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Do Government Shutdowns Hurt Equity Markets?

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Chart 1: Stock Market Returns Over Time

On October 1st, the United States government failed to pass a spending measure, causing a partial shutdown of certain "non-essential" government operations. A majority of key services like Social Security, Medicare, the DMV, the IRS, and the military will remain open and functioning, though most agencies will have some number of employees furloughed until the funding is restored. However, some employees, like air traffic controllers, are considered essential and must continue working even though they won't receive paychecks until the shutdown ends. Fortunately, a law passed in 2019 guarantees that all federal workers will receive full back pay once the government reopens.

Despite dominating both traditional and financial media, government shutdowns do not tend to have a significant impact on the economy or the stock market. Chart 1[1] shows the S&P 500 in orange with past government shutdowns over the last 50 years highlighted in green. Despite a multitude of shutdowns, there has been no noticeable effect on the stock market. The closest recession following a government shutdown was 14 months, and that recession was brought on by the pandemic in 2020, not related to any economic weakness from the government remaining closed in 2018. Although government shutdowns can be socially and politically disruptive, they have little to no impact on the broader economy or long-term investment performance.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

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[1] Data Obtained from Bloomberg as of 10.8.2025