ALLIANCEBERNSTEIN®

Weekly Market Commentary

The Week in Muniland

July 21, 2025

Curve Appeal

Key Takeaways

1. **The municipal yield curve continued its steepening trend.**
2. **US inflation was in line with expectations.**
3. **State credit fundamentals remain strong.**

Volatility returned to the municipal market as the long end of the curve continued to come under pressure. For the week, two-year AAA yields were flat while 10- and 30-year AAA yields rose 13 and 22 basis points (bps), respectively. The Bloomberg Municipal Bond Index returned –1.13% last week, bringing year-to-date returns to –1.39%.

- **Why it matters:** A challenging technical environment continues to weigh on the longer end of the curve. Market inflows have been concentrated in shorter- and intermediate-duration products, driving short-maturity yields down but longer-maturity yields up. Over the last 12 months, two-year yields have *fallen* 40 bps while 30-year yields have *risen* a whopping 111 bps. As such, 20-year and 30-year yields are currently at their highest levels in over 10 years. Despite the potential for continued short-term volatility, adding exposure to the long end of the curve today provides significant return opportunity over the intermediate term. For example, we saw various 20–30-year maturity bonds for AA-rated issuers trade at yields close to, and even above, 5% last week. For investors in the top tax bracket, that equates to taxable-equivalent yields of nearly 9% on the federal level and north of 10% for investors in high–tax bracket states like California. What will cause the pain to stop on the long end? Crossover interest, for starters. As yields become more attractive, interest from nontraditional municipal buyers starts to increase, as they can purchase AA-rated municipal bonds at better yields relative to US Treasuries of a similar maturity. This helps set a ceiling on how much municipal yields can rise versus Treasuries. On top of that, short yields are continuing to decline, which we anticipate will eventually drive investors to push further out the curve. As muni investors should remember from early April, negative market technicals are not permanent.

US inflation was in line with expectations. Core CPI rose 0.23% month over month and 2.9% year over year.

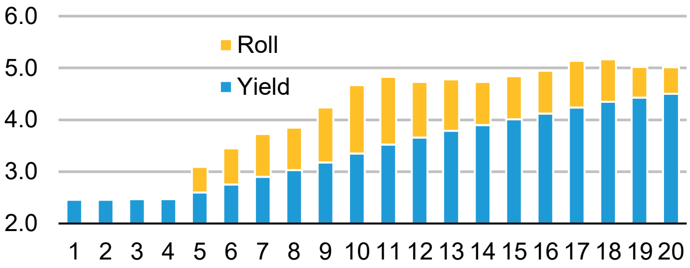
- **Why it matters:** The data do not move the needle for the macroeconomic backdrop. The true impact of the tariff impacts still can't be assessed, and this data don't provide sufficient information to change prior forecasts for the medium-term inflation trajectory or the Fed's response. Recall that the Federal Open Market Committee (FOMC) was extremely divided in its views in the June meeting. Roughly half the members forecast no rate cuts at all this year, and nothing in this data would likely change their minds. The other half forecast two rate cuts, and similarly, this likely won't change their minds either. The overall picture still looks relatively benign. Different members of the Fed appear to be inclined to focus on different parts of the picture. We'll have to wait for the July 30 meeting to see how the FOMC interprets the situation and how it describes the future path for policy. We continue to expect information to arrive over the remainder of this year that will cause the FOMC to resume cutting rates—but that will likely occur later in this year, not in July.

State fiscal conditions remain strong, but are continuing to normalize, according to a recently released report from the National Association of State Budget Officers.

- **Why it matters:** After several strong years of exceptionally strong revenue growth, states are now seeing a return to more typical patterns. General fund revenue is projected to grow 1.3% in fiscal year 2025, which is in line with longer-term averages, but down from 4.4% in fiscal year 2024. Despite this deceleration, most states are maintaining or even increasing their rainy day fund balances in dollar terms. While the median rainy day fund as a percentage of expenditures ticked down slightly in fiscal year 2025, it did so due to spending increasing at a faster rate than reserves. Importantly, however, reserves continue to remain elevated compared to historical norms. For municipal investors, this backdrop supports broader credit stability even as the revenue environment cools.

Displays of the Week: July 21, 2025

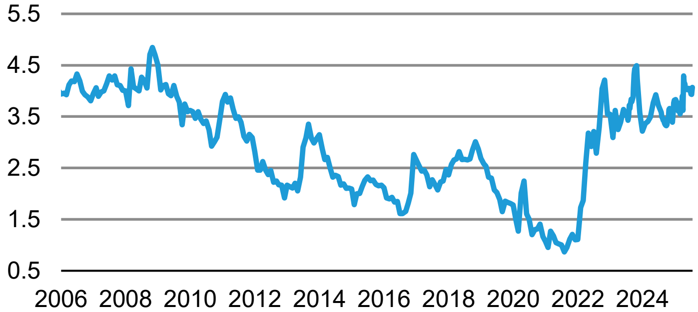
Display 1: Yield + Bond Roll by Maturity (Percent)



As of July 18, 2025. Source: Municipal Market Data and AllianceBernstein (AB)

Yield plus bond roll is maximized longer maturities.

Display 2: Historical Yield to Worst (Percent)



As of July 18, 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)

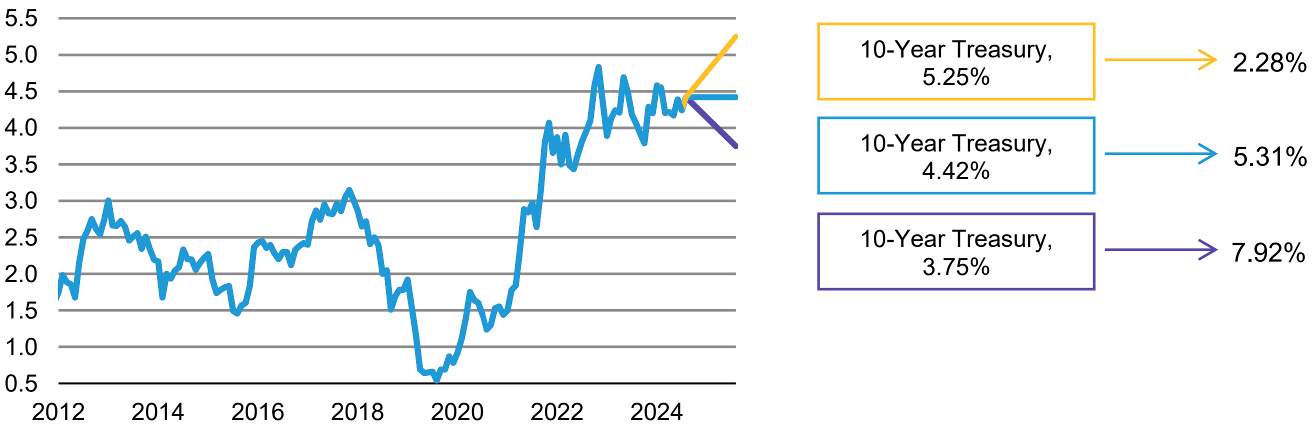
	July 18, 2025	April 9, 2025	Five-Year Average
Two-Year	16	111	16
Five-Year	25	120	22
10-Year	73	134	43
15-Year	117	152	67
20-Year	154	183	75
30-Year	181	205	95

As of July 18, 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)



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 18, 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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