Full Faith & Credit Treasuries Should Calm Shutdown Fears

Written: October 3, 2025

While a government shutdown may disrupt economic data releases, it does not threaten U.S. Treasury debt payments. Principal and interest on Treasuries are processed automatically through the Federal Reserve, enablingTreasury ETFs to continue to trade and distribute normally. Historically, shutdowns have had minimal, short-lived effects on financial markets compared to long-term drivers such as interest rates and inflation.

Treasury Payments Are a Top Priority

- Principal and interest on U.S. Treasuries are among the **highest-priority government obligations**.
- The U.S. has **never missed a payment on Treasuries due to a shutdown.**
- Payments are processed automatically through the Federal Reserve, which remains operational.

No Impact on Treasury ETFs

- Treasury ETFs continue to function normally—trading and distributions are unaffected.
- Liquidity in the Treasury market remains strong.
- Client holdings are secure and backed by the **full faith and credit of the U.S. government.**

Shutdown vs. Debt Ceiling

- **Shutdown**: A temporary pause in funding for some federal agencies. Does not impact Treasury debt payments.
- **Debt ceiling**: A separate issue involving borrowing limits. This is **not** the current situation.

Fiscal & Monetary Policy Implications

- **Fiscal policy pause:** Certain government spending can be slowed or paused (e.g., federal agencies, contractors), which can temporarily weigh on GDP growth.
- **Data disruptions:** Economic data releases (jobs, retail sales, etc.) may be delayed, creating temporary uncertainty for markets.
- **Federal Reserve response:** Fed operations will continue without interruption. Due to delayed data releases, including today's employment report for September, the Fed may rely on alternative indicators, but remains committed to its inflation and employment mandates.
- **Market impact:** Historically, shutdowns have had minimal, short-lived effects on financial markets compared to longer-term drivers like interest rates and inflation.

Bottom Line

Government shutdowns make headlines but historically have had only limited, short-lived market impact. Treasury securities remain safe, liquid, and backed by the full faith and credit of the U.S. government, with no delay in payments. Longer-term forces such as Federal Reserve policy, interest rates, and inflation remain the true market drivers.

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