

U.S. Municipal Bond Market

Hot Inflation, Another Argument for Municipal Discipline

Summary

- Hot CPI keeps the higher for longer rate story alive, even if energy drove the move.
- Today's data does not weaken the municipal case. It raises the importance of tax-exempt income, attractive yields and maturity selection, and credit differentiation.
- Stronger tax-backed and essential service credits should continue to be prioritized in this environment rather than weaker credits that rely on easier financing conditions.
- This remains a discipline year for municipals. Today's inflation data just reinforced it, and investors should spend less time waiting for the Fed to ease market conditions and more time deciding what belongs in a portfolio if rates stay elevated.

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New Data Keeps Fed Under Pressure

Today's May Consumer Price Index (CPI) report did not reduce the appeal for municipal bonds, but it does strengthen the argument for investors to raise standards when approaching them. CPI rose 0.5% in May and 4.2% over the last 12 months, up from 3.8% in April. Energy accounted for a significant portion of the monthly increase, while core CPI rose 0.2% in May and 2.9% year-over-year. This data likely keeps the Federal Reserve under pressure to stay patient even if the inflation shock is not broad based in the same way as 2022.

Municipal investors do not need a Fed rate cut to justify owning high quality tax-exempt bonds in this environment. As we indicated yesterday, the Fed is not the story. The Fed is looking for the story. Tax-exempt income, attractive yields and maturity selection, and credit quality are. Markets largely expect the Federal Open Market Committee to remain on hold when its decision is released on June 17, but investors will be looking for signs of how concerned Fed officials are about inflation going forward and whether that concern could shift the conversation toward a rate increase at some point.

Municipal investors do not need a Fed rate cut to justify owning high quality tax-exempt bonds in this environment.

Recent HilltopSecurities Municipal Commentary

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- A Stronger Jobs Report Gives the Fed Room to Wait, June 5, 2026
- The Growing Divide Between Markets and Households and What It Means for Municipals, June 1, 2026
- Investors are Choosing Stability, Tax-Exempt Income, and the Bonds that Finance America's Infrastructure, May 27, 2026
- Selection Matters More as U.S. Municipal Credit Continues to Turn Lower, May 18, 2026

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