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How Could Higher Oil Prices Impact the Muni Market?

Key Points

- Higher oil prices may support some municipal bond issuers by boosting revenues tied to energy production. However, they can also strain household budgets, potentially slowing economic growth and lessening tax collections.
- Bondholders might feel the effects if revenues weaken, reducing an issuer's financial flexibility to meet debt service.
- We don't expect higher oil prices to meaningfully move the municipal market overall. Still, we suggest investors weigh the risks of bonds from smaller local governments where oil and gas are major sources of revenue.

Higher oil prices are an unwelcome sight at the gas pump, but they can benefit some municipal bond issuers. According to Bloomberg, crude oil has risen over 35% since late February and the move has already rippled through other markets. What might higher oil prices mean for municipalities, and what—if anything—should municipal bond investors consider doing about it?

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