

Odds and Implications of a Government Shutdown

It's increasingly unlikely that members of Congress will pass the required budget agreements or grant themselves additional time through a continuing resolution before the September 30 deadline, meaning the chance of a federal government shutdown on October 1 is now more likely than not.

All federal agency workers considered *non-essential* would not report for work after midnight on Saturday. Those deemed essential include postal employees, federal aviation workers, and active duty military. All will receive pay retroactively, as will the nonessential sidelined workers.

Existing Social Security and veterans benefits will be unaffected. New filings may be delayed. The Supplemental Nutrition Assistance Program (SNAP) will continue to provide assistance to 40 million low income families *through October*, but according to Agriculture Secretary Tom Vilsack, the "vast majority" of the 7 million participants in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) could experience cuts within days of a shutdown.

Economic releases would be delayed as employees of the Bureau of Labor Statistics and the Census Bureau would be sidelined. This suggests the Fed officials would be at an information disadvantage while making critical policy decisions. The Federal Reserve will remain open.

Shutdowns don't typically last more than a few days, although the government was closed for a record 34 days from December 2018 to January 2019. During this time, 800,000 federal workers were furloughed. Surprisingly, the cost to GDP (according to the CBO) was only \$3 billion, which is a fraction of the Fed's rule of thumb estimate. This time, the bigger cost might be diminished faith in a political system that's already devoid of public confidence. Moody's, the last of the three major credit agencies to maintain U.S. sovereign debt at Aaa, indicated earlier this week that a shutdown could prompt them to lower their rating.

During the 2018-19 shutdown, bonds actually rallied (yields fell). As the deadline approaches this time, there's little indication that a bond market rally is being queued up. And, the uncertainty of a government shutdown without a clear timetable for reopening doesn't bode well for equities.

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Market Indications as of 11:21 A.M. Central Time

DOW	Up 177 to 33,727 (HIGH: 36,800)
NASDAQ	Up 154 to 13,247 (HIGH: 16,057)
S&P 500	Up 31 to 4,306 (HIGH: 4,797)
1-Yr T-bill	current yield 5.48%; opening yield 5.46%
2-Yr T-note	current yield 5.10%; opening yield 5.13%
3-Yr T-note	current yield 4.87%; opening yield 4.89%
5-Yr T-note	current yield 4.68%; opening yield 4.68%
10-Yr T-note	current yield 4.62%; opening yield 4.61%
30-Yr T-bond	current yield 4.74%; opening yield 4.72%

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