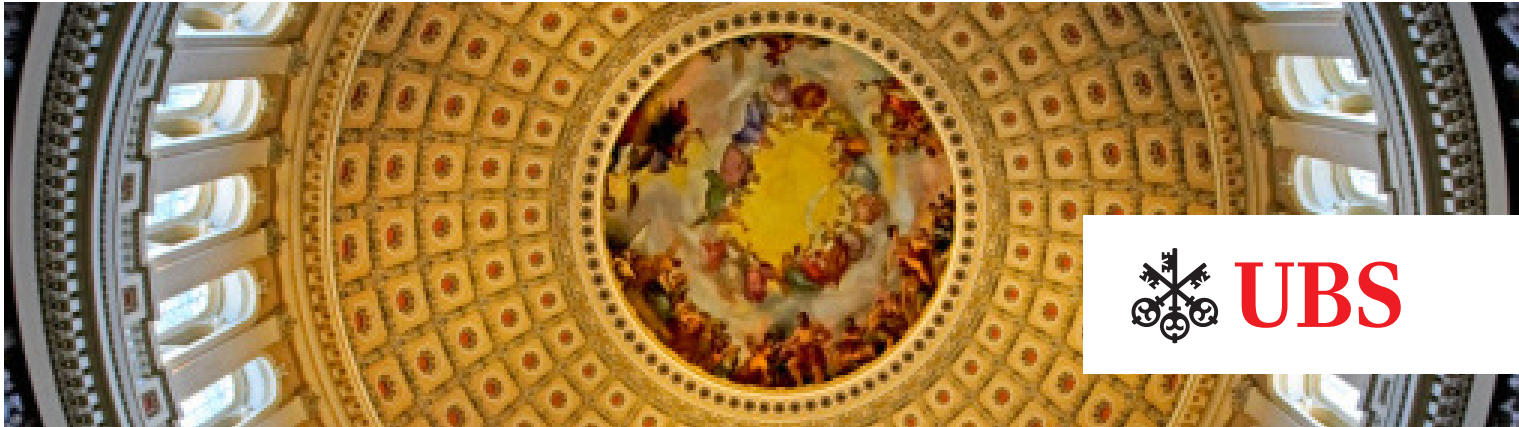


Special Washington Update

A Look Into the Government Shutdown

1 October 2025



Government Shutdown Dynamics. With current government funding expiring and Congress unable to pass an extension, a federal government shutdown began today. On Monday, a meeting between President Trump and Republican and Democratic leadership yielded little progress. The Senate last night voted on a House-passed bill that would provide a short-term extension of government funding to November 21, but that did not get the support needed in the Senate where most legislation needs to meet a 60-vote threshold. The Senate also voted on an alternative proposal supported by Democrats that would pair a short-term funding extension with an extension of certain Affordable Care Act (ACA) tax credits and a reversal of many of the Medicaid changes that were part of the One Big Beautiful Bill (OBBB). The proposal also includes provisions to prevent President Trump from rescinding funds previously approved by Congress. However, this bill is a non-starter with Senate Republicans. Republicans and Democrats continue to be in a standoff and are unable to reach a deal. Democrats feel they have little incentive to help Republicans without trying to negotiate something in return following Republican-led efforts on OBBB and clawing back government funding through rescissions. On the other hand, Republicans do not want to budge in their position on a clean short-term spending bill. *We break down these dynamics below.*

The Republican Perspective. Republicans believe they have the better message to the public and think that Democrats are backing themselves into a corner. Republicans argue that they want to keep the government funded and that Democrats are preventing that from happening. Ironically, this message is one that traditionally has been used by Democrats in past government funding fights. With a more united front than previous shutdowns, Republicans will criticize Democrats for making demands over funding the government and will go after Democrats who previously spoke against the dangers

of shutdowns. *While some moderate Republicans want to extend the ACA credits, Republicans want these health care negotiations to be held in separate bipartisan discussions rather than being tied to government funding.*

The Democratic Perspective. Democrats are making healthcare a priority in this government shutdown standoff. They want to reverse the Medicaid changes in the OBBB. They also want to renew ACA tax credits that are scheduled to expire at the end of the year. These tax credits help 22 million Americans lower their health insurance costs when they buy policies via the ACA's marketplace. The credits are available to those who earn up to 400% of the poverty level. Together, these two changes have a budgetary cost of about \$1 trillion. In addition to these asks, Democrats want to roll back some of the cuts to foreign aid and public broadcasting that were part of the rescissions package passed in July and prevent further rescissions by the Trump administration. On the messaging front, many Democrats think Republicans bear most of the political risk of a shutdown given that they control Congress and the presidency. *However, the party looking to force a policy change via a shutdown rarely gets what it wants in the end.*

The Trump Administration. The Trump administration has wide discretion to make determinations around essential and non-essential activities during a government shutdown. That authority could mitigate the impact and political costs of a shutdown while giving the administration greater leeway to permanently shut down programs and activities it doesn't like. President Trump and the Office of Management and Budget (OMB) Director Russ Vought have threatened mass layoffs of federal workers and major program revisions. Many Democrats are concerned about the threats to make substantial changes to government departments and agencies. Concerns about this prompted Senate Minority Leader Chuck Schumer (D-NY) to support a funding

extension in March (though he subsequently faced harsh pushback from the Democratic base). Roughly 750,000 federal employees have been placed on furlough. "Essential employees" and active-duty military are required to work despite not getting paid until the government reopens. Each agency and department has its own plan that lays out which programs stay open and which programs close. *The Trump administration holds a lot of the cards during the shutdown.*

Shutdown History. This is the 21st government funding gap since the 1977 fiscal year. It will also be the third shutdown under President Trump. The last shutdown was in 2019 and occurred during President Trump's first term. It was the longest in US history, lasting over 35 days from December 2018-January 2019. It was largely centered around immigration and border security policy. It was ultimately resolved with a short-term funding bill. A major catalyst for the ultimate breakthrough was walkouts by air traffic controllers who were required to work without pay, leading to major logistical issues at airports across the country. There was a brief shutdown in January 2018. In October 2013, there was a lengthier shutdown of 16 days when Republicans tried to strip funding and delay the rollout of the ACA (Obamacare). In recent shutdowns, Republicans have been the instigators trying to achieve certain policy changes. The roles are reversed this shutdown as Democrats make the demands. *Will this party reversal lead to a different government shutdown dynamic than previous shutdowns?*

A Broken Process. The process to fund the discretionary government spending each year is clearly broken. Congress for many years has largely ignored the traditional process (set forth in rules and deadlines established by Congress in 1976) whereby it should pass a budget and then the 12 spending bills that fund government operations each year by the end of September, ensuring seamless funding when the fiscal year rolls over on October 1. The last time all 12 appropriations bills were passed on time was in 1996, and it's only happened four times in the five decades since the process was implemented. With the breakdown of this process, the common practice instead has been having a small group of congressional leaders and the White House write and pass one or two very large bills containing all government spending (and well beyond the established deadlines). This slipshod approach doesn't allow for the proper scrutiny of funding decisions at the committee level and the involvement of most lawmakers. That, in turn, leaves them frustrated and skeptical of the end products. Many members vote for or against the funding bills due to their substance, but many other members also now vote against the bills because they are frustrated by the process that has produced them. *This needs to change or Congress will continue to face a government shutdown threat year after year.*

What Happens Next? The House is out of session. The Senate will continue to hold votes on the same funding bills it did yesterday (and last week), but those bills will continue to fail. In the background, some Senators have been quietly in discussions about a potential bipartisan resolution that would include some more limited ACA extensions, but these discussions are still taking shape. During the shutdown, Congress' bandwidth will be limited. The Senate likely will continue to pass Trump administration nominees under the new rule that allows Senate Republicans to clear subcabinet executive branch nominees with a simple majority. The Senate also will try to work through the deluge of amendments filed for the defense authorization act. *However, it seems more likely the Senate will not vote on its version of the defense bill and go to conference with the House on its passed version.*

Path to Resolution. As pressure builds over the coming days, lawmakers will be discussing options to resolve this shutdown. Both sides will need to be able to say that they "won." So what will that look like? Republicans are unlikely to agree to any reversal to the Medicaid cuts, but they could agree to an extension of the ACA if there are provisions to tighten eligibility. Lawmakers will be more open to a deal as the shutdown begins to impact programs that feed women and infants over the next week and as federal employees (and particularly service members) go without a paycheck in mid-October. Increases to healthcare costs during open enrollment season over the coming weeks also could be a spur. An agreement that combines an extension in government funding with an intent to extend ACA credits could allow for Congress to move forward, although that too will be attacked from factions on both sides. *A deal to re-open the government likely will be only short-term and may only have an agreement in principle on ACA credits, so we could be looking at further shutdown threats.*

Does Anyone Win? When government shutdowns loom, political wisdom says blame often falls on the party in power. Recent polling shows 45% of voters would fault Republicans in Congress (or Trump) for a shutdown, while just 32% say Democrats deserve the primary blame. This tracks similarly from most, though not all, recent shutdowns where Republicans were typically seen as the cause by the public. However, the past also tells us that the damage is seldom permanent and that neither party wins during a shutdown. Instead, it's mostly a case of who loses less. The dynamics of this shutdown are different from past shutdowns since Republicans are the ones who are advocating for a "clean" extension, a position that Democrats have had in past shutdowns. Whether or not that matters to voters remains to be seen. A lot will come down to which party is able to better message its position. *Still, it's safe to say that neither party is likely to gain in voters' eyes.*

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