

## Iran War's Shadow Over U.S. Municipal Bonds: Rising Rates and Vanishing Refunding Windows

As the U.S. and Israeli-led military campaign against Iran ended its fifth week, the conflict that began with surprise airstrikes on February 28<sup>th</sup> is significantly impacting global markets. What started as targeted strikes on Iranian infrastructure, air defenses and regime assets, has escalated into a broader confrontation, with Iranian retaliation and disruptions in the Strait of Hormuz sending oil prices soaring. The economic fallout is now hitting closer to home for state and local governments: municipal bond yields are climbing, borrowing costs are rising, and long-awaited refunding opportunities are evaporating.

Municipal bonds—debt issued by states, cities, school districts, and public authorities to finance infrastructure such as roads, schools, hospitals, and water systems—have long served as a cornerstone of U.S. public finance. Their tax-exempt status makes them especially attractive to investors seeking steady and safe returns.

The Iran war has injected fresh volatility into the markets as the conflict has driven up global energy prices through fears of prolonged supply disruptions and the potential closure of the Strait of Hormuz through which 20% of the world’s oil is shipped annually. Higher oil costs feed inflation concerns. Investors, already wary of U.S. inflation hovering above the Federal Reserve’s 2% target, are demanding higher yields to compensate for the risk that prices remain elevated.

For municipal issuers, the impact is immediate and material. A city, county, or school district planning to issue new debt for essential capital projects now confronts interest rates as much as 20 basis points higher than just a few weeks ago. On large issuances, those seemingly small increments could translate into millions of additional dollars in interest expense over the life of the bonds. Notably, the spike has closed the brief refunding window that many issuers were eyeing in early 2026. *(continued on back page)*

### RECENT CMA CLIENT SALE RESULTS

<u>Issuer (Rating)</u>	<u>Issue Type</u>	<u>Par Amount</u>	<u>Sale Date</u>	<u>Term</u>	<u>Rate</u>	<u>Purchaser</u>
Wyandanch UFSD (A+)	BAN	\$ 28,000,000	26 – Mar	1 yr.	2.70%	TD Financial Products LLC
New Castle Town (Aaa)	Bonds	7,065,000	25 – Mar	30 yrs.	3.87%	Raymond James & Associates
Rye Brook Village (Aa1)	BAN	950,000	24 – Mar	1 yr.	3.10%	Oppenheimer & Co.
Middletown City (A1)	BAN	1,500,000	18 – Mar	5 mos.	3.18%	Hilltop Securities
Middletown City (A1)	Ref. Bonds	3,615,000	18 – Mar	13 yrs.	2.95%	Brownstone Investment Group
Corning City SD (Aa3)	BAN	1,500,000	18 – Mar	1 yr.	2.62%	Jefferies LLC
White Plains City (Aa1)	Bonds	42,115,000	3 – Mar	19 yrs.	3.39%	UBS Financial Services

### GENERAL OBLIGATION TAX-EXEMPT INTEREST RATES

<u>Term</u>	<u>April 1, 2026</u>					<u>March 2, 2026</u>					<u>1 Year Ago - April 1, 2025</u>				
	<u>Aaa</u>	<u>Aa</u>	<u>Insured</u>	<u>A</u>	<u>Baa</u>	<u>Aaa</u>	<u>Aa</u>	<u>Insured</u>	<u>A</u>	<u>Baa</u>	<u>Aaa</u>	<u>Aa</u>	<u>Insured</u>	<u>A</u>	<u>Baa</u>
1 yr.	2.37%	2.40%	2.43%	2.41%	2.79%	2.02%	2.05%	2.08%	2.06%	2.44%	2.61%	2.64%	2.72%	2.70%	3.08%
5	2.64	2.68	2.78	2.82	3.21	2.15	2.19	2.29	2.33	2.72	2.81	2.85	2.97	3.01	3.40
10	3.10	3.21	3.29	3.39	3.87	2.56	2.69	2.77	2.87	3.35	3.21	3.32	3.46	3.56	4.04
20	4.08	4.29	4.34	4.43	4.89	3.88	4.09	4.14	4.23	4.69	4.12	4.34	4.49	4.57	5.02
30	4.44	4.66	4.71	4.80	5.28	4.21	4.43	4.48	4.57	5.05	4.19	4.41	4.56	4.64	5.09

## **Iran War's Shadow** *(continued)*

Refunding, issuing new bonds at lower rates to retire older, higher-coupon debt, has historically provided significant relief to school districts and local governments. Many locked in ultra-low rates during the pandemic-era borrowing surge. As rates normalized and then rose, the incentive to refinance grew stronger. Prior to the Iran conflict, early 2026 looked promising for restructuring outstanding debt and generating budgetary savings. The Iran war has slammed that window shut. Market volatility has forced many, high-profile deals to the sidelines. In each case, issuers cited uncertainty and rising rates as causes for the postponement. A drawn-out conflict risks even higher energy costs, slower growth, and a tighter Fed policy. Such a scenario would keep yields elevated and continue to make bond refundings unattractive. Higher muni rates also mean delayed or downsized capital projects. For cash-strapped local governments already grappling with post-pandemic budget pressures, the added interest expense only heightens anxiety. In addition, credit analysts warn that prolonged pressure could strain weaker credits, widen spreads and further elevate costs for issuers of tax-exempt debt.

Looking ahead, the trajectory of interest rates depends on how quickly the war winds down. President Trump has signaled openness to talks, but Iranian officials have vowed continued resistance, and missile and drone strikes continue. If oil prices stabilize and inflation expectations ease, muni yields could retreat, reopening the door to refunding opportunities and cheaper capital. If the conflict drags on through spring or even into summer, it could be a while before market conditions favorable for refunding bonds return.

For now, government officials and their financial advisors are engaged in a high-stakes waiting game, monitoring oil futures, Federal Reserve signals, and developments on the battlefield, with heightened attention. What began as a distant, geopolitical clash has become a daily reality check for America's communities. In our increasingly interconnected world, far away conflicts can reshape the cost of borrowing and infrastructure investment at home while adversely affecting your pocketbook.

**Questions? Comments?** Please contact one of CMA's 11, licensed municipal advisor representatives.

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