

The Week in Muniland

July 14, 2025

Little Love for Long Bonds

Key Takeaways

1. **Municipal market returns continued to grind higher last week.**
2. **Muni bonds investors should lean into duration and a maturity barbell.**
3. **Even if Zohran Mamdani is elected Mayor of New York City, the city will not find itself in a fiscal death spiral.**

The grind higher in returns continued as the muni market recovers from its post-“Liberation Day” drubbing. For the week, two- and 10-year AAA yields fell 7 and 1 basis points (bps), respectively, while 30-year AAA yields were up 1 bp. The Bloomberg Municipal Bond Index (the Index) returned 0.11% last week, bringing year-to-date returns to -0.26%.

- **Why it matters:** Following the horrendous three-day period of April 7–9, when the Index was down 5.18%, the Index has returned 3.88%. Since April 9, the muni market has outperformed the US Treasury market, as seen through the lens of after-tax spreads (*Display 3*). From that perspective, shorter bonds are now fair value, while long bonds remain cheap. Mutual fund/ETF flows are a big reason why the short-end bonds have outperformed. Only 24% of flows in mutual funds/ETFs are going into bonds longer than 10 years. That lack of love for the long end of the curve has also contributed to the steepening of the curve. Investors should keep in mind that no one can predict the absolute level of yields, but what can be done with a far greater degree of reliability is predicting which way the yield curve is going to shift. The muni curve will not remain as steep as it is (*Display 1*). The only question is, when does it return to a less-steep slope? While investors are waiting, they are clearly being compensated in the form of higher yields. The average five-year AAA yield is 2.55%, while 20-year AAA bonds are yielding 4.31%.

As we look toward the second half of 2025, how should muni investors be thinking about the muni market in terms of positioning and potential risks?

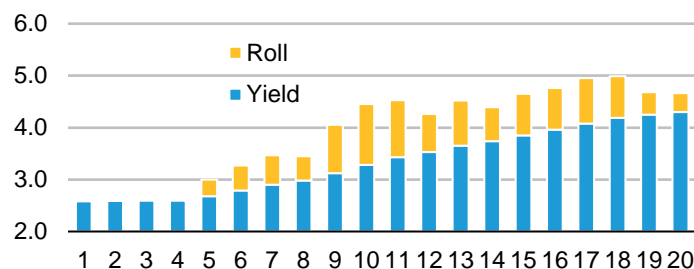
- **Why it matters:** Muni investors are seemingly more comfortable with the muni market, as weekly mutual fund/ETF flows have been positive for 11 consecutive weeks. However, as noted, flows are primarily going into short/intermediate and high-grade bonds. Our [Municipal Midyear Outlook: Hold Fast, Stay Agile](#) provides some guidance as to how investors should be positioning in today’s environment. In a nutshell, own munis given how high yields are (outside of some points in 2022 and 2023, investors have to go back to 2008/2009 to find an equivalent yield environment). Don’t be afraid of adding some duration today given the cheapness of long bonds. Own long bonds. The most attractive part of the curve is arguably the 15- to 20-year part, but given the continuing steepening of the curve, anywhere along the 10- to -20-year part looks attractive. Selectively own A, BBB rated and high yield. Spreads are not as attractive as they were last year, but you are being compensated in terms of additional spread. Finally, stay active. Sticking your head in the sand is no way to manage a bond portfolio in any environment, and especially not in today’s market.

Following the outcome of the New York City Democratic mayoral primary, we have received many questions about Zohran Mamdani and the potential impact to New York City’s credit quality should he become mayor.

- **Why it matters:** Even if Mamdani wins the general election, parts of his agenda will require the support of the City Council, which holds substantial power over budget approvals. New York City mayors have historically faced challenges pushing through large-scale reforms without broad council support. New York State also exerts significant control over the city’s fiscal policies and directly controls most of the city’s tax rates. The state will likely be skeptical of endorsing any changes that could be materially credit-negative. From a fiscal perspective, the city is in very good shape, as it has \$8.45 billion in reserves, expected to end the fiscal year (ending June 30) with a cash position between \$13.8 billion and 15.8 billion and has a surplus of \$2.34 billion for fiscal year 2025. The next mayor will likely have limited ability to materially worsen the city’s credit quality.

Displays of the Week: July 14, 2025

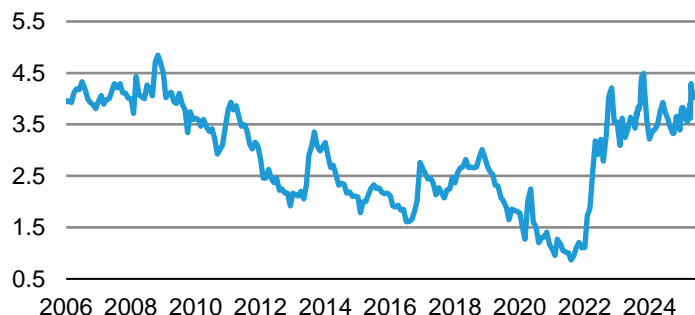
Display 1: Yield + Bond Roll by Maturity (Percent)



As of July 11, 2025. Source: Municipal Market Data and AllianceBernstein (AB)

Yield plus bond roll is maximized in 15- to 20-year maturities.

Display 2: Historical Yield to Worst (Percent)



As of July 11, 2025

Source: Bloomberg and AB

Outside of 2022 and 2023, the Index yield is as high as it's been since 2008/2009.

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

	July 11, 2025	Apr. 9, 2025	Five-Year Average
Two-Year	15	111	16
Five-Year	18	120	22
10-Year	61	134	43
15-Year	102	152	67
20-Year	137	183	75
30-Year	162	205	95

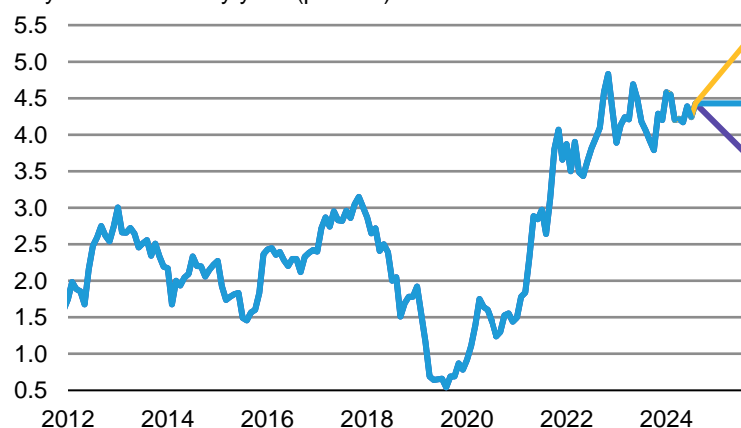
As of July 11, 2025

Source: Bloomberg, Municipal Market Data and AB

Munis have outperformed US Treasuries since April 9 but remain relatively cheap on the longer-end of the curve.

Display 4: Expected 12-Month Municipal Returns Scenario Analysis

10-year US Treasury yield (percent)



10-Year Treasury, 5.25% → 2.20%

10-Year Treasury, 4.43% → 5.25%

10-Year Treasury, 3.75% → 7.75%

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 July 11, 2025. 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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