

# Special Update

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## Who's Afraid of a Government Shutdown?

As of September 25, 2025, the United States is on the brink of a partial federal government shutdown beginning October 1, 2025, with no agreement in sight despite the expiration of the March 2025 continuing resolution (CR) on September 30. Partisan gridlock has intensified, with Democrats blocking Republican-led stopgap bills unless they include protections for expiring Affordable Care Act (ACA) subsidies and reversals of Medicaid cuts, while Republicans accuse Democrats of demanding excessive spending, including free healthcare for undocumented immigrants and climate aid. President Trump canceled a planned meeting with Democratic leaders on September 23, escalating tensions and blaming "unserious" Democratic demands.

The White House has directed agencies to prepare for mass firings beyond typical furloughs, targeting non-mandatory programs, as a potential negotiating tactic or workforce reduction strategy. Congress returns on September 29, but House Republicans plan to delay until after the deadline, leaving only days for a resolution. Analysts now estimate a 70-80% chance of a shutdown, with economic costs potentially exceeding \$1 billion per week if prolonged. Historical analysis of U.S. stock market reactions to prior shutdowns indicates minimal long-term impact, with the S&P 500 posting positive returns in over half of cases during the events and strong gains in the year following resolution, though short-term volatility and sector-specific pressures (e.g., defense and consumer discretionary) can occur.

### Introduction

A U.S. government shutdown occurs when Congress fails to pass appropriations bills or a continuing resolution to fund federal operations, leading to the furlough of non-essential federal employees and the suspension of certain government services. Since 1981, there have been 14 partial shutdowns, with the longest lasting 34 days during the 2018-2019 standoff over border wall funding.

Shutdowns typically arise from disagreements over spending priorities, debt limits, or policy riders attached to funding bills. The fiscal year for the federal government runs from October 1 to September 30, requiring Congress to approve approximately \$1.8 trillion in discretionary spending annually, separate from mandatory programs like Social Security and Medicare.

The current March 2025 CR extended funding through September 30, 2025, averting an earlier crisis but setting the stage for renewed negotiations. With Congress in recess until September 29, 2025, lawmakers have mere days to act upon return. This updated report, as of September 25, 2025, examines the escalated status of funding talks, deepened challenges, potential impacts, an analysis of historical stock market reactions, and the dramatically increased probability of a shutdown.

## Current Status of Funding Negotiations

Congress must pass 12 full-year appropriations bills for FY2026 or another CR to maintain operations past September 30. With zero bills enacted and time exhausted, a short-term CR remains the only feasible option, potentially extending funding to November 21 or December 20, 2025. On September 19, the House passed a Republican-backed CR (H.R. 5371) funding through November 21, including \$30 million for congressional security amid rising threats following the assassination of conservative activist Charlie Kirk, but it failed in the Senate 44-48 after Democratic opposition. A Democratic alternative pairing funding with ACA subsidy extensions failed 47-45. Both chambers recessed immediately after, with the House not planning to reconvene until October, pressuring the Senate to act alone on September 29-30. No new bills have been introduced since, and backroom talks have stalled.

## Key Players and Partisan Sticking Points

President Trump has hardened Republican resolve by canceling a White House meeting with Senate Minority Leader Chuck Schumer (D-NY) and House Minority Leader Hakeem Jeffries (D-NY) on September 23, calling Democratic demands "unserious and ridiculous," including \$1.5 trillion in new spending for ACA subsidies, climate initiatives, and protections against funding rescissions. Trump has suggested Republicans pass funding unilaterally, despite needing Democratic votes in the Senate filibuster.

Office of Management and Budget (OMB) Director Russell Vought directed agencies on September 24 to prepare reduction-in-force (RIF) plans for mass firings of employees in non-mandatory programs, diverging from standard furloughs and potentially advancing Trump's workforce cuts.

Senate Majority Leader John Thune (R-SD) insists on a "clean" CR, rejecting Democratic "hijacking" for a \$50 billion rural hospital fund elimination reversal and \$1 trillion hike. House Speaker Mike Johnson (R-LA) echoes this, blaming Democrats for holding funding "hostage" over "free healthcare for illegal aliens" and media subsidies. Democrats, led by Schumer and Jeffries, demand "ironclad" concessions on ACA subsidies expiring for 10 million low-income Americans and blocking Trump's \$9 billion rescissions package. Progressive Democrats like Rep. Pramila Jayapal (D-WA) tie opposition to reversing Trump's "Big Bad Betrayal" tax bill cuts. On X, rhetoric has sharpened, with conservatives like Stephen Miller decrying Democratic "insanity" and users advocating for shutdown to curb spending.

## Potential Impacts of a Shutdown

Without funding by midnight September 30, non-essential services halt, furloughing up to 2 million employees, though the Trump administration's RIF plans could lead to permanent layoffs in areas like environmental protection and education grants. Essential operations—air traffic control, military pay, Social Security—continue, but federal courts risk running out of funds immediately, delaying cases, and SNAP benefits may pause after 30 days. National parks, Smithsonian museums, and IRS processing close, with contractors unpaid. Economically, a week-long shutdown could cost \$1.5 billion in GDP, spike unemployment, and raise borrowing costs; prolonged disruption might exacerbate healthcare premium hikes by 75% without ACA fixes. Federal employees, including 154,000 accepting buyouts by September 30, face uncertainty, with contingency plans still unpublished on OMB's site.

## Analysis of US Stock Market Reactions to Previous Government Shutdowns

Historical data from over 20 government shutdowns since 1976 reveals that U.S. stock markets have generally exhibited resilience, with limited and short-lived impacts during the events themselves. The S&P 500 has shown positive returns during approximately 55-60% of shutdown periods, with an average gain of about 0.3% and a median change near 0.0%. Post-shutdown recovery is even more pronounced: the index has risen in 86% of cases over the subsequent 12 months, averaging 12.7% returns, as markets "look through" the temporary disruptions to focus on broader economic fundamentals like growth and earnings.

Short-term volatility often spikes due to uncertainty, particularly in the lead-up to deadlines, with median S&P 500 declines of around 10% in the months preceding longer shutdowns (10+ days). However, during the shutdowns, performance is mixed but benign, influenced more by concurrent economic conditions than the event itself. Notable examples include:

Shutdown Period	S&P 500 Duration Performance During			Key Notes
October 2013	16 days	+3.1%		Equity markets advanced despite political drama; volatility elevated but resolved quickly.
Dec 2018–Jan 2019	35 days	+10.3%		Longest on record; initial drop amid uncertainty, but strong recovery as negotiations progressed; gold rose ~7% as safe-haven.
Overall (1976–2024, 20+ events)	Avg. 8 days	Median: 0.0%; Avg: 0.3%		Positive in 55% of cases; sectors like defense (e.g., Lockheed Martin) pressured by contract delays, while utilities and tech gained from risk aversion.

Sectorally, shutdowns disproportionately affect government-dependent industries: defense stocks (e.g., Northrop Grumman) face delays in payments and contracts, leading to downward pressure, while consumer discretionary (e.g., Walmart, Amazon) suffers from reduced federal worker spending. Conversely, safe-haven assets like gold and utilities often benefit from heightened uncertainty. Broader economic drag—estimated at 0.1-0.2% GDP reduction per week—translates to temporary "potholes" in growth, with full rebound post-resolution, minimizing sustained market effects unless coupled with debt ceiling risks. In the current context, with an economy showing mixed momentum amid Trump's policies, a prolonged shutdown could amplify volatility beyond historical norms, though markets are likely to remain focused on Fed actions and earnings.

## Likelihood of a Shutdown

The shutdown probability has surged to 70-80%, up from 40-60% two weeks ago, as viable paths narrow and both sides dig in. Historical last-minute deals are possible, but Trump's meeting cancellation, House recess extension, and RIF preparations signal willingness for impasse. Democrats bet on public backlash to force concessions pre-2026 midterms, but risk blame if shutdown hits. A brief lapse into early October is likely if no deal by September 30, echoing 2018-2019.

## Conclusion

With five days until the deadline, the shutdown risk is acute, driven by irreconcilable demands over healthcare, spending cuts, and executive overreach. A clean CR could still emerge, but Trump's tactics and congressional recesses suggest brinkmanship. Essential services may persist, but disruptions to courts, parks, and payments would erode public confidence, with stock markets likely experiencing transient volatility rather than lasting damage based on precedent. Federal workers and contractors must activate contingencies, while investors monitor for sector rotations and broader economic signals; voters monitor for accountability.

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