On The Mark

Special Edition October 2025

Key Questions on Government Shutdown

Key Takeaways

- A government shutdown, while disruptive, is not the same as a government default.
- The scale of the damage will depend in part on how long the shutdown lasts.
- In the past, disruption to the economy and markets has been modest and temporary, with losses mostly made up in the months after the shutdown ends.

The U.S. government formally entered a shutdown on Wednesday, October 1, as the two parties could not reconcile differences in healthcare subsidies. Sadly, this is not the first time the government has shut down. In this edition, we answer three questions on investors' minds to make sense of what's next.

What Happens During a Shutdown?

During a shutdown, essential services such as the U.S. Postal Service, Medicare, and Social Security will continue to operate. The majority of federal employees continue working during a shutdown because the services they provide are likely to be deemed essential. On the other hand, non-essential services, which employ roughly 40% of all federal employees (750,000), will be furloughed, and services will be impacted according to an estimate from the Congressional Budget Office (CBO). Examples of non-essential services impacted include food assistance, select defense, the Bureau of Labor Statistics, which puts out the monthly job reports, and national parks, etc.

How Does This Affect the Economy?

Shutdowns generally hurt economic growth as furloughed federal workers are less likely to spend money until their paychecks resume. However, the economy eventually recovers any lost growth after the government reopens.

This time, however, the added threats of mass federal layoffs could leave a more lasting mark by making furloughed employees nervous to spend and thus delaying the eventual recovery.

How Do Markets React?

Historically, shutdowns have had a limited impact on stock and bond markets as they are often short-lived, and essential services and companies continue to function. However, if the shutdown goes on for longer, it will leave investors and the Fed "flying blind" when it comes to being able to rely on critical data, including the jobs report, which is due on Friday.

Longer or repeated shutdowns can also reduce confidence and cause investors to flock away from stocks toward safe-haven assets like cash, short-term bonds, gold, as well as allocate away from the U.S. markets as a whole. We saw this during the longest shutdown in history, which lasted 35 days from December 2018 to January 2019, when the stock markets tumbled 13% and bonds rallied.

For general public use.

AssetMark | 1

Summary

A shutdown is not the same as a government default. During a shutdown, the government can't pay select employees, but it can pay bondholders, a critical difference for functioning markets. The scale of the damage will depend on how long the shutdown lasts. In the past, disruption to the economy and markets has been modest and temporary, with losses mostly made up in the months after the shutdown ends.

AssetMark, Inc.

1655 Grant Street 10th Floor Concord, CA 94520-2445 800-664-5345

Important Information

This is for informational purposes only, is not a solicitation, and should not be considered investment, legal or tax advice. The information in this report has been drawn from sources believed to be reliable, but its accuracy is not guaranteed, and is subject to change. Investors seeking more information should contact their financial advisor. Financial advisors may seek more information by contacting AssetMark at 800-664-5345.

Investing involves risk, including the possible loss of principal. Past performance does not guarantee future results. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio. No investment strategy, such as asset allocation, can guarantee a profit or protect against loss. Actual client results will vary based on investment selection, timing, market conditions, and tax situation. It is not possible to invest directly in an index. Indexes are unmanaged, do not incur management fees, costs, and expenses, and cannot be invested in directly. Index performance assumes the reinvestment of dividends.

Investments in equities, bonds, options, and other securities, whether held individually or through mutual funds and exchange-traded funds, can decline significantly in response to adverse market conditions, company-specific events, changes in exchange rates, and domestic, international, economic, and political developments.

Bloomberg® and the referenced Bloomberg Index are service marks of Bloomberg Finance L.P. and its affiliates, (collectively, "Bloomberg") and are used under license. Bloomberg does not approve or endorse this material, nor guarantees the accuracy or completeness of any information herein. Bloomberg and AssetMark, Inc. are separate and unaffiliated companies.

AssetMark, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission. ©2025 AssetMark, Inc. All rights reserved.

8452863.1 | 10/2025 | EXP 10/2027

