



Rapid Reaction

GOVERNMENT SHUTDOWN

Rapid Reaction

GOVERNMENT SHUTDOWN



Background

The government is poised to shutdown if a funding bill isn't passed by September 30th. Speaker McCarthy is attempting to corral Republican support for a bill but is facing demands from the rightmost flank of the Republican caucus, including disagreements over funding for Ukraine. As of this writing, the House is expected to vote Tuesday evening on a package of bills, but it is not yet clear that he has the support needed.

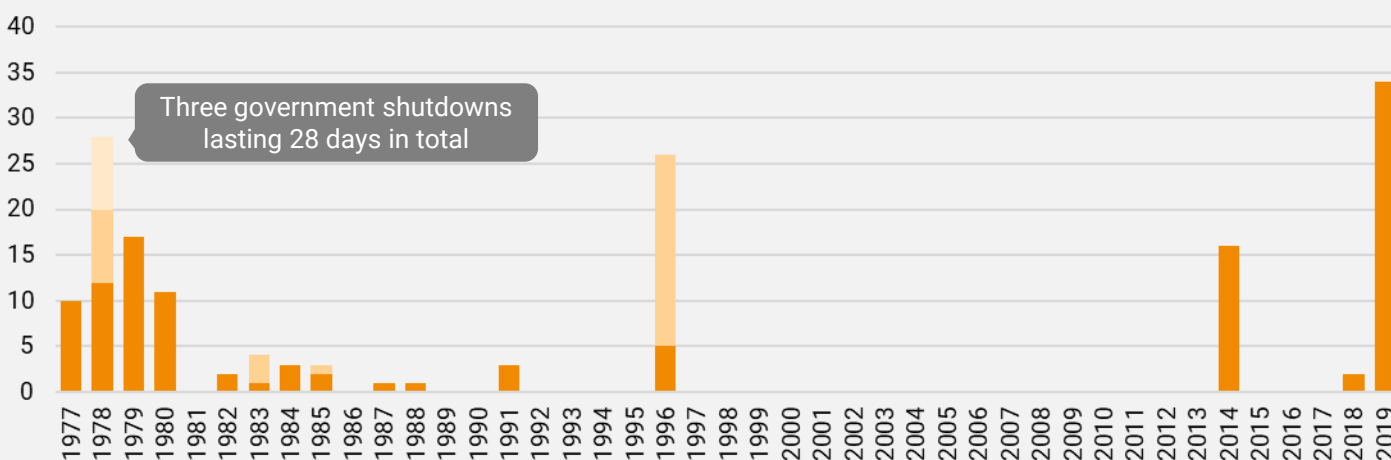
Meanwhile, the Senate is moving forward with its own bipartisan short-term funding bill, though expectations are that the House would be unlikely to bring the bill to the floor or Speaker McCarthy could risk losing his speakership. If the House's Tuesday evening vote fails, expect more bluster coming out of DC as the week moves on.

Looking Ahead

Typically, government shutdowns are fairly short. The longest shutdown in the last few decades came in 2019 and lasted 34 days, but most shutdowns tend to be shorter than 15 days. Like most political events, thankfully markets don't tend to meaningfully react. The following page shows a table of market movements before, during, and after government shutdowns over the last few decades.

However, it's worth remembering that political dysfunction was one of the primary reasons Fitch gave when it downgraded the US government's credit rating. This week, Moody's – the only remaining agency giving the US a top rating – implied that its rating may be at risk ahead of the potential shutdown. Moody's analysts noted while "debt service payments would not be impacted and a short-lived shutdown would be unlikely to disrupt the economy, it would underscore the weakness of US institutional and governance strength..."

DURATION OF US GOVERNMENT SHUTDOWNS BY FISCAL YEAR



Source: Helios Quantitative Research, Bloomberg, House of Representatives
Helios Quantitative Research LLC ("Helios") is associated with, and under the supervision of, Clear Creek Financial Management, LLC ("Clear Creek"), a Registered Investment Adviser. Advisory services are only offered to clients or prospective clients where Clear Creek, and its representatives are properly licensed or exempt from licensure. This document is solely for informational purposes. Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital. No advice may be rendered by Clear Creek or its representatives unless a client service agreement is in place.

Rapid Reaction

GOVERNMENT SHUTDOWN



Looking Ahead (cont.)

As we've noted, market reactions are inconsistent across prior shutdowns.

The table on the right summarizes the S&P 500's price movements before, during, and after shutdowns going back to the late 1970s. There is little consistency across those time periods and the length of the shutdown does not appear to have any significant correlation to the market movements either.

While political dysfunction seems to be playing an increasing role in credit rating agencies assessment of the fiscal strength (or lack thereof) of the US government, the bond market will react well ahead of rating agencies.

Whether or not the government shuts down this weekend will have little lasting impact on investors beyond having to suffer another round of headache-inducing headlines and political quotes, something we're sure to see again sometime soon.

S&P 500 PRICE MOVEMENTS RELATIVE TO SHUTDOWNS

Fiscal Year	Date Funding Ended	Date Funding Restored	Duration (Days)	10 Days Before	During	10 Days After
1977	9/30/1976	10/11/1976	10	-1.02%	-3.42%	-0.86%
1978	9/30/1977	10/13/1977	12	0.67%	-3.18%	-1.22%
1978	10/31/1977	11/9/1977	8	0.02%	0.69%	2.53%
1978	11/30/1977	12/9/1977	8	-0.52%	-1.24%	-1.03%
1979	9/30/1978	10/18/1978	17	0.80%	-2.00%	-5.87%
1980	9/30/1979	10/12/1979	11	-1.08%	-4.42%	-3.62%
1982	11/20/1981	11/23/1981	2	-0.81%	-0.09%	2.89%
1983	9/30/1982	10/2/1982	1	-1.71%	1.29%	10.22%
1983	12/17/1982	12/21/1982	3	-3.66%	0.81%	1.46%
1984	11/10/1983	11/14/1983	3	0.53%	1.32%	0.23%
1985	9/30/1984	10/3/1984	2	-0.82%	-2.20%	1.07%
1985	10/3/1984	10/5/1984	1	-1.95%	0.15%	1.90%
1987	10/16/1986	10/18/1986	1	2.02%	-0.29%	0.18%
1988	12/18/1987	12/20/1987	1	6.07%	0.00%	-0.52%
1991	10/5/1990	10/9/1990	3	1.05%	-2.05%	2.42%
1996	11/13/1995	11/19/1995	5	0.29%	1.31%	1.26%
1996	12/15/1995	1/6/1996	21	-0.22%	0.06%	-1.34%
2014	9/30/2013	10/17/2013	16	-1.66%	3.07%	1.54%
2018	1/19/2018	1/22/2018	2	2.14%	0.81%	-0.39%
2019	12/21/2018	1/25/2019	34	-8.35%	10.27%	2.26%

Minimum	-8.35%	-4.42%	-5.87%
Average	-0.41%	0.04%	0.66%
Maximum	6.07%	10.27%	10.22%

Important Disclosures



This commentary is produced by Helios Quantitative Research LLC (“Helios”) and is for informational purposes only. Helios Quantitative Research LLC (“Helios”) is associated with, and under the supervision of, Clear Creek Financial Management, LLC (“Clear Creek”), a Registered Investment Advisor. Helios provides research services to financial advisors who have executed a written agreement with Clear Creek or its representatives. The research, analysis, and views reflected in this commentary are subject to change at any time without notice.

Nothing in this commentary constitutes investment advice, performance data, or any recommendation of a particular security, portfolio of securities, or investment strategy as suitable for any specific person and is intended for use only by a third-party financial advisor, with other information, as an input in the development of investment advice for its own clients. Financial advisors are responsible for providing customized investment advice for each of their clients based on their unique risk tolerance and financial circumstances. Helios is not responsible for determining whether this commentary is applicable or suitable for financial advisor’s clients or for providing customized recommendations for any of financial advisor’s clients. Such financial advisors are responsible for making their own independent judgment as to how to use this information. Financial advisors must determine whether or not the securities are appropriate for their clients as Clear Creek and its representatives do not consider investor suitability when determining investment opinions. Only an investor and their financial advisor know enough about their circumstances to make an investment decision. Neither Clear Creek nor its representatives have investment discretion over or place trade orders for any portfolios or accounts derived from this information. Any mention of a particular security and related performance data is not a recommendation to buy or sell that security. There is no guarantee that any security illustrated will be successful or achieve any particular level of results.

Any presentation of back-tested performance are hypothetical, were compiled after the end of the period advertised, and do not represent decisions made by Helios during the period described. Advisory services are only offered to clients or prospective clients where Clear Creek and its representatives are properly licensed or exempt from licensure.

Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital.

© 2023 Helios Quantitative Research LLC. All rights reserved.