Why Investors Look Past Gridlock

The October 1 deadline has passed, and the U.S. government has shut down. While political gridlock is never ideal, history suggests that shutdowns tend to be short-lived and have minimal sustained impact on the economy or the stock market. They are largely about political posturing and therefore don't take long to get resolved. Simply put, delaying Social Security checks is not a winning political strategy, so it almost certainly won't happen (we can't make guarantees, but this is close).

Republicans do need votes from Democrats, and we know there hasn't been much nice playing in the sandbox in Washington, D.C. lately, introducing the possibility of an extended shutdown. Democrats are seeking healthcare concessions, including reversing Medicaid cuts and extending Affordable Care Act subsidies. Meanwhile, the Republicans are threatening more public-sector layoffs in areas not aligned with the President's priorities, as each side stakes out its position.

Investors have smartly looked past budget disruptions throughout history, rightly focusing on traditional fundamental drivers of the economy and stock market such as corporate earnings, consumer spending, business investment, inflation, and interest rates. That said, sectors heavily reliant on government contracts — such as defense and life sciences — may experience some short-term volatility. An extended shutdown, which could delay key economic data releases, including the October jobs report, could detract slightly from economic growth but is unlikely to be material, in our view.

Since 1976, the U.S. has experienced 20 shutdowns, averaging just eight days in duration. The longest, in 2018–2019, lasted 34 days. Importantly, the S&P 500 has historically posted average gains of 1.2% and 2.9% in the one-and three-month periods following budget resolutions, underscoring the market's resilience, though past performance does not guarantee future results. Even if investors ignore the government shutdown, a pause may be in order given how far stocks have come since April — even as more tariffs are absorbed.

While we see rising odds of a 5–10% pullback, risk to this bull market appears low thanks to a resilient economy, strong earnings, the resumption of the Fed's rate-cutting cycle, and long-term catalysts like AI-driven productivity gains and fiscal stimulus from the One Big Beautiful Bill Act (OBBBA).

In short, while near-term volatility is possible, or perhaps even likely, the broader outlook remains constructive. We encourage investors to emphasize stock market fundamentals over political theater.

As always, we remain focused on helping you stay aligned with your long-term goals and will continue to monitor developments closely. If you have any questions about how this environment may affect your plan, please don't hesitate to reach out.

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Planning to go the Distance

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All data is provided as of October 1, 2025.

All index data from FactSet.

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Tracking #804125 | #804128 (Exp. 10/2026)

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