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Municipal Labeled Bonds

H1 2026 Market Commentary

November 2026

KEY TAKEAWAYS

01 H1 2026 data suggest that several important trends are taking shape. Larger transactions are more likely to use Second Party Opinions.

02 Many municipal issuers finance impactful projects that remain under-communicated to the market.

03 As capital markets become more digital and AI-enabled, the quality and structure of issuer disclosure is becoming more important.

As a provider of Second Party Opinions and sustainability and resilience disclosure tools, Kestrel works with issuers, underwriters, advisors, and investors across a broad range of infrastructure and public purpose financings in the municipal bond market.

In our work, we continue to see important shifts in how municipal issuers approach sustainability disclosure, resilience communication, and the role of labeled bonds. Based on market data from the first half of 2026 (H1) and our work across the municipal market, we believe several important trends are beginning to emerge.

H1 2026 Market Overview

There was strong overall issuance activity in the municipal bond market at the start of 2026. According to MSRB, total municipal new issue volume was approximately $320 billion during the first half of 2026, approximately 7% more than the same period in 2025. Growth was primarily driven by tax-exempt issuance, while taxable issuance declined modestly.

Green, social, and sustainability (GSS) bond issuance remained relatively flat, with 135 transactions totaling $21.76 billion, compared to 146 transactions totaling $22.05 billion in H1 2025. GSS bonds accounted for 6.8% of total municipal bond issuance by par in H1 2026.

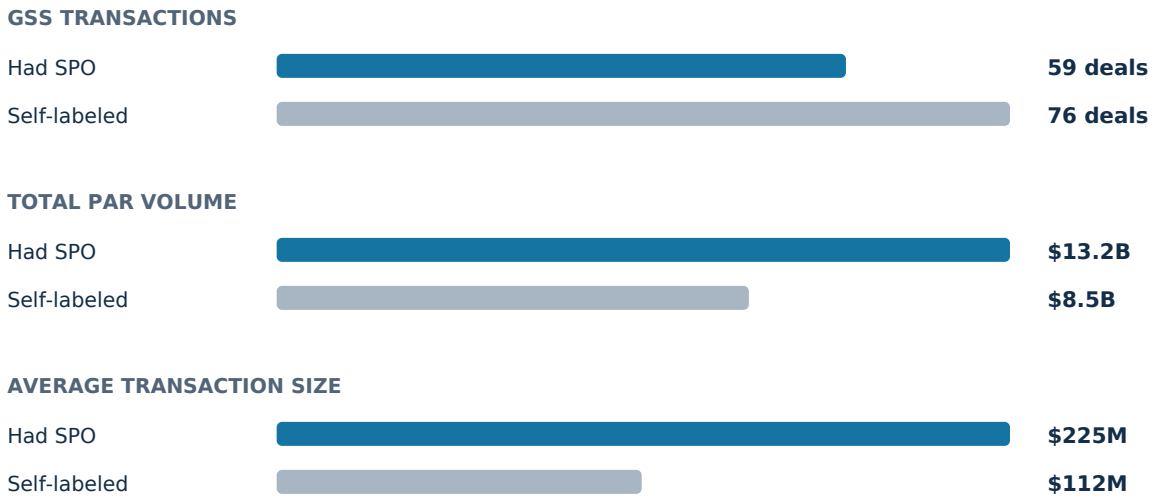
The taxable segment of the labeled market contracted. Twenty-four (24) GSS labeled transactions were issued as taxable bonds during H1 2026, down from 38 taxable labeled transactions during H1 2025, a decline of approximately 37%.

At first glance, this could suggest slowing momentum for municipal sustainable finance. We believe the situation is more complicated and more interesting.

The Growing Divide Between Self-Labeled and Externally Reviewed Bonds

One of the clearest trends emerging from H1 2026 is the growing distinction between self-labeled transactions and externally reviewed transactions. Second Party Opinions are the most common type of external review.

Of the 135 labeled municipal bond transactions issued during the first half of the year:



Kestrel-reviewed transactions alone represented more than 76% of externally reviewed labeled par volume.

These findings suggest that the municipal market has not moved away from Second Party Opinions. Rather, their use appears to be more concentrated among larger transactions.

Kestrel market data from 2021–2026 show a consistent pattern: while self-labeled GSS transactions account for a significant share of labeled deals, transactions with Second Party Opinions represent a larger share of total labeled bond volume.

One possible explanation is that issuers and transaction teams see particular value in enhanced sustainability disclosure for larger or higher-profile financings. While transaction size does not dictate how a bond is marketed, larger offerings often place greater emphasis on standardized disclosure and investor communication.

Sector Trends in H1 2026

- 68 transactions were Social Bonds
- 34 were Green Bonds
- 30 were Sustainability Bonds (Green + Social)

Housing-related financing remained the dominant social bond theme, concentrated on multifamily and single-family housing issuers.

Clean and renewable energy was a dominant theme for green bonds. H1 2026 included seven green bond transactions financing clean energy prepay contracts for California community choice aggregators (CCAs), all of which received Second Party Opinions with sustainability benchmarking from Kestrel.

Water and wastewater infrastructure also remained an important component of the market. Eight green bond and sustainability bond transactions financed wastewater and stormwater infrastructure projects, including DC Water's approximately $330.7 million issuance in February 2026. Kestrel provided the Second Party Opinion for the DC Water transaction. There were also 11 self-labeled deals for clean water and/or drinking water state revolving funds.

Several sectors with clear sustainability, resilience, and impact characteristics were notably underrepresented during this same period, including:

- K-12 public education
- higher education and community colleges
- healthcare systems
- public transportation
- electric transmission and distribution

Deal Teams Shape the Market

In a market with more than 50,000 municipal issuers, deal teams remain central to the evolution of municipal sustainable finance.

Anecdotally, in H1 2026, we continued to hear that some issuers and transaction teams were more cautious about labeling bonds, even when activities were clearly eligible.

This dynamic may help explain why labeled GSS bond issuance remained relatively flat even as the broader municipal market grew during H1 2026.

It is important to recognize that fewer labeled bonds does not necessarily mean fewer sustainability-oriented projects are being financed. In our view, sustainability, resilience and impact characteristics are simply under-communicated to investors.

Eligibility is Just the Beginning

According to Kestrel Sustainability Intelligence™, approximately 65% of all municipal bonds are eligible to be designated as either Green, Social, or Sustainability Bonds. Kestrel's dataset covers more than 18,000 municipal series representing over $3.5 trillion par. Of this total:

- approximately 24% is categorized as Green or Sustainability eligible
- approximately 41% is categorized as Social eligible

The municipal market clearly finances a tremendous amount of sustainability-related infrastructure and public purpose investment. But GSS eligibility alone does not convey decision-useful information.

This is where differences between self-labeled and externally reviewed transactions become more meaningful. While self-labeling can communicate an issuer's intent and alignment with the ICMA Principles, each issuer takes their own approach, without the benefit of market context, making it more difficult for some investors to systematically compare transactions.

As investors place greater emphasis on infrastructure resilience, adaptation to physical climate risk, and long-term capital planning, Second Party Opinions and other standardized disclosures can improve the transparency, comparability, and level of sustainability and resilience information available to the market.

The Value of Structured Disclosure

A Kestrel Second Party Opinion does more than assess alignment with the ICMA Principles. It can also provide independent, structured, and decision-useful disclosure that helps investors discover, compare, and evaluate sustainability and resilience information across transactions. The standardized approach contributes to market efficiency.

As capital markets become more digital, data-driven, and AI-enabled, the value of structured sustainability disclosure extends beyond the immediate transaction. Investors and data providers increasingly use AI-enabled tools to gather and analyze information from a broad range of disclosures and public sources—not just the official offering documents.

In this environment, a well-structured Second Party Opinion provides issuers with an opportunity to communicate the context, objectives, and characteristics of their financed activities in a standardized format that supports efficient discovery, analysis, and comparison by investors, data providers, and AI-assisted tools.

The H1 2026 market data highlight an important distinction: while labeled bond issuance remained relatively flat, larger transactions continued to make greater use of Second Party Opinions. At the same time, labeled bonds represent only a small portion of a municipal market that finances substantial sustainability-related infrastructure and public purpose investments. In our view, the broader municipal market has the same need for structured, decision-useful sustainability and resilience disclosure.

Ultimately, labels identify eligibility, but disclosure creates understanding.

About Kestrel

Kestrel is an Infrastructure Finance Intelligence company that transforms fragmented infrastructure and financial disclosures into structured, decision-useful intelligence. We evaluate transactions in public and private markets and turn finance disclosures into trusted, benchmarked intelligence.

Kestrel provides Second Party Opinions, Sustainability Intelligence™, and related disclosure and research services. Covering more than 18,000 municipal bond series representing over $3.5 trillion of par, Kestrel supports investors, issuers, underwriters, and other market participants with independent analysis to improve transparency, comparability, and insight.

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