

U.S. Municipal Bond Market

Oil Relief Ahead of the Fed Could Strengthen Municipal Demand

Summary

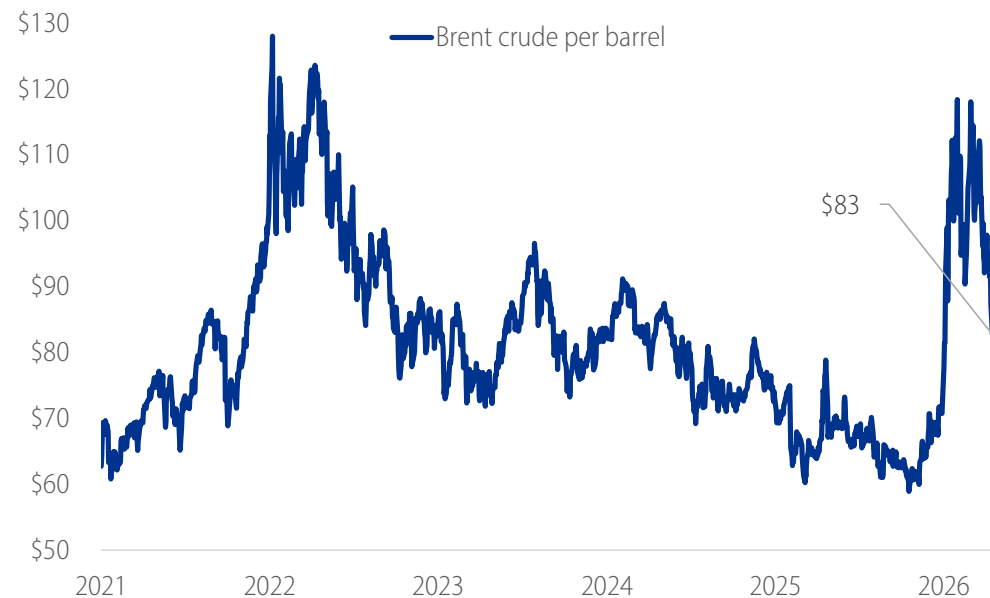
- The Fed is likely to hold rates steady this week, but lower oil prices are giving municipal yields room to fall again.
- A reported U.S.-Iran framework that could reopen the Strait of Hormuz is reducing one of the market’s main near-term inflation pressures, even though the details are still incomplete.
- Demand remains the defining municipal bond market story of 2026. Another \$4.3 billion has flowed into municipal mutual funds over the past three weeks, and lower yields could add to that momentum.

Tom Kozlik
Head of Public Policy and
Municipal Strategy
214.859.9439
tom.kozlik@hilltopsecurities.com

Fed Meeting June 16 and 17

The Federal Reserve is likely to keep its target rate unchanged this week, but falling oil prices may be taking some pressure off the inflation outlook just as the market heads into Kevin Warsh’s first meeting as chair. If that continues, Treasury and municipal yields could begin to fall again after spending much of the spring rangebound at higher levels. For municipal investors, that matters because lower long-term yields could reinforce a demand story that has already defined much of 2026.

Oil Prices Continue to Fall on the Reported U.S.-Iran Framework to End the War



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Source: ICE, Bloomberg and HilltopSecurities.

New U.S.-Iran Framework Pushes Oil Lower

Oil prices moved lower Monday as markets reacted to a reported [U.S.-Iran framework](#) that would reopen the Strait of Hormuz and reduce one of the most important recent sources of inflation pressure. The [details are still incomplete](#), and the agreement is not fully public yet. But if the framework holds and the strait reopens as expected, one of the main near-term arguments for higher yields loses some force.

For municipal investors, lower yields could add to an already powerful demand story.

Municipal Demand Could Strengthen Further

For municipal investors, lower yields could add to an already powerful demand story. Demand has been the defining municipal bond market story of 2026, and we made that point [at the end of May](#). Since then, another \$4.3 billion has flowed into municipal mutual funds over three weeks, including a \$625 million inflow just last week, according to Lipper.

If lower energy prices help pull yields down again, demand for municipals could strengthen further. Supply has been strong enough to meet that demand so far, and issuance through May was running ahead of last year at a \$47 billion monthly average (compared to \$46 billion in 2025) even as markets adjusted to the risk that rates could stay higher for longer.

Municipal Bonds Issued through May 2026 by Sector

Par Amount (\$ in billions)	% of Total	Sector
\$59	25%	General Govt. Purpose
58	25%	Education
33	14%	Utilities
24	10%	Health Care
21	9%	Transportation
18	8%	Housing
13	6%	Electric Power
8	4%	Other
\$235		Total

If lower energy prices help pull yields down again, demand for municipals could strengthen further.

\$47 Monthly avg. through May

Source: HilltopSecurities, The Bond Buyer and LSEG through May, 2026.

Recent HilltopSecurities Municipal Commentary

- [Hot Inflation, Another Argument for Municipal Discipline](#), June 10, 2026
- [The Fed Steps Back. Municipal Discipline Steps Forward](#), June 9, 2026
- [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

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