

# US Government shutdown and the debt ceiling

~~ADVANCE~~

Right down to the wire, late on Wednesday night (16 October US Eastern time) the U.S. Congress passed and sent legislation to President Barack Obama that enabled the Government to avoid a national debt default and bring to a close the 16 day partial Government shutdown, the conclusion of a dramatic political saga that placed the United State's economy at risk and focused global attention on Washington.

The Senate voted first, a vote 81-18 in favour of the legislation. That cleared the way for a final 285-144 vote in the Republican-controlled House of Representatives. The Government will re-open on Thursday US time, however, Government workers may not resume work until Friday.

The passed legislation would;

- Permit the Treasury to be able to borrow until at least 7 February 2014,
- Fund the Government through to 15 January 2014,
- Allow 2 million federal workers to be paid, including those who had remained on the job and those who had been placed on leave,
- Lift the debt ceiling, (increasing the limit of the national debt that can be issued by the Treasury)
- Set up another panel, who will be tasked with producing a budget, and
- Require safeguards to ensure people who receive health care subsidies are legitimate recipients of these benefits.

Financial markets have taken the debt ceiling disruption in their stride, anticipating a resolution. Equities have risen 3.9% (US S&P 500 Index) in the past 5 days, US 10 year bonds have remained relatively unchanged at near 2.65% and the US dollar has experienced weakness across most of the emerging market currencies and the Australian dollar.

The Government shutdown and the subsequent political brinkmanship has provided enough caution for the US Federal Reserve to extend its quantitative easing (QE) policy a little bit further as insurance for the unintended impacts that were caused to sentiment and demand.

Despite the debt ceiling maintaining investor focus, Q3 US earnings have begun and will now be the focus for equity investors. The key for further upward momentum in equities from here will be company earnings, in particular continued expansion in Revenue growth.

This solution effectively sustains the running of the Government until January or February; however, the unchanged difference of opinions between Republicans and Democrats lingers. The persistence in pursuing the same committee solution, which has failed in the past, ensures that an end to this problem is still unlikely in 2014.

Whilst this solution is a temporary one, the likelihood of a similar Government shutdown in the near future is unlikely because the US Congress will be in election mode, as they prepare for mid-term congressional elections, which are scheduled for Tuesday, 4 November 2014.

The positive near-term financial risky asset market outlook needs to be treated with caution, as corporate and household uncertainty continues in the US. This uncertainty is having a negative impact on investment and spending while QE by the Federal Reserve is not generating enough economic traction.

Conversely, this level of uncertainty will force the Federal Reserve to continue with their QE policy, which will generate support for the fixed income market.

These events lend to lower US growth expectations over 2014 although slow, long-term recovery over the course of 2014 to 2016.

## Who we are

Advance is a specialist asset management business within the Westpac Group. Our focus is on asset allocation and risk management, implemented through a multi-manager process, providing investment opportunities across a range of asset classes, including shares, property, fixed interest and cash.

## Why Advance?

- We offer investors a wide choice of quality investments and the security of ongoing monitoring and analysis.
- Our investment team provides in-depth analysis of investment funds and the managers behind them, with the aim of offering broad diversification, quality risk management and access to some of the world's best investment managers – without having to do it all the investigation yourself.
- Our multi-manager approach is based on the belief that different styles, when combined, can produce a more consistent outcome for investors by minimising style and portfolio risk.

- Our blended multi-manager funds offer greater diversification, while benefiting from active investment management and the potential to achieve sustainable outperformance over the longer term.

With a dedicated team of skilled and experienced professionals performing an ongoing investigation into the funds, investors can spend less time worrying about market and manager fluctuations and more time enjoying the more important things in life.

### Advance Asset Management

Contact Centre 1800 819 935

Adviser Services 1800 650 498

[advance.com.au](http://advance.com.au)

The information contained in this document is of a general nature and does not take into account any person's objectives, financial situation or needs and before acting on the information, a person should consider its appropriateness having regard to these factors. Units in the Advance Funds are issued by Advance Asset Management Limited ABN 98 002 538 329 AFSL No. 240902 (Advance). Before deciding whether to acquire or to continue to hold an investment, an investor should obtain and consider the applicable Product Disclosure Statements, available from their adviser or by calling 1800 819 935. Advance is a member of the Westpac Group. An investment in a Platform or a Fund does not represent an investment in, deposit with or other liability of Westpac Banking Corporation or any other member of the Westpac Group. An investment in a fund is subject to investment risk, including possible delays in the payment of withdrawals and loss of income and principal invested. No member of the Westpac Group stands behind or otherwise guarantees the capital value or investment performance of a fund. Subject to any terms implied by statute which cannot be excluded, no member of the Westpac Group nor its directors, employees and associates accept any responsibility for errors in, or omissions from the information. Past performance is not a reliable indicator of future performance. Current as at October 2013.