

CHART OF THE MONTH

APRIL 2017

Members of the Senate and House, which returned from a two-week recess on Monday, are faced with passing a budget resolution to fund the federal government through the remainder of the fiscal year (September 30) prior to the expiration of the old spending bill at 12:01 a.m. on Saturday. Absent a new agreement, the government would shut down, albeit only partially as the large majority of federal spending (including entitlement benefits, exempted military and civilian personnel, and interest on the national debt) is already on autopilot.

The new budget will need to be a bipartisan effort in the Senate (which requires 60 votes to pass) and perhaps the House (even though it only needs a simple majority) if there is opposition from fiscal conservatives. As a result, one or more of the spending measures most objectionable to Democrats will have to be tabled. With the foregoing in mind, President Trump has temporarily dropped his proposal to fund a wall along the Mexican border. Lawmakers could also pass a “continuing resolution” (which simply funds government operations at the same level as the previous year) to avert a shutdown.

As shown in the chart below, there have been 18 shutdowns since 1976. The length has ranged from one day to three weeks with a mean and median of seven and five days, respectively. The performance of the S&P 500 has been mixed during these shutdowns with the index down half the time and flat to up the other half. On average, the S&P has lost 0.6% during these closures (although the median return has been unchanged).

Of note, the S&P 500 rose during the past three shutdowns, including 3.1% in the most recent closure, which lasted for 16 days in 2013. The gain was the best return of any shutdown.

The historical results indicate that investors were much more unnerved by government shutdowns during the 1970s (when the S&P fell on five of the six occasions with an average decline of 2.3%) than in subsequent decades (when the index dropped only one-third of the time with an average *rise* of 0.3%). While the prospect of a shutdown causes anxiety in the media, the stock market has tended to react increasingly with indifference, looking beyond the short-term dealmaking in Washington and instead on the economic and investment fundamentals (such as earnings, dividends, and interest rates).

U.S. GOVERNMENT SHUTDOWNS HAVEN'T ALWAYS BEEN BAD FOR EQUITIES

S&P 500 Performance During U.S. Government Shutdowns

Start Date	End Date	Length (Days)	S&P 500 Return	President	Senate	House
09/30/76	10/11/76	10	-3.4%	Ford	Democrat	Democrat
09/30/77	10/13/77	12	-3.2%	Carter	Democrat	Democrat
10/31/77	11/09/77	8	0.7%	Carter	Democrat	Democrat
11/30/77	12/09/77	8	-1.2%	Carter	Democrat	Democrat
09/30/78	10/18/78	18	-2.0%	Carter	Democrat	Democrat
09/30/79	10/12/79	11	-4.4%	Carter	Democrat	Democrat
11/20/81	11/23/81	2	-0.1%	Reagan	Republican	Democrat
09/30/82	10/02/82	1	1.3%	Reagan	Republican	Democrat
12/17/82	12/21/82	3	0.8%	Reagan	Republican	Democrat
11/10/83	11/14/83	3	1.3%	Reagan	Republican	Democrat
09/30/84	10/03/84	2	-2.2%	Reagan	Republican	Democrat
10/03/84	10/05/84	1	0.1%	Reagan	Republican	Democrat
10/16/86	10/18/86	1	-0.3%	Reagan	Republican	Democrat
12/18/87	12/20/87	1	0.0%	Reagan	Democrat	Democrat
10/05/90	10/09/90	5	-2.1%	G. H. W. Bush	Democrat	Democrat
11/13/95	11/19/95	5	1.3%	Clinton	Republican	Republican
12/15/95	01/06/96	21	0.1%	Clinton	Republican	Republican
09/30/13	10/17/13	16	3.1%	Obama	Democrat	Republican
04/29/17	?	?	?	Trump	Republican	Republican
Average		7	-0.6%			
Median		5	0.0%			
% Positive			44.4%			

Source: LPL Research, FactSet

