

The Week in Muniland

June 9, 2025

Finding Value in an Uncertain Market

Key Takeaways

1. The tidal wave of new issue supply continues to pound the muni market.
2. Elevated supply and the herd mentality creates value where others aren't looking.
3. The Fed still on hold following May's jobs report.

The \$20 billion new issue tsunami hit the muni market this week, and munis held up fairly well. For the week, two-, 10- and 30-year AAA yields changed -7, +1 and +4 basis points (bps), respectively. The Bloomberg Municipal Bond Index (Index) returned -0.09% last week, bringing year-to-date returns to -1.05%.

- **Why it matters:** The muni yield curve continues to steepen (*Display 1*), as demand in the 10-year and shorter part of the yield curve is greater than demand out longer. In fact, 89% of year-to-date mutual fund and exchange-traded fund flows have been concentrated in the intermediate and short end of the yield curve. With demand running to the belly of the curve, the long end of the curve continues to increase its stored value. While timing is always difficult, this stored value will eventually be released, and long bonds will rally and outperform shorter maturities. To be fair, the broader macro issues of tariffs and budget reconciliation need to be worked through—as does the significant increase in muni new issue supply. The market is pricing in two cuts to the fed funds rate this year, with the first cut not until the October meeting. As the US budget debate drags on, the first cut will continue to be pushed further out into late 2025.

The meaningful increase in muni new issue supply has clearly impacted the muni market. What's causing this increased issuance and how can investors take advantage of it?

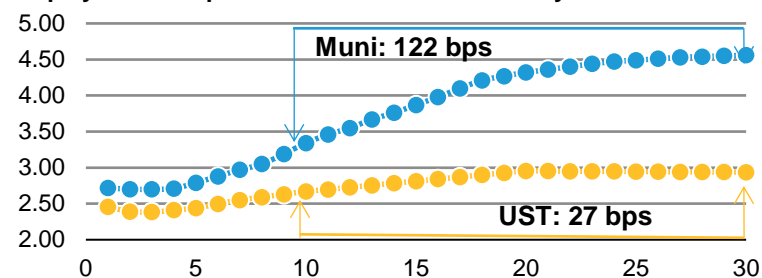
- **Why it matters:** The supply impact to the muni market can be seen through the lens of yield changes. For example, year-to-date 10-year AAA muni yields are up 28 bps, whereas 10-year US Treasury (UST) yields are down 7 bps. Year-to-date muni new issue supply is up 15% year over year and 45% over the trailing five-year average. As a result, munis are cheap relative to USTs (*Display 3*). Why is supply elevated? There are a few reasons: 1) issuers are reportedly front-loading issuance to get ahead of any limitation to municipal tax exemption, 2) issuers are coming off of the sugar high of COVID stimulus monies, thus reducing pay-as-you-go capital project financings, and 3) it's been reported that capital project costs have increased by as much as 35%. Given this technical, investors should look for value in the long end of the curve. The 17- and 18-year parts of the curve will give investors a yield + roll of 4.98% and 5.01%, respectively. In the five- and 10-year parts of the curve, yield + roll is worth 3.07% and 4.35%, respectively. Investors can pick up nearly 200 bps by investing in the cheaper, more attractive long end of the curve. Our recommendation is to do just that, take advantage of cheap long end maturity bonds. As the curve eventually flattens, these bonds will gain even more in value.

The US economy added 139,000 jobs in May, which combined with downward revisions to past months, is in line with the consensus forecast.

- **Why it matters:** There is nothing in May's data that changes our understanding of the economy or the outlook: the labor market is in equilibrium pending the impact of trade tensions. As a result, the Fed remains highly unlikely to cut rates in June or July. We believe it will take at least a couple of months of softer payrolls data to trigger a renewal of the easing cycle, meaning that, realistically, the Fed won't be back in action until the end of the summer. By that time, we should have a better read of the broader impact the trade war is having on the economy, which will give us more insight into the timing, pace and destination of monetary policy. In the meantime, like the Fed, we will be in "wait and see" mode.

Displays of the Week: June 9, 2025

Display 1: Municipal Yield Curve vs. US Treasury Curve After Tax* (Percent)

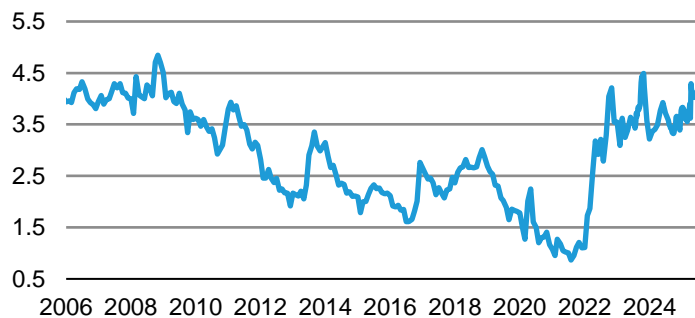


A barbell maturity structure remains advantageous given the steepness at the long end of the curve.

*Tax rate used: 40.8%

As of June 6, 2025. Source: Municipal Market Data and AB

Display 2: Historical Yield to Worst (Percent)



Outside of 2022 and 2023, the yield of the Index is as high as it's been since 2008.

As of June 6, 2025

Source: Bloomberg and AB

Display 3: Municipal/Treasury After-Tax Spreads (Basis Points)

	June 6, 2025	Apr 9, 2025	Five-Year Average
Two-Year	30	111	16
Five-Year	34	120	22
10-Year	68	134	43
15-Year	102	152	67
20-Year	136	183	75
30-Year	162	205	95

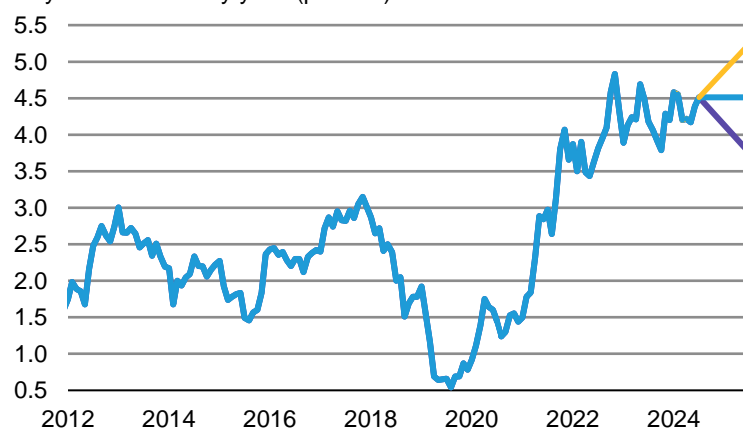
Munis have outperformed US Treasuries since April 9 but remain relatively cheap.

As of June 6, 2025

Source: Bloomberg, Municipal Market Data and AB

Display 4: Expected 12-Month Municipal Returns Scenario Analysis

10-year US Treasury yield (percent)



10-Year Treasury, 5.25% → 2.40%

10-Year Treasury, 4.51% → 5.15%

10-Year Treasury, 3.75% → 7.95%

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 5.25%, remain the same or decline to 3.75% over the next 12 months.

As of June 6, 2025. Source: Bloomberg and AB

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