



US Government Shutdown: Here We Go Again

Given the kaleidoscope of policy pronouncements coming out of Washington since President Trump's inauguration in late January, it's perhaps not surprising that the potential March 15 US government shutdown seems to have snuck up on the public consciousness.

In fairness, government shutdowns have not been all that uncommon—there have been 20 “funding gaps” since the introduction of the modern budget process in fiscal 1977—and they historically have had little impact on the trajectory of asset prices or economic growth.¹ However, this particular installment of Congress's time-honored tradition of kicking the can down the road comes at what seems to be a uniquely fraught time for the US. With markets already on edge from Trump's scattershot approach to policymaking, it's possible that this latest show of political brinksmanship will be greeted with something beyond the usual collective shrug.

Meanwhile, more impactful fiscal confrontations loom later this year. The country hit its debt ceiling in January, and the extraordinary measures allowing the US to continue meeting its financial obligations—including servicing its outstanding debt—are expected to be exhausted some time this summer. Reportedly on a similar timetable are efforts by Republican lawmakers to extend the 2017 tax cuts due to expire at the end of 2025.

The political dynamics around the possible government shutdown are evolving rapidly; in fact, a shutdown may already have been averted by the time you read this paper. Regardless, we believe this latest in a long line of political standoffs underscores the fiscal and political risks facing the US and their potential to destabilize markets.

1. Source: “Federal Funding Gaps: A Brief Overview,” Congressional Research Service (September 2023).

Another Year, Another Potential Government Shutdown

Prior to the October 1 start of each fiscal year, Congress is charged with passing 12 appropriations bills that fund the activities of government agencies and various discretionary spending programs throughout the coming year.² These appropriations, which are intended to reflect the terms of a previously agreed-to budget resolution, support a wide range of government services, from the National Parks Service to the Securities and Exchange Commission to the Centers for Disease Control.

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More often than not, however, the appropriation timeline has proven more aspirational than practical; Congress has completed the process before the start of the fiscal year only three times since 1977, most recently for 1997.³ Federal agencies generally are prohibited by law from spending yet-to-be-appropriated funds and must shut down if funding lapses. While each agency has its own shutdown procedures, essentially all activities considered noncritical to national security or the protection of lives or property are discontinued. Employees deemed inessential are furloughed, while those considered essential work without pay until funding resumes.⁴ Note that a government shutdown does not impact mandatory spending that falls outside the appropriations process, including entitlements like Social Security, Medicare and Medicaid, and sovereign debt service—i.e., about 75% of federal outlays in 2024.⁵

To avoid disruptions to government function in the face of regular failures of the standard appropriations process, Congress relies on temporary spending bills known as continuing resolutions (CRs) to provide agencies with interim budget authority. (As can probably be intuited, a consistent reliance on short-term spending plans rather than well considered budgets is not particularly conducive to the development of responsible fiscal policy.) Fiscal 2025 thus far has been funded by two successive CRs: one from October 1, 2024, through December 20, 2024, and another from December 21, 2024, through March 14, 2025. Unless another continuing resolution is adopted, the federal government will go into some degree of shutdown on midnight Saturday, March 15.

On March 11, the House of Representatives took up a vote on a Republican-authored proposal that would extend current levels of federal funding through the end of the fiscal year, less a few cuts amounting to roughly 0.1% of annual government spending.⁶ The bill was passed almost exactly on party lines, 217 to 213, with one Republican voting no and one Democrat voting yes. Notably, many veteran Republican representatives who have voted against such stopgap spending bills in the past, including members of the hardline Freedom Caucus, voted in favor of the bill. This reportedly was out of confidence that Trump would continue to exercise his “impoundment” authority by refusing to spend Congressionally appropriated funds on programs he opposes—a tactic of questionable legality that already has sparked multiple, still-pending challenges in the courts.

Getting through the Senate may prove more of a challenge, however. While Republicans outnumber Democrats 53 to 47, 60 votes are required to meet the chamber’s threshold for overcoming a filibuster. That said, Senate Democrats have been left to choose between two unpalatable options: prevent a government shutdown by supporting a bill they believe provides the Trump administration with flexibility to reallocate funds as it sees fit, or force a shutdown for which they could take the blame from much of the electorate. A vote has yet to be scheduled as of midday March 13, but Democratic leadership has messaged that they intend to reject the funding bill, favoring instead a 30-day extension that would allow time for bipartisan negotiations.⁷ Kalshi, a federally regulated event-based trading platform, puts the odds of a shutdown at 25%.⁸

2. Source: Brookings Institution; data as of September 17, 2023.

3. Source: Government Accountability Office; data as of November 3, 2022.

4. Source: Government Accountability Office; data as of September 26, 2023.

5. Source: Congressional Budget Office; data as of January 17, 2025.

6. Source: *The New York Times*; data as of March 11, 2025.

7. Source: Bloomberg; data as of March 12, 2025.

8. Source: Kalshi; data as of March 12, 2025.

Small Impact, Large Implications

While a government shutdown reduces spending for its duration and thus weighs on economic output for that time period, the impact historically has been relatively small. Shutdowns merely delay government spending as opposed to canceling it, and the catchup occurs soon after the shutdown ends. The Congressional Budget Office estimates that the most recent (and longest) government shutdown—a partial closure that ran from December 22, 2018, through January 25, 2019—cost the US economy \$11 billion, of which \$3 billion (or 0.02% of GDP) was not expected to be recovered.⁹

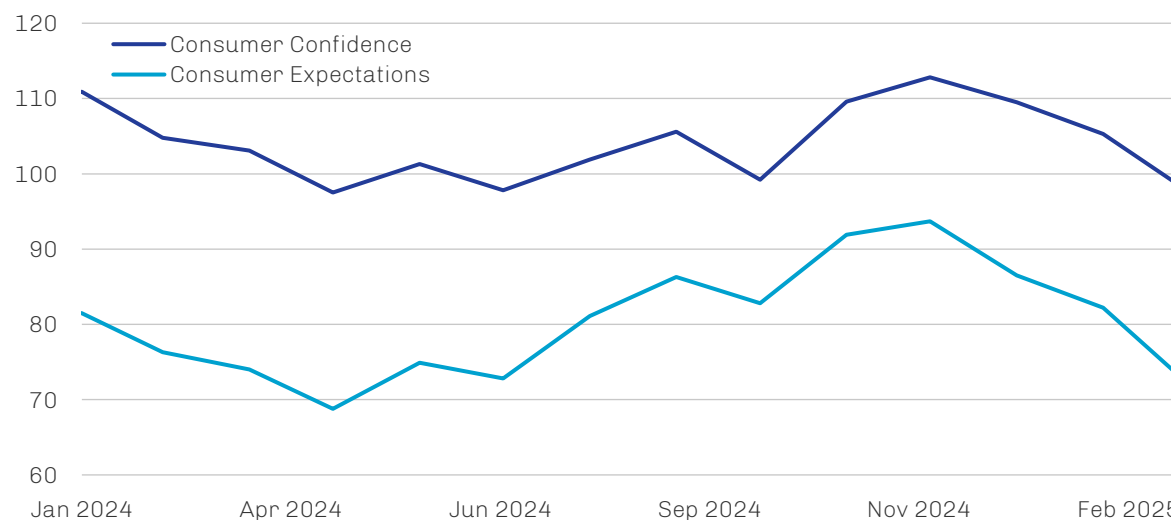
However, shutdowns can also have indirect effects on economic activity, the implications of which may be of particular concern at a time when—largely self-inflicted—cracks have begun to intrude on the economic growth narrative and spill into financial markets. Even the threat of a shutdown could further weigh on consumers, businesses and investors already struggling to interpret Trump’s policy onslaught, especially his on-again, off-again approach to tariffs.

Even the threat of a shutdown could further weigh on uncertainty-plagued consumers, businesses and investors.

Consumers appear to be growing more cautious in the face of an uncertain future, as shown in Exhibit 1. In addition to surging inflation expectations, the February report from The Conference Board showed the sharpest pace of deterioration in consumer confidence in more than three years, and its expectations index—which captures consumers’ short-term outlook for income, business and labor-market conditions—fell below the threshold that usually signals coming recession.¹⁰ A survey from the University of Michigan indicated similarly crumbling sentiment,¹¹ while the New York Fed’s latest consumer data revealed notable pessimism across prospects for household finances, employment, loan delinquencies and credit access.¹² A range of consumer-facing companies, including retailers and airlines, have issued warnings on 2025 revenue and earnings in response to consumer malaise.¹³

Exhibit 1. Consumer Ebullience Has Dimmed Considerably

January 2024 through February 2025; Index, 1985 = 100



Source: The Conference Board, Haver Analytics; data as of February 25, 2025.

9. "The Effects of the Partial Shutdown Ending in January 2019," Congressional Budget Office (January 2019).

10. Source: The Conference Board; data as of February 25, 2025.

11. Source: University of Michigan; data as of February 21, 2025.

12. Source: Federal Reserve Bank of New York; data as of March 10, 2025.

13. Source: *The Wall Street Journal*; data as of March 10, 2025.

Signs of unease are also in abundance on Main Street. The latest NFIB Small Business Optimism Index, which surveys small businesses across the US, showed that the number of business owners expecting the economy to improve declined sharply while those believing now is a good time to expand their business fell to Covid-era levels. Inflation was a key concern among those surveyed, and reports of price hikes increased markedly.¹⁴ S&P Global reported that US business activity likely would have stalled in February had it not been for an upturn in manufacturing output due to efforts to front-run tariffs.¹⁵

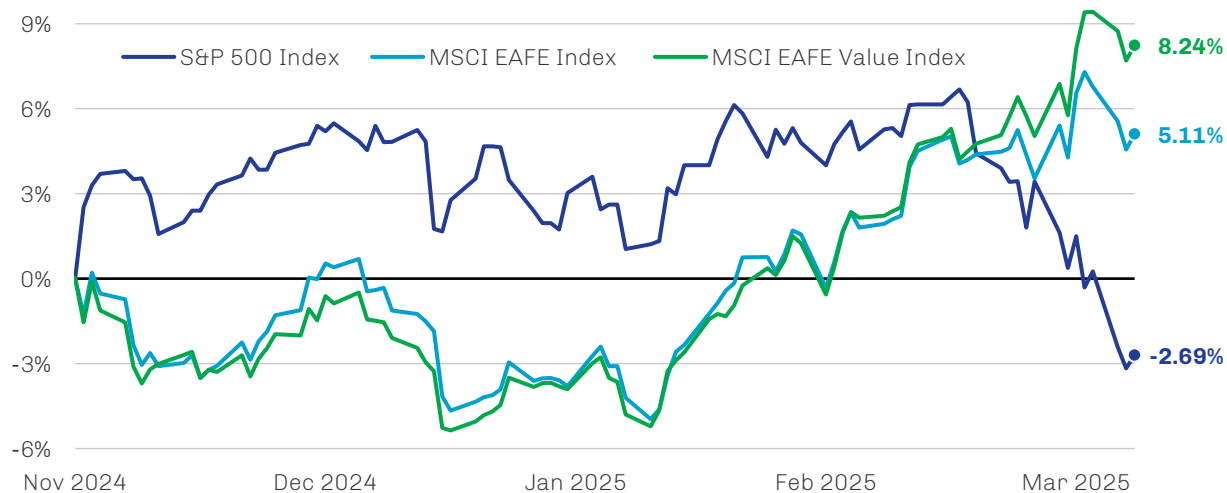
Moving to Wall Street, the so-called “Trump trade” bolstering a range of risk assets peaked in mid-February, as the optimism fueled by expectations of pro-growth deregulation and tax cuts gave way to the reality of inflationary tariffs and general policy erraticism. Down sharply over the past several weeks, the S&P 500 Index and (especially) the tech-heavy Nasdaq Composite have more than given back their post-election gains and are well into the red for the year to date.¹⁶ On the fixed income side, credit spreads—though still tight on a historical basis—have widened across ratings, as risk-reward profiles appear increasingly skewed toward the risk side. Even bitcoin is down about 25% from an all-time high established earlier this year despite the creation of a US strategic bitcoin reserve via Trump executive order.¹⁷

It hasn't been all doom and gloom in the markets, however. As shown in Exhibit 2, non-US stocks—non-US value stocks, in particular—have tracked higher in 2025 as American markets stumbled. Meanwhile the demand for perceived “safe havens” has bolstered the price of gold, which is up more than 12% year to date.

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Exhibit 2. Unwind of “Trump Trade” Has Bolstered Non-US Stocks, Particularly Value Names

Total Returns, November 5, 2024, through March 12, 2025



Source: YCharts; data as of March 12, 2025.

14. Source: National Federation of Independent Businesses; data as of March 11, 2025.

15. Source: S&P Global PMI; data as of February 21, 2025.

16. Source: YCharts; data as of March 12, 2025.

17. Source: CoinMarketCap; data as of March 12, 2025.

Meaningful Fiscal Reform Remains Elusive

Risk perception in the US has been low for several years now, supporting high equity market multiples—for growthier stocks, in particular—and tight credit spreads. However, we've long believed there are a wide range of developments that could trigger a swift recalibration of risk appetites, and a forced reckoning with the country's massive fiscal imbalance might be one of them.

Spending cuts as currently envisioned don't seem likely to help the country avoid such a reckoning. While the Department of Government Efficiency (DOGE) makes headlines—for dodgy accounting practices as much as identified cost savings—Elon Musk thus far has directed his chainsaw at saplings rather than mature trees.¹⁸ Nondefense discretionary spending, the focus of DOGE's efforts, accounted for only 13% of total federal outlays in 2024 and has been declining as a percentage of GDP.¹⁹ Rising Social Security and Medicare spending is driving continued increases in federal outlays, and any attempt to meaningfully change the trajectory of the country's debt burden likely would require reforms to these popular and seemingly sacrosanct entitlements.

Tax policy also seems unlikely to help the fiscal picture. The Congressional Budget Office (CBO) forecasts public debt outstanding to reach 100% of GDP in 2025 and continue growing from there. This is probably understated; the CBO forecasts assume the December 2025 expiration of the individual income tax cuts from the 2017 Tax Cuts and Job Act, as written under current law, but a unified Republican government suggests a high possibility that these tax cuts will be extended in some form. The Penn Wharton Budget Model estimates that the incorporation of Trump's major spending and tax proposals into the recent budget resolution passed by the House would result in a \$4.9 trillion increase in primary deficits over its 10-year time horizon, even accounting for economic growth effects.²⁰

To us, the swell of public debt outstanding in the US combined with a lack of meaningful fiscal discipline has made Treasuries an increasingly shaky proposition and highlights the vulnerabilities in today's financial system. Unfortunately, it seems that repeated party-line standoffs like the one we are currently experiencing are likely to be far more prevalent than the bipartisan policy work necessary to enact an effective fiscal consolidation plan for the country.

18. Source: *The New York Times*; data as of February 28, 2025.

19. Source: Congressional Budget Office; data as of January 1, 2025.

20. "The FY2025 House Budget reconciliation and Trump Administration Tax Proposals: Budgetary, Economic, and Distributional Effects," Penn Wharton Budget Model (February 2025).

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Risk Disclosures

All investments involve the risk of loss of principal.

A principal risk of investing in value stocks is that the price of the security may not approach its anticipated value or may decline in value. "Value" investments, as a category, or entire industries or sectors associated with such investments, may lose favor with investors as compared to those that are more "growth" oriented.

There are risks associated with investing in foreign investments (including depositary receipts). Foreign investments, which can be denominated in foreign currencies, are susceptible to less politically, economically and socially stable environments; fluctuations in the value of foreign currency and exchange rates; and adverse changes to government regulations.

Investment in gold and gold-related investments present certain risks, and returns on gold-related investments have traditionally been more volatile than investments in broader equity or debt markets.

Definitions

A **credit rating** as represented here is an assessment provided by a nationally recognized statistical rating organization (NRSRO) of credit worthiness of an issuer with respect to debt obligations, including specific securities, money market instruments, or other bonds.

Option-adjusted spread is the difference between a fixed income security's yield and that of the risk-free rate of return, adjusted for the value of the security's embedded options.

Indexes are unmanaged and do not incur management fees or other operating expenses. One cannot invest directly in an index.

MSCI EAFE Index (Net) measures the performance of large and midcap equities across developed markets countries around the world excluding the US and Canada. A net-return index tracks price changes and reinvestment of distribution income net of withholding taxes.

MSCI EAFE Value Index (Net) measures the performance of equities exhibiting overall value style characteristics across developed markets excluding the US and Canada. Value investment style characteristics are defined using book value to price, 12-month forward earnings to price and dividend yield. A net-return index tracks price changes and reinvestment of distribution income net of withholding taxes.

Nasdaq Composite is a market capitalization-weighted index composed of thousands of stocks listed on the Nasdaq Stock Market, with a particular emphasis on technology-related companies.

S&P 500 Index (Gross/Total) measures the performance of the large cap segment of the US equity market but is widely recognized as a proxy for the US market as a whole. It is composed of 500 constituent companies across the US economy, weighted by float-adjusted market capitalization. A total-return index tracks price changes and reinvestment of distribution income.

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