



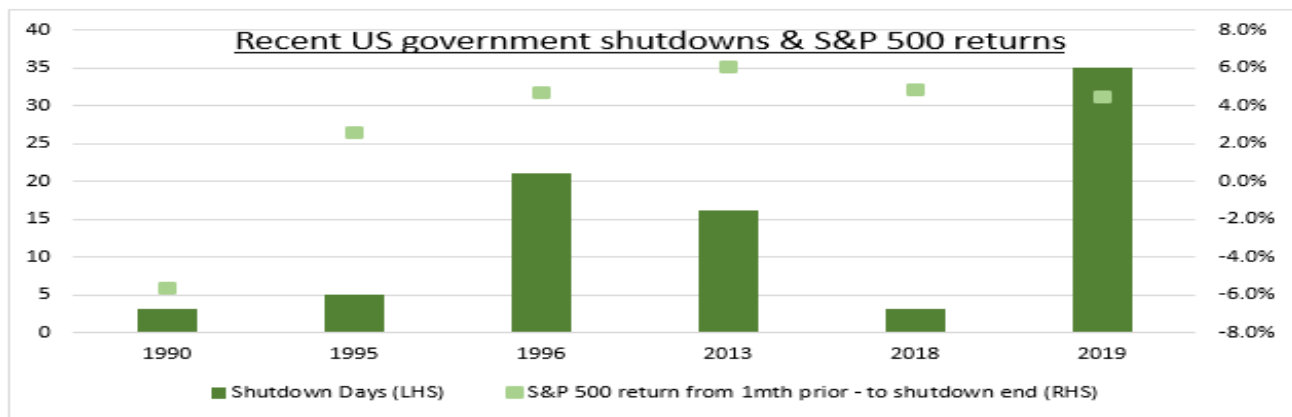
Daily Macro Insights: Shutdowns and Defaults

DC DYSFUNCTION: US Congress temporarily extended government funding to December 3rd, preventing a shutdown for now. Whilst a bigger threat looms, with a mid-October deadline for raising the federal debt ceiling or risk a default. These events have happened before, with limited market impacts. But the [political calendar](#) is especially packed now, also with a \$1 trillion infrastructure bill, \$3.5 trillion spending bill, and Fed chair appointment decision due. Also, the political environment is polarised, with a 50/50 Senate and ahead of mid-term elections next year. Markets hate the uncertainty, political mistakes can get made, and this contributes to recent market weakness. But ultimately we see it successfully resolved, and markets to recover.

SHUTDOWN: Government shutdowns are regular, if normally short events, given Congress delays approving discretionary spending representing 1/3 US federal budget. We have seen 22 shutdowns the past 45 years, and the last was the longest. The equity (see chart) and GDP impact has been limited, given their temporary nature. We could yet see a shutdown after December 3rd.

DEFAULT: The US Treasury has warned Congress the government will no longer be able to pay its bills from around October 18 unless the \$28.4 trillion US federal debt ceiling is raised. This could lead to the US temporarily defaulting on some interest payments, a significant credibility risk for the \$46 trillion US bond market and the country's low debt costs. These showdowns are regular but can be volatile. Most notably 2011, which saw the US lose its AAA bond rating from S&P, equities fell sharply, and the government within two days of its estimated funding limit.

TODAY: We gauge the US growth recovery with the manufacturing ISM purchasing managers index seen strong at 59.6, alongside the Fed's favourite PCE inflation measure, stable at 4.2%.



Source: Refinitiv

Ben Laidler, Global Markets Strategist. Email: benla@etoro.com

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