



The Week in Muniland

May 11, 2026

Sitting Like an Elephant

Key Takeaways

1. The muni market rebounded from what was a difficult final week of April.
2. Sitting like an elephant is not the most efficient approach to managing a muni bond portfolio.
3. The April job market was stronger than expected.

The muni market rebounded from a poor end to April. While outperforming US Treasuries for the week, AAA yields were down approximately 2 basis points (bps) across most of the curve. The Bloomberg Municipal Bond Index returned 0.20% last week, bringing the year-to-date return to 1.18%.

- **Why it matters:** Despite everything going on in the world, demand for municipal bonds has been insatiable. According to J.P. Morgan, year-to-date net inflows into the muni market have reached \$33.5 billion, which is the third-highest year-to-date (YTD) inflow since recordkeeping began in 1992. This week saw \$1.8 billion pour into munis, which is the strongest weekly inflow since late 2025 and twice the trailing 25-week average. The theme of where these flows are finding a home remains the same. This week, two-thirds of inflows have gone into long bonds, while nearly one-third went into high yield. So it shouldn't come as a surprise to investors that long bonds have materially outperformed shorter bonds (*Display 1*) and that high yield has outperformed high grade. The Bloomberg Municipal Bond High Yield Index is up 2.36% YTD compared to 1.09% for the Bloomberg AAA Municipal Bond Index. We have recommended and continue to recommend owning both long-maturity bonds and high yield as part of an overall municipal bond allocation.

Sitting like an elephant on your bond positions is not the most effective way to manage a portfolio.

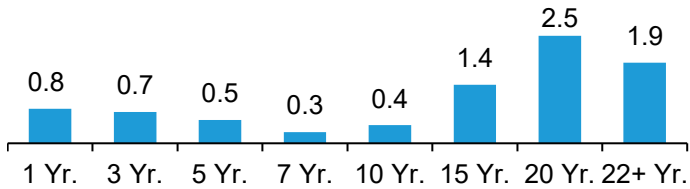
- **Why it matters:** Many intermediate-duration bond managers will build portfolios by owning bonds in the 6- to 15-year part of the yield curve. At times, that position may make sense, but does it always? Remember that there is a time and a place for every investment. Let's drill down into 2026. The muni yield curve started the year steep and remains steep, just not as much. For example, the 10s/20s slope was nearly 140 bps earlier this year, when the historical average was 60 bps. So what should that signal to a manager? Own longer bonds. We are not suggesting owning only long bonds, but a combination of long and shorter bonds to reach an overall intermediate duration was absolutely the correct position to be in. As *Display 1* indicates, the belly of the curve has meaningfully underperformed a combination of short and long. *Display 3* provides a glimpse into what could be expected in terms of returns across the yield curve. Given the curve's steepness, a 20-year bond has yield plus roll of roughly 5% compared to that of a 5-year bond (3%) and of a 10-year bond (less than 4%). This is the reason long bonds are in such high demand. We believe the opportunity is extremely attractive. Although an investor can never time the steepening or flattening of a yield curve, they can always count on an eventual reversion to the mean. And while you're waiting, you're being well compensated.

The April jobs report was stronger than expected, meaning that the labor market has so far held up despite the increase in energy costs due to the conflict in Iran.

- **Why it matters:** Payroll growth was solid in April, increasing by 115,000, alongside a modest downward revision of 16,000 to prior months' totals. The unemployment rate was unchanged at 4.3%. Wage growth was slightly softer; however, from a take-home-pay perspective, an increase in hours worked offset much of that weakness. Overall, these data do not materially change our assessment of the economy and do not suggest that the Federal Reserve needs to begin cutting rates in the near term. Policymakers can afford to remain patient and assess the evolving effects of the Iran conflict over time without immediate concern that the labor market is deteriorating.

Displays of the Week: May 11, 2026

Display 1: Year-to-Date Returns by Municipal Maturity Index Percent



An intermediate-duration barbell approach has outperformed other maturity structures.

As of May 8, 2026. Source: Bloomberg and AllianceBernstein (AB)

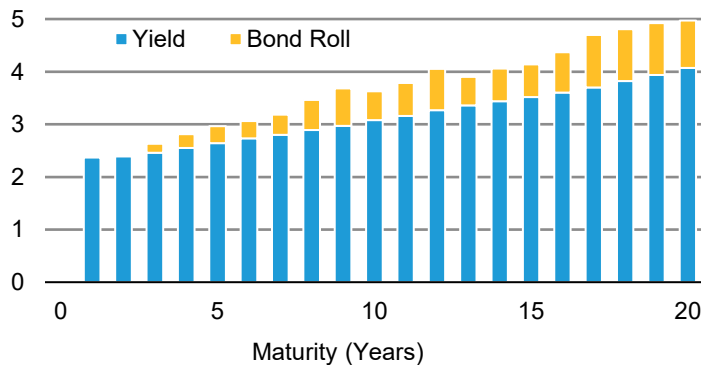
Display 2: Municipal/Treasury After-Tax Spreads Basis points

	May 8, 2026	Feb 27, 2026	Five-Year Average
Two-Year	14	3	16
Five-Year	21	2	20
10-Year	39	17	41
15-Year	56	57	65
20-Year	101	113	77
30-Year	138	143	99

Intermediate maturities are closer to fair value. The long end remains cheap.

As of May 8, 2026. Source: Municipal Market Data and AB

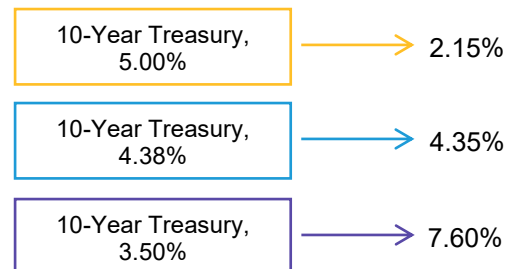
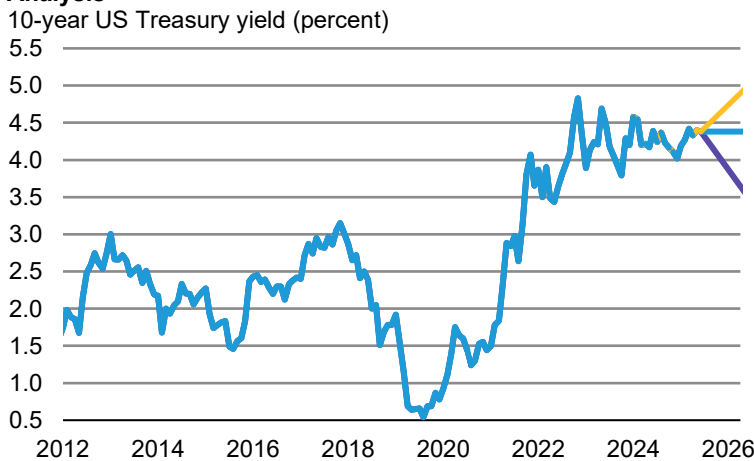
Display 3: Yield Plus Roll Percent



Yield plus roll is maximized in the 15- to 20-year part of the curve.

As of May 8, 2026. Source: Bloomberg and AB

Display 4: Expected 12-Month Municipal Returns Scenario Analysis



Past performance and historical analysis do not guarantee future results.

Display reflects expected returns of the Bloomberg Municipal Bond Index under three scenarios: 10-year US Treasury yields rise to 5.00%, remain the same or decline to 3.50% over the next 12 months.

As of May 8, 2026. Source: Bloomberg and AB

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Market Risk: The market values of the Portfolio's holdings rise and fall from day to day, so investments may lose value. **Interest-Rate Risk:** Fixed-income securities may lose value if interest rates rise or fall—long-term securities tend to rise and fall more than short-term securities. The values of mortgage-related and asset-backed securities are particularly sensitive to changes in interest rates due to prepayment risk. **Credit Risk:** A bond's credit rating reflects the issuer's ability to make timely payments of interest or principal—the lower the rating, the higher the risk of default. If the issuer's financial strength deteriorates, the issuer's rating may be lowered, and the bond's value may decline. **Inflation Risk:** Prices for goods and services tend to rise over time, which may erode the purchasing power of investments. **Foreign (Non-US) Risk:** Investing in non-US securities may be more volatile because of the political, regulatory, market and economic uncertainties associated with such securities. These risks are magnified in securities of emerging or developing markets. **Currency Risk:** If a non-US security's trading currency weakens versus the US dollar, its value may be negatively affected when translated back into US-dollar terms. **Diversification Risk:** Portfolios that hold a smaller number of securities may be more volatile than more diversified portfolios, since the gains or losses from each security will have a greater impact on the Portfolio's overall value. **Derivatives Risk:** Investments in derivative instruments such as options, futures, forwards or swaps can be riskier than traditional investments and may be more volatile, especially in a down market. **Leverage Risk:** Trying to enhance investment returns by borrowing money or using other leverage tools magnifies both gains and losses, resulting in greater volatility. **Municipal Market Risk:** Debt securities issued by state or local governments may be subject to special political, legal, economic and market factors that can have a significant effect on the Portfolio's yield or value. An investor cannot invest directly in an index. **Investment and Insurance Products:** Not FDIC insured | Not a bank deposit | Not insured by any federal government agency | No bank guarantee | May lose value

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