The Week in Muniland

July 28, 2025

Long Overdue

Key Takeaways

1. **Long-maturity municipals stabilized last week.**
2. **Market headwinds may ease with tax clarity and improved technicals.**
3. **The OBBBA removes tax-exemption risk from the market.**

The municipal market generated positive returns last week, and longer maturities generated some well-overdue performance. For the week, two-, 10- and 30-year AAA yields fell three, one and six basis points (bps), respectively. The Bloomberg Municipal Bond Index returned 0.40% last week, bringing year-to-date returns to –0.99%.

- **Why it matters:** The long-end of the yield curve finally found some support, partially aided by crossover interest, given the extremely attractive yields offered by longer maturities. As mentioned previously, investors have the ability to purchase AA-rated, longer-maturity municipals at yields better than those of Treasuries, even before tax. Inflows also returned to the market last week with investors adding $572 million, according to Lipper. Despite last week's outperformance, longer maturities continue to look quite attractive on both a relative and absolute basis, with long AAA-rated municipals yielding ~4.75%. This week's calendar issuance totals $12.1 billion. Of note, however, is the $3.5 billion Georgia toll road deal, with a preliminary structure calling for term bonds due in 2060 and 2065. It is also the largest deal of the year and will be a big focus for market participants this week.

The municipal market, particularly longer maturities, has taken a beating this year. Investors may be wondering, what has caused that underperformance and what will cause it to change?

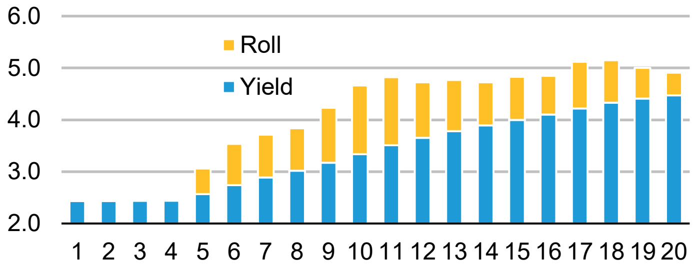
- **Why it matters:** As shown in *Display 3*, municipal bonds have underperformed in 2025. This underperformance has been driven by a range of factors. For starters, supply has been significant and has increased ~19% year-over-year (with last year being one of the largest years on record). This increase in supply has been met with fluctuating demand. While the broader market has seen inflows, these have 1) been concentrated in shorter and intermediate products and 2) not been significant enough to absorb the increased supply. Furthermore, and as we highlighted below, the market was contending with tax policy concerns for the first six months of the year. What may cause the market to change? Now that tax policy concerns are off the table, there is a possibility that supply will decrease from the extremely elevated levels seen this year. Furthermore, as interest rates stabilize (and eventually fall), we believe that will further entice investors back into the municipal market. Lastly, as we saw last week, long-maturity municipals have become cheap enough to entice crossover buyers back into the market.

One of the main risk events in the municipal market this year was the threat to the municipal tax exemption. With the One Big Beautiful Bill Act (OBBBA) passing, that risk has been removed from the table.

- **Why it matters:** The passage of the bill earlier this month preserves the tax-exempt status of municipal bonds and extends key tax provisions of the Tax Cuts and Jobs Act of 2017. The reaffirmation of the federal exemption for municipal bonds should further reduce investor uncertainty and support demand—particularly among high-net-worth individuals. The OBBBA also provides stability with the SALT cap, which should help maintain appeal for tax-exempt income for high-tax states such as New York and California. The bill also extends AMT exemption levels and limits the number of high-income investors subject to the AMT, which should create demand for AMT bonds and drive spreads tighter over time. That said, the bill does contain provisions for the healthcare and higher education sectors. While some of the provisions related to healthcare have raised concerns about hospital finances, we believe the impact on healthcare issuers will be modest due to strong fundamentals and a phased implementation timeline. While the expiration of enhanced ACA subsidies in 2026 may increase uninsured rates, higher-rated systems are well-positioned to absorb the pressure. Higher education should be largely unaffected, as the proposed 21% endowment tax for top universities was reduced to 8% in the final bill.

Displays of the Week: July 28, 2025

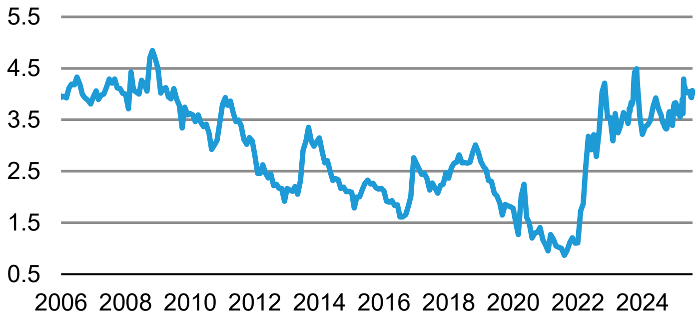
Display 1: Yield + Bond Roll by Maturity (Percent)



As of July 25, 2025. Source: Municipal Market Data and AllianceBernstein (AB)

Yield plus bond roll is maximized in longer maturities.

Display 2: Historical Yield to Worst (Percent)



As of July 25, 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)

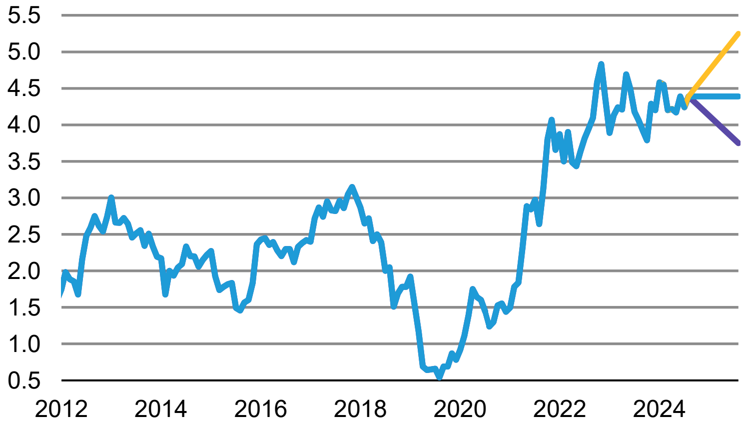
	July 25, 2025	Dec 31, 2024	Five-Year Average
Two-Year	11	30	16
Five-Year	22	27	22
10-Year	75	36	43
15-Year	121	46	67
20-Year	156	74	75
30-Year	180	107	95

As of July 25, 2025
Source: Bloomberg, Municipal Market Data and AB

Longer maturities have underperformed this year but provide an attractive opportunity going forward.

Display 4: Expected 12-Month Municipal Returns Scenario Analysis

10-year US Treasury yield (percent)



10-Year Treasury, 5.25% → 2.21%

10-Year Treasury, 4.39% → 5.18%

10-Year Treasury, 3.75% → 7.64%

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 25, 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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