

U.S. Municipal Bond Market

A Stronger Jobs Report Gives the Fed Room to Wait

Summary

- The May jobs report showed an economy with more resilience than many expected, giving the Federal Reserve more room to wait on rate cuts.
- The stronger labor market is good news for growth, but it does not erase the pressure many households still feel from high everyday costs.
- For state and local governments, steady job growth matters because wages and spending help support the tax collections that underpin much of U.S. public finance.

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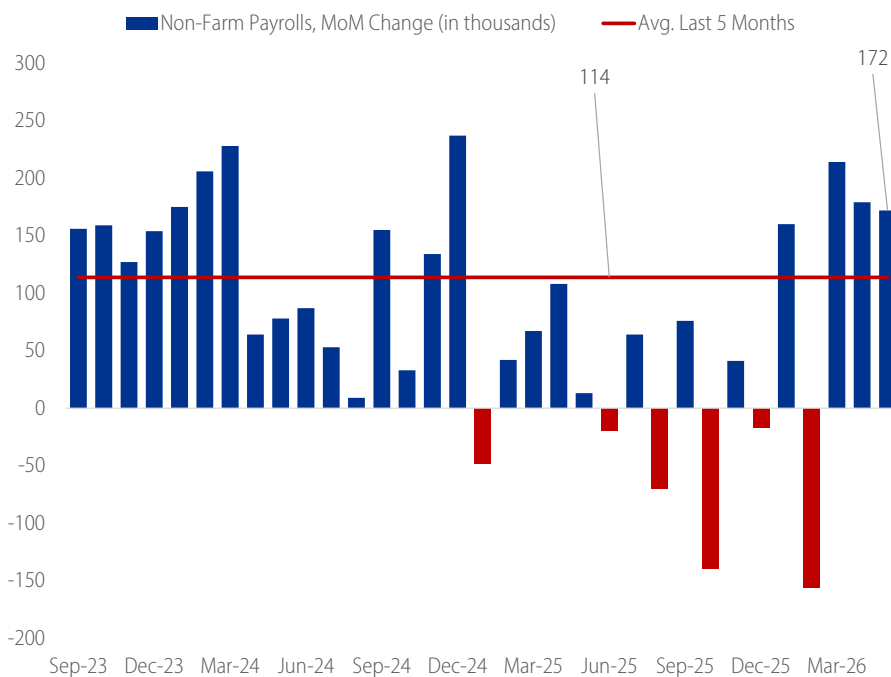
Stronger than Expected

The May jobs report came in stronger than expected, and the underlying details reinforced labor market strength. The U.S. economy added 172,000 jobs in May, well above the 88,000-consensus estimate, and unemployment held at 4.3%. The hospitality sector led the way with 70,000 new jobs and local government added 55,000.

March and April jobs numbers were revised higher as well. Job gains are now averaging 114,000 per month so far in 2026, compared with almost 10,000 per month in 2025. The May jobs report was not just a stronger than expected jobs report. It was a stronger than expected labor market signal and a positive sign for the broader direction of the U.S. economy.

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A Stronger Jobs Number Pushes Back on Softening Fear



Source: Bureau of Labor Statistics and HilltopSecurities.

Please see disclosure starting on page 3.

For the Fed, this report is likely to lower the urgency for rate cuts. The labor market is not likely weak enough to force action, and the inflation backdrop is not clear enough to warrant cuts either. This matters even more with the continued risk of energy and gas prices tied to the Strait of Hormuz & and geo-political instability which remains in the spotlight day-to-day. Today's stronger than expected jobs report gives policymakers more room to wait, especially if oil prices, shipping risk, and inflation expectations remain unsettled. This report does not eliminate the potential for a rate cut, but it does reduce the likelihood in the near term and makes the timing harder to judge.

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Connection to the Broader Market Backdrop

One of the defining themes right now is the gap between market optimism and household strain, as I wrote at the beginning of this week. Equity markets are climbing to new highs because investors are pricing in a future heavily influenced by artificial intelligence (AI) and related infrastructure investment. But U.S. households live in the here-and-now. They live in a present where groceries, insurance, housing, gas, and debt remain relatively expensive compared to even the recent past. This stronger payroll number helps give us a read, but it does not close the gap we identified between market optimism and household sentiment.

The broader market is being pulled by two forces at once. There is AI-related optimism, but also geopolitical energy risk. Demand tied to AI infrastructure for data centers, chips, and power continues to support the equity market growth story. At the same time, the ongoing instability in the Middle East and effective closing of the Strait of Hormuz remind us that the traditional pressures of the global economy have not gone away.

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Impact on Municipals

There is an important connection between this macro story and municipal bond investors. The jobs data supports wage growth. Wages should continue to support consumer spending. That spending, in turn, should help support the tax receipts that underpin schools, state and local services, and the broader credit quality of state and local governments.

Local government hiring in this month's jobs data is especially important because it shows that local governments are still adding workers, not managing contraction. This is constructive for municipal credit overall, because the labor market is supporting the household tax base, and the public sector.

This jobs report does not mean investors can stop being selective. Structural challenges remain in certain sectors of the U.S. municipal bond market, as we wrote about in Selection Matters More as U.S. Municipal Credit Continues to Turn Lower (May 18). And, this is the Post-Golden Age Recalibration. The Golden Age of Public Finance is long gone. But today's labor market report makes the economy more resilient than fragile. Strong triple-A, and double-A general obligation and essential service revenue bonds, and issuers with financial flexibility should remain well positioned to navigate this environment. The May jobs report was bullish for growth, constructive for municipal credit, and less friendly to near term rate cut hopes.

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- [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
- [The Threat to the Tax-Exemption Keeps Building Amid Quantitative Stress, Qualitative Drift](#), May 11, 2026
- [Drift Toward Stability Confirmed by the First Four Months of 2026 Municipal Issuance](#), May 4, 2026

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