Shutdown Economics: Rising Costs, Historic Layoffs

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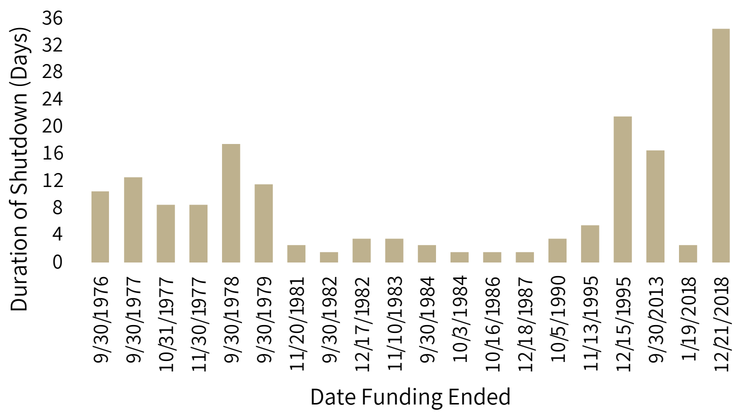
We have reached week three of the federal government shutdown. This shutdown initially garnered less attention since it does not breach the debt limit and risk a default. Rather, Congress has failed to pass the annual appropriations bills or a continuing resolution to fund the government for fiscal year 2026. As a result, about 750,000 federal employees have been furloughed and non-essential federal services have been temporarily halted.

While 2019 legislation guarantees back pay for furloughed federal employees after a shutdown, that does not mean the economic impact of a shutdown is insignificant. Pain points include increasing flight delays, closed national parks, limited IRS and EPA services, delays in processing new Medicare and Medicaid applications, postponed government economic data, and more. According to Bloomberg, the shutdown could reduce GDP by 0.1%—0.2% each week that it continues.

Additionally, some furloughed federal employees have been permanently laid off. Labor unions representing federal employees are taking legal action to try to stop the layoffs. If the layoffs stick, this would be the first time in modern history that large-scale layoffs of federal employees during a shutdown remain permanent. Such a precedent could potentially increase the economic cost of this and future government shutdowns.

Duration of Government Shutdowns



Source: House of Representatives, NPR

Economy

Last Week	*This Week*
*- **FOMC Meeting Minutes (Sept.):** FOMC members are concerned about weak labor market and possible inflation.*	***- CPI (Sept.): Delayed from 10/15 to 10/24***
*- **U of Mich Sentiment (Oct. P):** 55.0 vs. 55.1 month prior*	***- PPI (Sept.): 10/16, may be delayed***
	- Retail Sales (Sept.): 10/16, may be delayed

Equities

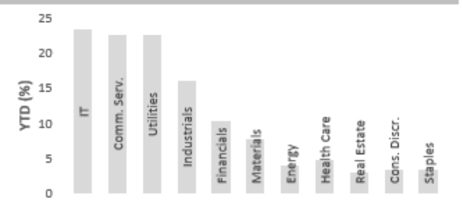
Returns (%)

Index	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
S&P 500	6655	-1.25	-0.46	14.28	15.91	24.62	15.42
Russell 1000 Growth	4718	-0.88	0.02	17.26	24.00	32.01	16.33
Russell 1000 Value	1984	-1.75	-1.00	10.52	7.41	16.15	12.92
FTSE High Dividend Yield*	506	-1.18	-1.02	11.56	10.22	16.21	14.21
S&P Small and Mid Cap	17860	-2.28	-1.41	3.79	3.31	13.53	11.53
MSCI EAFE	2759	-2.05	-0.24	25.47	17.71	22.12	11.16
MSCI EM	1353	-1.36	0.56	28.88	19.90	19.53	6.54

Characteristics

Index	NTM P/E	NTM P/E (20Y med)	Div Yield
S&P 500	22.0	15.5	1.2
Russell 1000 Growth	29.6	18.0	0.5
Russell 1000 Value	16.8	13.5	2.1
FTSE High Dividend Yield*	13.2	13.0	4.0
S&P Small and Mid Cap	14.9	15.4	1.9
MSCI EAFE	15.2	13.5	3.0
MSCI EM	13.4	11.2	2.5

S&P Sector Returns YTD



* *Bloomberg U.S Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.*

Fixed Income

Returns (%)

Index	Yield	1 Week	QTD	YTD	1 Year	3-Year Ann.	5-Year Ann.
U.S. Aggregate	4.30	0.53	0.58	6.75	5.01	5.63	-0.35
U.S. Int. Gov/Credit	3.90	0.23	0.38	6.10	5.38	5.58	0.87
U.S. Corporates	4.78	0.31	0.40	7.30	5.41	7.74	0.29
High Yield	6.99	-0.73	-0.62	6.55	7.25	10.74	5.09
Municipals (1-10)	2.97	0.10	0.23	4.36	3.78	4.16	1.29

Levels (%)

Key Rates	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago	5 Yrs Ago
2-yr Treasury	3.50	3.57	3.61	4.24	3.95	4.47	0.14
10-yr Treasury	4.03	4.12	4.15	4.57	4.03	3.95	0.73
30-yr Treasury	4.62	4.72	4.73	4.78	4.32	3.92	1.51
SOFR	4.15	4.14	4.24	4.49	4.86	3.04	0.09
6-mo. CD rate	#N/A N/A	3.90	3.94	4.33	4.55	4.72	0.21
Prime Rate	7.25	7.25	7.25	7.50	8.00	6.25	3.25
30-yr fixed mortgage	6.39	6.40	6.36	7.28	6.93	7.17	3.02