

# Shutting down but not in shatters

## CIO Essentials

Author: UBS CIO GWM, UBS Switzerland AG

- The US government shutdown is a major political event, but with limited market impact.
- Fed easing, robust corporate earnings, and AI growth matter more, in our view.
- Position in high-quality investment grade bonds with medium maturities to benefit from lower yields while spreads remain tight.



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The investment community's attention remains focused on the US, where the government entered a shutdown following the Senate's failure to pass a spending bill. Such gridlock over government funding has become a recurring feature of US politics. With narrow Republican majorities in both chambers, US lawmakers continue to struggle to reach a budget agreement, leaving markets to assess the potential impact on the US economy and Federal Reserve's next move.

To be clear, we do not think the shutdown in itself will trigger a recession. Most government shutdowns have lasted less than a week, with one notable exception—a 35-day shutdown during President Trump's first term. Even then, the impact on the economy was minimal with the Congressional Budget Office estimating the loss to have measured only a few basis points. Coming off a quarter with above-trend growth, we do not see a danger of the shutdown leading to a negative GDP print.

We are also not overly concerned that temporary data delays will deter the Fed from cutting interest rates further, as a range of Fed and private sector data releases will continue to provide insight into the state of the US economy.

The shutdown will undoubtedly continue to grab headlines and create volatility, but there are more important market drivers that investors should focus on. These include robust AI-related capex spending, strong corporate earnings

growth, and, of course, the resumption of the Fed interest rate cutting cycle. Markets continue to price in two more rate cuts for the remainder of the year.

With yields still elevated, solid credit fundamentals, and supportive technical factors, CIO would look to lock in high yields. However, it is important to look beyond yields alone. Credit spreads—a measure of credit risk—remain close to historical lows. This does not mean risks are absent. On the contrary, ongoing political turmoil in France, concerns about US debt sustainability, the war in Ukraine, and renewed tensions in the Middle East contribute to a backdrop of persistent uncertainty.

This is why we favor investment grade instruments from quality issuers with maturities of four to seven years. Maintaining a balanced duration approach preserves upside should yields decline faster than expected, while also limiting risk from ongoing curve steepening pressures amid persistent fiscal challenges in several major economies.

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## Appendix

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