



The Week in Muniland

June 23, 2025

Smooth Sailing

Key Takeaways

1. The municipal market continued to generate positive absolute returns last week.
2. The FOMC left its benchmark interest rate unchanged, as expected.
3. While the potential for short-term volatility persists, there are several factors that make us constructive on the market going forward.

After being pummeled with issuance in the first two weeks of June, last week's relatively low issuance was a much-needed breather for the municipal market. For the week, two and 10-year AAA yields fell 3 and 2 basis points (bps), respectively while 30-year AAA yields were flat. The Bloomberg Municipal Bond Index (the Index) returned 0.16% last week, bringing year-to-date returns to -0.64%.

- **Why it matters:** The municipal market also benefited from a broader risk-off tone across all fixed-income markets as geopolitical tensions rose. That said, inflows continued to hit the market. According to Lipper, investors added \$111 million last week, marking the eighth consecutive week of inflows. As has been a consistent theme of late, flows last week were concentrated in the short and intermediate parts of the curve, with longer-duration products seeing modest outflows. Year-to-date flows tell a similar story, with a total of ~\$9.4 billion, but longer-duration products have only seen \$700 million. Weaker demand for long maturities has been a key driver in the significant curve steepening we have seen in the municipal market this year. Supply this week should be relatively manageable, with \$11.5 billion expected to price.

The FOMC left its benchmark interest rate unchanged at 4.25%–4.50%, as had been universally expected.

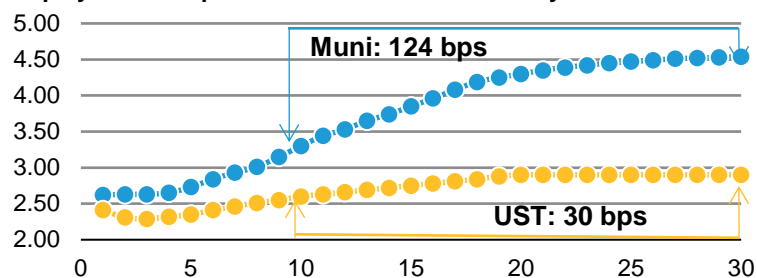
- **Why it matters:** Along with this decision, the committee also released an updated statement of economic projections and a new dot plot. The updated forecasts are for slower growth and higher inflation this year than previously expected, which means that the committee continues to be confident that tariffs will weigh on the economy in the second half of this year. Under the hood, however, there seem to be two camps within the Fed: one that is focused on the price impact of tariffs, and one that is focused on the growth impact. Which camp will prevail? Time will tell, but our view is that it will be the growth impact that motivates the Fed to act, and thus we expect two interest-rate cuts later this year—with the first likely to come in September or October. However, if the labor market does not slow, the Fed could choose not to cut rates at all. In his press conference, Chair Powell acknowledged the uncertainty and observed that the Fed is “well-positioned” to wait for more information about the path of the economy as the impact of tariffs begins to filter through to the data over the next few months.

As we approach the second half of 2025, what can investors expect going forward?

- **Why it matters:** We anticipated that this year would come with pockets of uncertainty, but acknowledge that it has been somewhat underwhelming from a return perspective. While the potential for short-term volatility will remain in the second half of the year, there are certainly positives for investors going forward. To start, while we're not entirely out of the woods yet, the risk of a full repeal of the tax exemption has diminished significantly, which should ease anxiety from investors. Second, absolute income levels continue to be elevated (*Display 2*), and on top of that, relative valuations have become much more attractive compared with the beginning of the year (*Display 3*), creating a powerful combination for investors. Furthermore, investors should look to capitalize on an extremely steep municipal curve, given cheap valuations and compelling roll-down mechanics. To be fair, however, supply is expected to remain relatively heavy but should be absorbed well if demand remains strong. On the whole, we are constructive on the environment going forward, and investors should take advantage of any further short-term volatility to add exposure at compelling absolute and relative valuations.

Displays of the Week: June 23, 2025

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

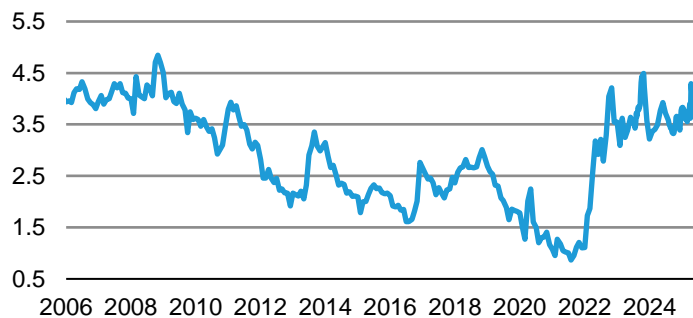


A barbell maturity structure remains advantageous given the steepness at the long end of the curve.

*Tax rate used: 40.8%

As of June 20, 2025. Source: Municipal Market Data and AllianceBernstein (AB)

Display 2: Historical Yield to Worst (Percent)



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

As of June 20, 2025

Source: Bloomberg and AB

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

	June 20, 2025	Dec 31, 2024	Five-Year Average
Two-Year	31	30	16
Five-Year	37	27	22
10-Year	71	36	43
15-Year	106	46	67
20-Year	139	74	75
30-Year	164	107	95

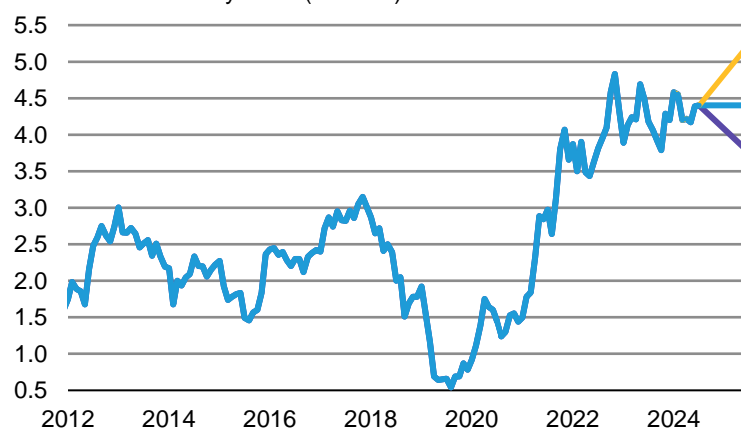
Munis have outperformed US Treasuries since April 9 but remain relatively cheap.

As of June 20, 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% → 2.16%

10-Year Treasury, 4.38% → 4.76%

10-Year Treasury, 3.75% → 7.52%

Past performance and historical analysis do not guarantee future results.

Display reflects expected returns of the 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 20, 2025. Source: Bloomberg and AB

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