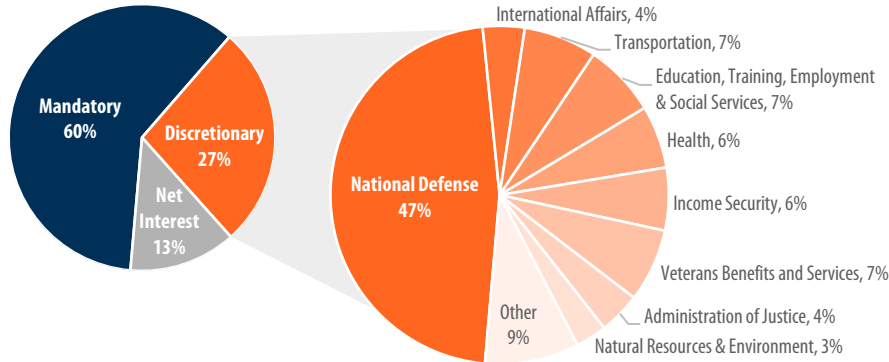


Government Shutdowns: More Drama Than Damage

The government officially shut down yesterday as Congress failed to pass—and the President failed to sign—appropriations bills (or a stopgap “continuing resolution”) to fund government operations for the start of the new fiscal year on October 1st. It seems every few years, Washington flirts with a government shutdown, and once again investors are asking: should we worry? Headlines often frame shutdowns as economic calamities in the making, but history suggests otherwise. While the political drama grabs attention, past episodes have typically had only modest and temporary impacts on growth, markets, and government services. This week we take a closer look at what actually happens when the federal government closes its doors, how previous shutdowns have played out, and whether the current standoff poses a real threat to the economy. For more information, view the two charts and table below.

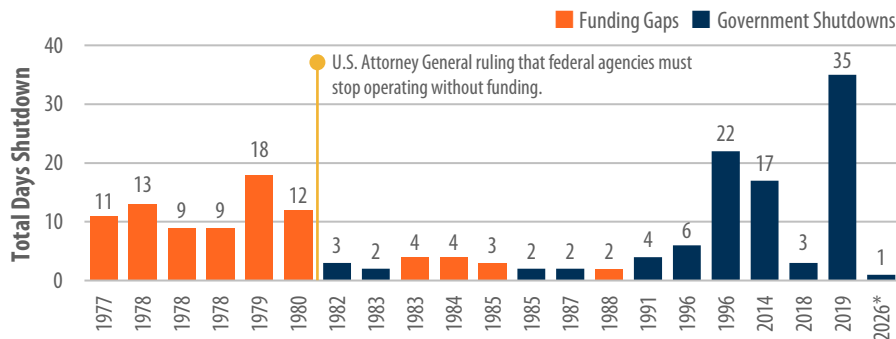
Federal Fiscal Outlays

Federal Discretionary Outlays



Source: Office of Management and Budget, First Trust Advisors. Data as of fiscal year 2024.

Duration of Funding Gaps and Government Shutdowns by Fiscal Year



Source: History.House.gov, First Trust Advisors. Fiscal year data from 1977–2026. *Ongoing shutdown.

Returns from Eve of Government Shutdown

Shutdown Start	One Month			Three Month			Six Month		
	Gold	SPX	Dollar	Gold	SPX	Dollar	Gold	SPX	Dollar
11/20/1981	3.7%	2.7%	0.4%	-7.9%	-6.2%	5.2%	-14.7%	-4.8%	6.7%
9/30/1982	3.3%	9.9%	0.0%	11.5%	15.4%	-3.5%	0.6%	24.6%	0.3%
10/3/1984	-0.6%	2.3%	-0.7%	-12.4%	0.6%	3.8%	-7.7%	10.4%	3.9%
10/16/1986	-3.3%	2.4%	0.0%	-1.5%	11.5%	-4.8%	5.2%	19.1%	-8.2%
10/5/1990	-4.6%	-0.3%	0.1%	-2.1%	2.7%	-0.9%	-9.4%	21.5%	6.9%
11/13/1995	-0.2%	4.4%	0.4%	3.6%	11.4%	3.4%	0.3%	10.0%	4.9%
12/15/1995	2.6%	-2.4%	0.3%	2.6%	4.0%	1.6%	-0.3%	7.9%	3.8%
9/30/2013	0.6%	4.7%	-0.1%	-10.5%	8.8%	-0.4%	-3.1%	9.8%	-0.1%
1/19/2018	1.5%	-2.4%	0.1%	1.4%	-3.7%	-0.6%	-7.5%	0.6%	5.1%
12/21/2018	1.8%	8.2%	0.7%	3.9%	15.7%	0.2%	10.2%	19.7%	0.4%
9/30/2025	?	?	?	?	?	?	?	?	?
Average	0.5%	3.0%	0.1%	-1.1%	6.0%	0.4%	-2.6%	11.9%	2.4%

Source: Bloomberg, First Trust Advisors. Data from 11/20/1981–9/30/2025.

The federal budget has two main parts: mandatory spending (which covers programs like Social Security, Medicare, & Medicaid that are funded automatically by existing laws and don't depend on the annual budget process), and discretionary spending (about one-quarter of the budget, funded through 12 appropriations bills each year). These bills cover everything from Defense (which makes up almost half of discretionary spending) to Agriculture, Education, and Transportation. If Congress fails to pass them—or a temporary stopgap—funding lapses and a government shutdown occurs.

The current budget process, created in 1976, has produced 21 funding gaps with 11 turning into shutdowns. A funding gap occurs when Congress misses the deadline to pass a budget or temporary measure (continuing resolution), leaving no legal authority to spend. A shutdown happens only if agencies actually halt operations, which wasn't common before 1980. That changed after Attorney General Benjamin Civiletti ruled that federal law bars agencies from spending without appropriations—except for essential services like defense, air traffic control, and law enforcement. Since then, funding gaps have more often led to shutdowns, including the longest in U.S. history: 35 days from December 2018 to January 2019. In short, every shutdown begins with a funding gap, but not every funding gap leads to a shutdown.

Historically, markets have shown no consistent pattern around government shutdowns. Over one-, three-, and six-month periods following past episodes, returns for stocks, gold, and the dollar have been mixed. The S&P 500 Index (SPX), however, has been the clear standout, posting the strongest average gains across all timeframes. But markets are driven by corporate profits, monetary policy, economic growth, and global forces to name a few—not a temporary pause in government funding.

This report was prepared by First Trust Advisors L.P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.

Past performance is no guarantee of future results. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Index data is for illustrative purposes only and not indicative of any actual investment. Indices are unmanaged and investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. These returns were the result of certain market factors and events which may not be repeated in the future.