide on further interest rate cuts on October 28th/29th. A loss of key statistics could further complicate the already delicate balance between inflation control and labor market support. The Fed would have to rely more heavily on alternative indicators such as the ADP employment report or weekly state unemployment figures. Historically, such data gaps have had little impact on monetary policy, but in the current situation, with rising inflation since April and a weakening labor market, any additional uncertainty could become problematic. The direct effects of the shutdown vary considerably across different economic sectors. Companies that rely heavily on government contracts are particularly hard hit. During the 2013 shutdown, for example, the defense contractor Lockheed Martin furloughed 3,000 employees who worked in government buildings or relied on government inspectors. Similar effects are expected this time for defense contractors and government service providers. According to the U.S. Travel Association, the travel and tourism industry expects losses of one billion dollars per week. While TSA employees and air traffic controllers continue to work without pay, previous shutdowns led to staff shortages and delays at airports. The 433 National Park Service locations are being closed, resulting in revenue losses not only for the parks themselves but also for the surrounding communities, estimated at up to $77 million per day. In the financial sector, however, providers of alternative data sources often benefit. Since official government statistics are not available, private providers such as ADP (labor market data) or fintech companies with real-time indicators are gaining importance.

Health care as an election campaign issue

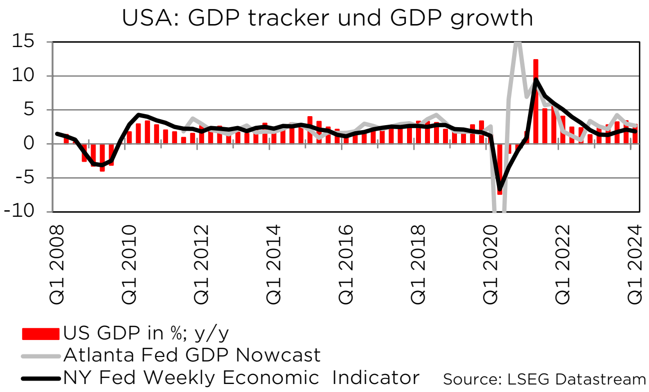
The core of the current conflict lies not only in budgetary differences, but in fundamentally different visions of Republicans and Democrats regarding American healthcare. The expanded ACA subsidies at issue have provided health insurance to approximately 24.3 million Americans since 2021, of whom 22.4 million receive government subsidies. Without an extension, the average out-of-pocket cost could rise from $888 to $1,904 annually, which, according to the Congressional Budget Office, could cost 4.2 million Americans their insurance. What makes it particularly explosive is that the affected voters often live in politically contested states where both Republicans and Democrats are seeking to defend or win Senate seats. This explains the caution of some Republicans, who fear that drastically rising insurance premiums could be politically damaging shortly before the 2026 midterm elections. While the direct economic impact of the shutdown is likely to remain limited, the recurring political crises are sending a problematic signal to the capital markets. Moody's had already warned that the shutdown would be "credit-damaging" for the United States and underscore the weakness of the United States' institutional and governmental strength compared to other AAA-rated countries. Indeed, all three major rating agencies have repeatedly warned of the United States' fiscal and budgetary risks in recent years. Further downgrades could increase the government's financing costs and exacerbate volatility in the financial markets.

Outlook: Scenarios and probabilities

The most likely scenario is an agreement within days or weeks, driven by public pressure due to the impact on federal employees and critical services. The first cracks are already appearing in the Democratic ranks: Three senators voted for the Republican proposal, while six Democrats, who had supported a temporary solution in March, rejected it this time.

However, a longer shutdown of more than three weeks would have serious economic consequences. As a rule of thumb, each week of downtime could reduce GDP by 0.1 to 0.2 percentage points. The Congressional Budget Office calculated economic losses of $11 billion for the 35-day shutdown of 2018-2019, $3 billion of which were permanent. It would be particularly risky if the Trump administration actually implements massive layoffs. This would not only permanently weaken the federal government's capacity, but could also set a precedent for future shutdowns and redefine the boundaries between legislative and executive power.

On the one hand, current market developments confirm historical experience that American markets and the economy usually survive such government shutdowns unscathed. The likelihood of a quick agreement is high, and shutdowns have rarely caused lasting damage to markets in the long term. For investors with a longer investment horizon, history therefore offers reason for optimism. On the other hand, this shutdown exhibits new characteristics, from the threatened permanent job cuts to the structural reforms of the government apparatus; these go far beyond traditional budget battles. The combination of a weakening labor market, rising inflation, and now the lack of economic data is creating a more complex environment for the Federal Reserve and the markets.



Ultimately, current developments underscore that fiscal confrontation between political parties is increasingly becoming the norm in American politics. What was once the exception, the deliberate acceptance of financial or fiscal disaster, has now become routine. For international investors and partners, this is a signal that the US political system is becoming increasingly dysfunctional – a development that could well have long-term implications for the global role of US politics and the attractiveness of American assets. While the immediate market risks may be limited, the structural challenges to American democracy and its international credibility grow with each shutdown.

Carsten Klude

Market data

Stock marktes	As of 02.10.2025 15:46	Change versus 25.09.2025 -1 week	01.09.2025 -1 month	01.07.2025 -3 months	01.10.2024 -1 year	31.12.2024 YTD
Dow Jones	46520	1,2%	2,1%	4,6%	10,3%	9,3%
S&P 500	6777	2,6%	4,9%	9,3%	18,7%	15,2%
Nasdaq	22892	2,3%	6,7%	13,3%	27,8%	18,5%
DAX	24492	4,1%	1,9%	3,5%	27,5%	23,0%
MDAX	30918	2,9%	1,5%	2,2%	15,2%	20,8%
TecDAX	3742	3,6%	0,1%	-2,7%	10,5%	9,5%
EuroStoxx 50	5668	4,1%	5,6%	7,3%	14,4%	15,8%
Stoxx 50	4753	4,0%	4,1%	6,7%	6,9%	10,3%
SMI (Swiss Market Index)	12449	4,8%	2,2%	4,1%	3,0%	7,3%
Nikkei 225	44937	-1,8%	6,5%	12,4%	16,3%	12,6%
Brasilien BOVESPA	145528	0,2%	3,0%	4,3%	9,8%	21,0%
Indien BSE 30	80983	-0,2%	0,8%	-3,2%	-3,9%	3,6%
China CSI 300	4641	1,0%	2,6%	17,7%	15,5%	17,9%
MSCI Welt	4323	1,7%	3,5%	7,5%	17,0%	16,6%
MSCI Emerging Markets	1353	0,7%	6,8%	10,0%	15,4%	25,8%
Bond markets						
Bund-Future	128,59	59	-59	-190	-729	-485
Bobl-Future	117,79	26	49	1	-265	-7
Schatz-Future	106,98	3	-5	-30	-29	-1
3 Monats Euribor	2,02	4	-6	6	-124	-70
3M Euribor Future, Dec 2025	2,03	1	6	23	26	13
3 Monats $ Libor	4,01	-3	-22	-39	-70	-36
10 year US Treasuries	4,11	-4	-9	-14	38	-46
10 year Bunds	2,71	-2	1	14	67	35
10 year JGB	1,67	3	6	28	81	59
10 year Swiss Government	0,26	3	-8	-14	-12	-1
US Treas 10Y Performance	635,10	0,6%	1,3%	2,3%	1,5%	7,3%
Bund 10Y Performance	560,97	0,5%	0,5%	-0,2%	-2,8%	-0,6%
REX Performance Index	458,59	0,2%	0,2%	-0,2%	0,4%	1,3%
IBOXX AA, €	3,12	-4	-4	5	23	8
IBOXX BBB, €	3,42	-3	-5	-1	1	-4
Commodities						
MG Base Metal Index	448,13	0,2%	3,3%	3,5%	1,1%	10,5%
Crude oil Brent	64,84	-6,7%	-4,9%	-3,4%	-13,1%	-13,2%
Gold	3886,35	4,1%	11,7%	16,3%	46,1%	48,0%
Silver	32,54	0,0%	0,0%	0,0%	3,1%	9,6%
Aluminium	2685,79	1,1%	2,7%	3,4%	1,7%	6,3%
Copper	10338,15	1,1%	5,5%	2,9%	5,1%	19,5%
Iron ore	104,02	-1,4%	2,2%	11,4%	-4,3%	0,4%
Freight rates Baltic Dry Index	1980	-12,6%	-2,2%	35,8%	-2,5%	98,6%
Currencies						
EUR/ USD	1,1727	-0,1%	0,1%	-0,7%	5,8%	12,9%
EUR/ GBP	0,8725	-0,3%	0,9%	1,6%	4,7%	5,5%
EUR/ JPY	172,60	-1,2%	0,1%	2,3%	8,3%	5,9%
EUR/ CHF	0,9352	0,1%	-0,3%	0,3%	-0,4%	-0,6%
USD/ CNY	7,1190	-0,3%	-0,3%	-0,7%	1,3%	-2,6%
USD/ JPY	147,07	-1,8%	-0,1%	2,5%	2,4%	-6,4%
USD/ GBP	0,74	-0,7%	0,8%	2,1%	-1,1%	-6,8%

Source: LSEG Datastream

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