

Delay of Essential Data Expected as Government Shutdown Appears Imminent

The state of the economy has grown increasingly tough to measure, and it's about to get worse as a looming government shutdown threatens to shutter the agencies that collect and release key employment and inflation information. With data-dependent Fed officials relying on this information to determine monetary policy, market uncertainty is likely to rise.

A White House meeting yesterday between President Trump and congressional leaders ended in frustration as neither side indicated willingness to negotiate. Republicans are pushing for a clean continuing resolution that would fund the government through November 21, while Democrats seek to restore recent cuts to Medicaid and extend health care subsidies. If no deal is reached in the final hours, all non-essential government services will be suspended at midnight.

There have been 14 shutdowns since 1980, most ending within a day or two. The longest in history occurred during the previous Trump administration and lasted 35 days. Given how entrenched the two parties seem to be, *this shutdown could be lengthy.*

The good news is that all essential operations have already been funded. Treasury interest will be paid. Social Security, Medicare, Medicaid and SNAP programs will generally be unaffected. The U.S. military, homeland security and air traffic controllers will continue operations.

Federal employees, including active military, will not be paid while the government is closed but will receive back pay when it reopens. An extended shutdown would generate increasing pressure as an estimated 3 million Americans would not receive paychecks. Food assistance would also suffer over a longer period.

Nonessential government operations will be temporarily suspended. Last week, the Trump administration upped the ante, announcing many of these nonessential workers would be fired rather than furloughed.

The simple fact that few Americans will be directly affected in the short term if a portion of the federal government were to close, *all but assures it will happen.* The problem is that both sides are prepared for a much lengthier shutdown. The most immediate issue for market participants would be the lack of economic information as the Bureau of Labor Statistics (BLS), Bureau of Economic Analysis (BEA), Census Bureau and Commerce Department would halt both data collection and release.

The first, and most obvious missing data release is likely to be the September employment report from the BLS, scheduled for Friday morning. With Fed policymakers hyper-focused on recent labor market weakness, the lack of information could delay the expected October rate cut.

Scott McIntyre, CFA
HilltopSecurities Asset Management
Co-Head of Investment Management
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Co-Head of Investment Management
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

The simple fact that few Americans will be directly affected in the short term if a portion of the federal government were to close, all but assures it will happen.

A prolonged closure could also affect the release of the September CPI report, scheduled for October 15. During a period of already heightened market uncertainty, Fed officials would essentially be flying blind.

Market Indications as of 10:42 A.M. Central Time

DOW	Down -171 to 46,145 (HIGH: 46,382)
NASDAQ	Down -70 to 22,521 (HIGH: 22,789)
S&P 500	Down -17 to 6,644 (HIGH: 6,694)
1-Yr T-bill	current yield 3.65%; opening yield 3.63%
2-Yr T-note	current yield 3.60%; opening yield 3.62%
3-Yr T-note	current yield 3.61%; opening yield 3.63%
5-Yr T-note	current yield 3.72%; opening yield 3.74%
10-Yr T-note	current yield 4.13%; opening yield 4.14%
30-Yr T-bond	current yield 4.71%; opening yield 4.71%

The paper/commentary was prepared by Hilltop Securities Asset Management (HSAM). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS and/or HSAM as of the date of the document and may differ from the views of other divisions/departments of affiliates Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. Sources available upon request.

Hilltop Securities Asset Management is an SEC-registered investment advisor. Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS and HSAM are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP.