# US government shutdown: Today vs. Dec 2018

2 October 2025

## Overview

- Current US government shutdown is driven by healthcare and Medicaid disputes amid slowing growth and elevated inflation, contrasting with the 2018-19 shutdown over border wall funding amid late-cycle strength.
- Likely absence of key labour data may increase volatility across equities, FX, and rates. The Fed could lean dovish at its Oct 28-29 meeting. Equities could swing before rebounding on ramping Fed rate-cut expectations.
- Markets have rallied strongly since April 2025. Historical backtests suggest that five-month winning streaks often lead to continued gains over the next 6 to 12 months, though short-term volatility is expected.
- While Mag7 remain viable, chasing them now is risky. Consider diversifying into the large-cap "Next 20" and global equities. Fixed income and private assets offer stability, while gold's near-term risk/reward has worsened.

## Executive summary

The last US government shutdown (22 Dec 2018 - 25 Jan 2019) lasted 35 days—the longest ever—triggered by a border wall funding impasse. The current shutdown (began 1 Oct 2025) stems from disputes over healthcare tax credits and Medicaid cuts.

In 2018-2019, the macro backdrop was late-cycle strength: GDP growth at +2.9%, unemployment at 3.9%, and rising rates. In contrast, 2025 shows slowing growth, elevated inflation, and a Fed easing cycle in a more fragile macro environment.

The likely absence of US non-farm payrolls on 3 Oct clouds investor visibility. Without this key labour signal, volatility across equities, FX, and rates could be expected. The Fed, lacking critical input before its Oct 28-29 meeting, may lean dovish. Equities could swing before rebounding on ramping rate-cut expectations. Investors will pivot to alternative data (ADP, jobless claims), though these lack BLS credibility. Meanwhile, the dollar may weaken amid data gaps and political dysfunction.

**Figure 1: US Government shutdown comparison**

| | 2018-2019 | 2025 Shutdown |
|---|---|---|
| Duration | 35 days | Ongoing |
| Trigger | Border wall funding | ACA subsidies, Medicaid cuts |
| GDP Impact | ~USD3bn lost | TBD |
| NFP Data Released? | Yes | 3 Oct Likely delayed |
| S&P 500 (1M from start of shut down) | +10.2% | TBD |
| S&P 500 (6M from start of shut down) | +22.1% | TBD |
| S&P500 P/E valuation | 17.5x | 25.3x |
| Risk environment | Relatively defensive | Risk on but fragile |
| Fed cycle | End of tightening | Start of easing |

Source: Bloomberg, UOB Private Bank

To compound complexities, markets have rebounded hard from Liberation-Day lows in Apr 2025. S&P500 gained for five consecutive months, bucking the trend for historically negative months of Aug and Sep.

In a backtest of the last nine episodes, it showed that a five-month market-winning streak can lead to continued gains over the next 6 to 12 months. Although the following three months may be volatile (i.e., average price return of +1.32%), momentum typically resumes, with average returns of +2.92% in the next six months and +7.43% in the following twelve months—indicating a strong underlying trend, though not guaranteed.

A key driver of recent rallies has been the Federal Reserve. Post-2008 and post-2020 bull markets were fuelled by stimulus and low interest rates. More recent rallies (2023-2025) were shaped by investor reactions to Fed policy and inflation management, creating a feedback loop where monetary intervention spurs rallies, and subsequently raises concerns about inflation and volatility.

While monetary intervention could be unhealthy for markets in the medium term, the Fed's dovish tone could "run the market hotter than usual" in the near term despite big gains since Liberation Day. Chasing Mag7 now appears risky and would consider diversifying in other large caps (Next 20) and going global. We would only add to existing Mag7 positions on pullbacks. Profit-taking is fine, but investors must stay disciplined with re-entry levels to avoid missing market rebounds. Structured products tied to Mag7 remain viable if focused on the right stocks.

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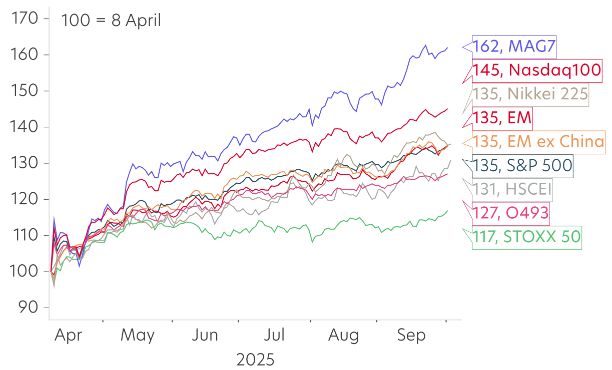
Fixed income spreads are tight but are still adequate portfolio stabilisers on a "total yield" basis. Private assets should be considered for further diversification. Finally, while gold remains a must-have in portfolios, its recent move implies risk/reward has worsened in the near term.

### Figure 2: SPX performance after 5 months of gains

| Streak End Date | Streak Gain | 3m Return | 6m Return | 12m Return |
|---|---|---|---|---|
| Ongoing | 18.7% | ?? | ?? | ?? |
| Aug-2024 | 7.5% | 6.8% | 5.4% | 14.4% |
| Aug-2021 | 13.8% | 1.0% | -3.3% | -12.6% |
| Aug-2020 | 35.4% | 3.5% | 8.9% | 29.2% |
| Jan-2018 | 14.3% | -6.2% | -0.3% | -4.2% |
| May-2013 | 8.9% | 0.1% | 10.7% | 15.5% |
| Mar-2012 | 13.0% | -3.3% | 2.3% | 11.4% |
| Feb-2011 | 16.3% | 1.4% | -8.2% | 2.9% |
| Aug-2009 | 27.9% | 7.4% | 8.2% | 2.8% |
| Average | 17.3% | 1.3% | 2.9% | 7.4% |

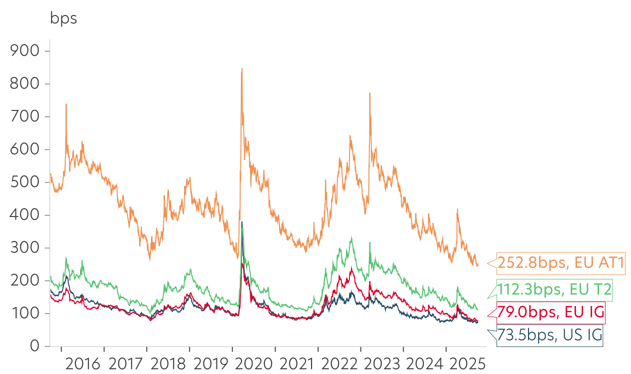
Source: Bloomberg, UOB Private Bank

### Figure 3: Gains after Liberation Day lows (8 Apr)



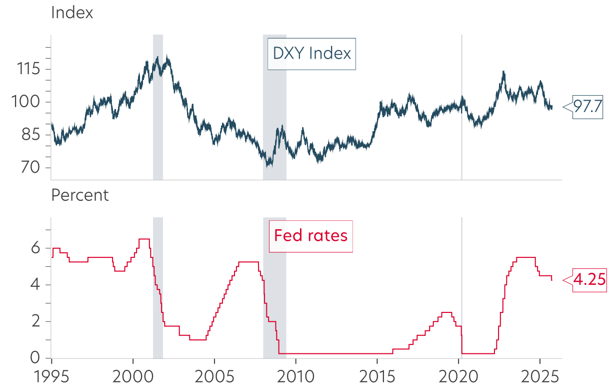

Source: Bloomberg, UOB Private Bank

### Figure 4: Credit spreads are very tight



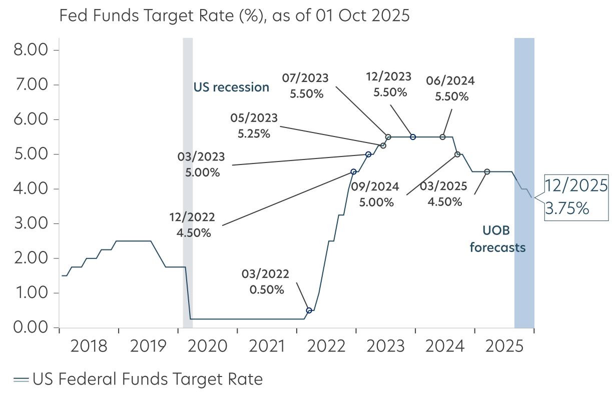

Source: Bloomberg, UOB Private Bank

### Figure 5: USD seems to be holding steady



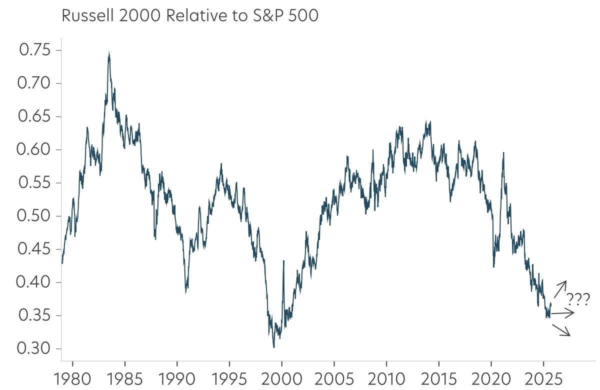

Source: Bloomberg, UOB Private Bank

### Figure 6: UOB Fed rates forecast



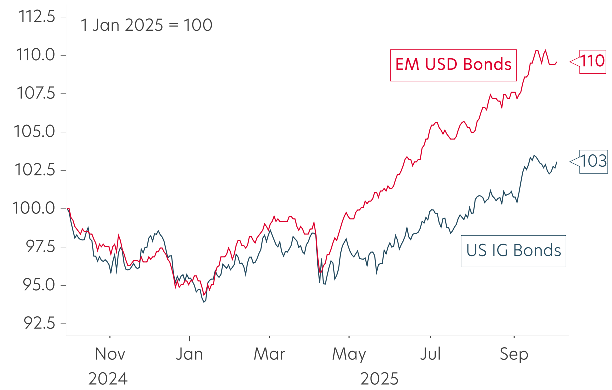

Source: Bloomberg, UOB Private Bank

### Figure 7: Small caps vs large caps



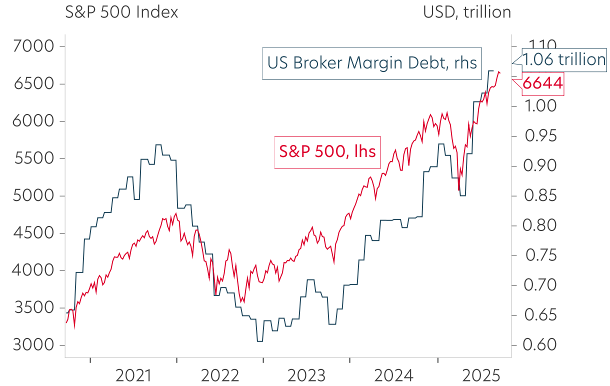

Source: Bloomberg, UOB Private Bank

### Figure 8: Emerging Market Bonds doing well




Source: Bloomberg, UOB Private Bank

### Figure 9: Margin debt hits new highs




Source: Bloomberg, UOB Private Bank

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