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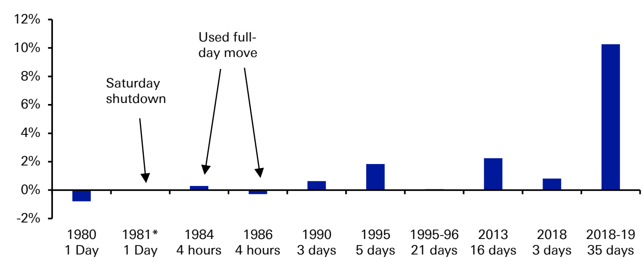
DB CoTD: Shutdown shrug

Jim Reid
Global Head of Macro and Thematic Research
+44-20-754-72943

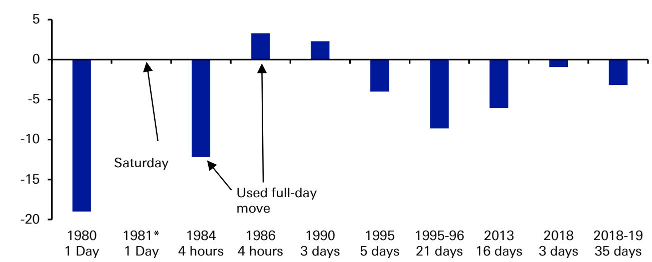
Henry Allen
Macro Strategist
+44-20-754-11149

Change in S&P 500 over shutdowns



Source : Bloomberg Finance LP, Deutsche Bank

Change in 10yr Treasury Yield (bps) over shutdowns



Source : Bloomberg Finance LP, Deutsche Bank

As it stands, we're just hours away from another US government shutdown. Funding is set to lapse at midnight tonight, with no signs of a last-minute deal between Republicans and Democrats. This would have several market implications, including a delay to Friday's US jobs report, so we might end up flying blind for some time on the economic data.

But despite all the market attention on a shutdown, historically shutdowns haven't had a negative impact on major financial assets. In fact, the most recent 6 shutdowns all saw the S&P 500 rise from start to finish, and the last one coincided with a huge 10% surge. To be fair, that was driven by other factors, including Powell's dovish pivot at the start of 2019, but it goes to show how markets simply took the shutdown in their stride. It's a similar story for US Treasuries, with the 10yr yield falling in each of the last 5 shutdowns.

We should point out that a shutdown still isn't inevitable, and last-minute deals have happened before that averted one. But the rhetoric from either sides remains pretty hostile, and isn't pointing towards a compromise. Only yesterday, Republican House Speaker Johnson said that "They wouldn't back off on any of these crazy demands," and Democrat Senate Minority Leader Schumer said there were "very large differences".

But even if one does happen, the pattern from recent history is for markets to take it in their stride.

For more info on what a shutdown might look like, see last week's piece from our US economics team here.

Appendix 1

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Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG
Equity Research
Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG
Filiale Hongkong
International Commerce Centre,
1 Austin Road West,Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.
1-3-1 Azabudai
Azabudai Hills Mori JP Tower
Minato-ku, Tokyo 106-0041
Japan
Tel: (81) 3 6730 1000

Deutsche Bank AG
21 Moorfields
London EC2Y 9DB
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank Securities Inc.
The Deutsche Bank Center
1 Columbus Circle
New York, NY 10019
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Deutsche Bank AG
Filiale Singapur
One Raffles Quay, South Tower,
Singapore 048583
TeL: +65 6423 8001