ALLIANCEBERNSTEIN

Weekly Market Commentary

The Week in Muniland

June 16, 2025

Holding Strong

Key Takeaways

1. **The municipal market has been resilient in the face of record-breaking supply.**
2. **US Core CPI remained soft ahead of this week's FOMC meeting.**
3. **Municipal credit upgrades continued to outpace downgrades in the first quarter of 2025.**

The municipal market, once again, handled another week of heavy issuance with relative ease. For the week, two-, 10- and 30-year AAA yields fell four, two and two basis points (bps), respectively. The Bloomberg Municipal Bond Index (Index) returned 0.25% last week, bringing year-to-date returns to –0.80%.

- **Why it matters:** The municipal market has been able to navigate a whopping ~$38 billion of issuance over the last two weeks, with 10-year after-tax spreads remaining relatively unchanged this month. This has been aided by the ~$27 billion in reinvestment cash on June 1 as well as inflows into the market. According to Lipper, investors added $523 million to the market last week. Within that influx, we continue to see particularly strong flows into the short and intermediate part of the curve, with $377 and $184 million added to those categories last week, respectively. Overall, last week marks the seventh consecutive week of inflows, which have totaled $5.6 billion across that period. Looking forward, the market will benefit from another wave of reinvestment cash on June 15 (expected to total $16 billion), and with only $6 billion of expected issuance this week, technicals should remain strong. Summer technicals, anyone?

US Core CPI remained mild in May. For the third month in a row, core CPI rose 2.8% year over year, which was also slightly below the consensus estimate of 2.9%.

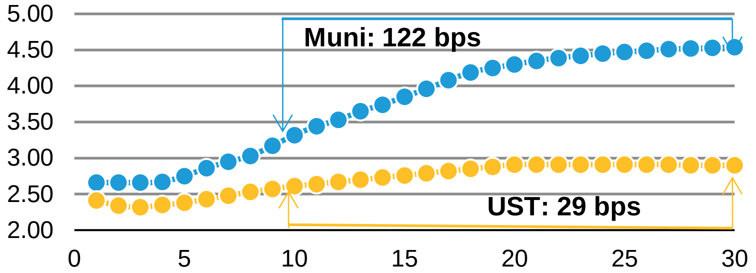
- **Why it matters:** Overall, this data does not materially change the economic picture. The economy continues to grow—albeit more slowly than last year—and aggregate demand is no longer outstripping supply as it was in 2022 and 2023. That said, it does suggest that the Fed's progress in combating inflation has stalled, but at the same time, it shows (for now) that tariffs are having a smaller and less-than-feared impact. Additionally, one-month and three-month annualized inflation figures are now at 1.6% and 1.7%, respectively, suggesting that inflation can still fall further in the coming months and quarters. With progress slowing toward the final stretch of bringing inflation all the way back to the Fed's target, and with the true impact of tariffs and geopolitical uncertainty still unknown, it remains likely that the Fed will hold rates steady in upcoming meetings. Our expectation is that Fed cuts will likely resume in late 3Q. Without further progress on inflation, or a weakening labor market, it is challenging to make a case for significant interest-rate cuts in the near term. On the other hand, any near-term upticks in inflation would likely be attributable to tariffs and potentially looked through by the Fed, suggesting that the balance of risks points to interest-rate cuts.

Municipal credit fundamentals continue to remain resilient, with credit upgrades outpacing downgrades in the first quarter, according to Moody's.

- **Why it matters:** Per the report, 72% of rating revisions in 1Q25 were upgrades, marking yet another quarter of positive rating momentum and demonstrating the municipal market's ability to absorb federal policy changes, which we noted in our blog post of several weeks ago, Municipal Bonds: Built to Withstand Federal Funding Cuts. Under the hood, however, there was some dispersion by sector. The higher-education sector, for example, experienced more downgrades than upgrades. This is not unexpected given some of the policy-related headwinds the sector faces. That said, these headwinds will not impact every issuer to the same degree, and selectivity continues to remain paramount.

Displays of the Week: June 16, 2025

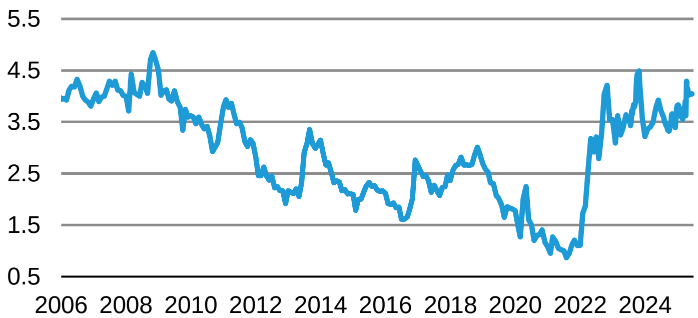
Display 1: Municipal Yield Curve vs. US Treasury Curve After Tax* (Percent)



*Tax rate used: 40.8%
As of June 13, 2025. Source: Municipal Market Data and AllianceBernstein (AB)

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

Display 2: Historical Yield to Worst (Percent)



As of June 13, 2025
Source: Bloomberg and AB

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

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

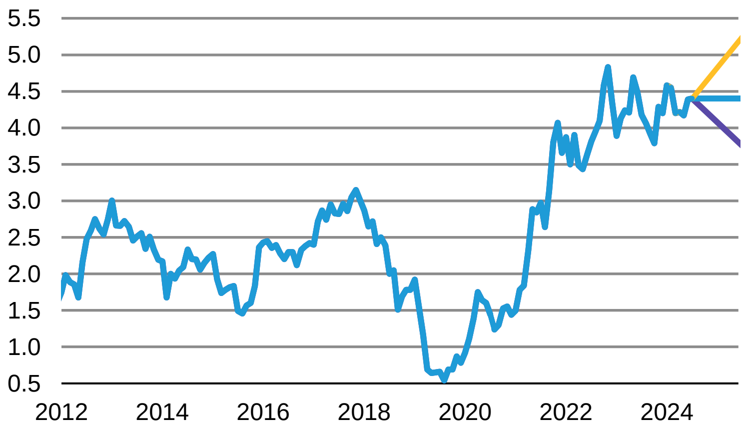
	June 13, 2025	Apr 9, 2025	Five-Year Average
Two-Year	32	111	16
Five-Year	36	120	22
10-Year	72	134	43
15-Year	105	152	67
20-Year	138	183	75
30-Year	166	205	95

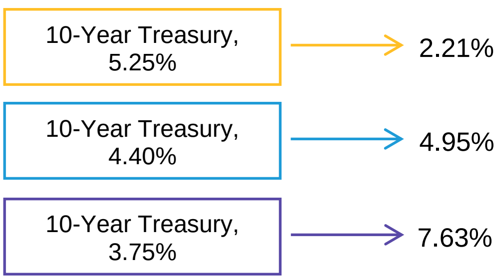
As of June 13, 2025
Source: Bloomberg, Municipal Market Data and AB

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

Display 4: Expected 12-Month Municipal Returns Scenario Analysis

10-year US Treasury yield (percent)





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 13, 2025. Source: Bloomberg and AB

The views expressed herein do not constitute research, investment advice or trade recommendations and do not necessarily represent the views of all AB portfolio-management teams. Views are subject to change over time.

A Word About Risk

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 I Not a bank deposit I Not insured by any federal government agency I No bank guarantee I May lose value

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