



The Week in Muniland

August 4, 2025

Turning the Corner?

Key Takeaways

1. The muni market rallied for the second consecutive week.
2. Munis are ridiculously attractive, with the value clearly on the longer end of the yield curve.
3. The Fed is poised to cut rates beginning at its September meeting.

The municipal market had back-to-back positive weeks, which hasn't been easy to say lately, as two-, 10- and 30-year AAA yields fell 11, 9 and 11 basis points (bps), respectively. The Bloomberg Municipal Bond Index (the Index) returned 0.85% last week, bringing year-to-date returns to -0.16%.

- **Why it matters:** The muni market may be turning the corner with the long end of the yield curve, which realized some buyer support this week as the Bloomberg 20-year Index returned 1.29%, while the Bloomberg five-year Index returned 0.37%. Given how attractive and cheap long bonds have been, it's about time long-maturity bonds have begun to outperform shorter-maturity bonds. Providing support to the muni market are open-end fund/ETF flows that were positive for the second straight week and 13 out of the past 14 weeks. Demand continues to be skewed to short and intermediate strategies; they took in 78% of total flows this week, while only 22% of flows went into longer strategies. J.P. Morgan noted that long-term open-end funds continued to see outflows last week, while long ETFs realized inflows.

The municipal market remains ridiculously attractive, with the long end of the curve being particularly cheap, no matter how you slice and dice the data.

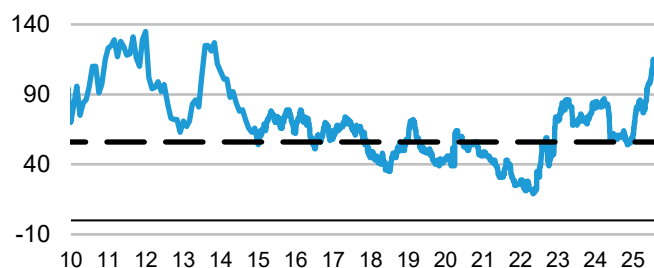
- **Why it matters:** As shown in *Display 2*, long muni bonds have not only underperformed shorter muni bonds, but they also underperformed long US Treasuries. The reason is an enormous amount of new-issue supply coupled with tepid demand for long bonds. As a result, the municipal yield curve has become obscenely steep, as seen in *Display 1*. The 10- to 20-year AAA curve hasn't been this steep since 2014. As also seen in *Display 1*, when the curve becomes too steep there is an eventual snapback toward a more normal curve, and when that snapback occurs, long bonds will outperform shorter bonds. So, it's not a question of if, but rather a question of when the muni yield curve flattens. Also, from an absolute yield perspective (*Display 3*), munis are ridiculously attractive. On a taxable equivalent basis, AAA munis are yielding 1.6% more than AAA corporate bonds, while A-rated munis are yielding 2.3% more than A-rated corporate bonds. There's a time and a place for any investment. Muni investors should be looking at the long end of the curve to lock in value we haven't seen in over a decade.

A couple of economic data points were released this week that lend credence to the expectation that the Fed will cut rates later this year.

- **Why it matters:** First, the US economy expanded at a 3.0% annualized rate in the second quarter of 2025, although on an annualized basis, the economy grew at a 1.2% clip in the first half of this year, notably slower than the rapid growth of the past few years. We expect the slowdown to continue and likely even deepen in the next couple of quarters. Next, the US employment report for July was unusual. While the headline print of 73K jobs added was somewhat lower than expected, the real news was a massive downward revision to the May and June data, which now show 258K fewer jobs added than previously reported. The pace of hiring is now meaningfully slower than previously reported. What is unusual, however, is that aside from the rate of hiring, everything else looks normal. Unemployment, wage growth and hours worked remain stable. How will the Fed balance that? We continue to believe that cuts in September, October and December are likely, and we expect that the market will price for that outcome in fairly short order.

Displays of the Week: August 4, 2025

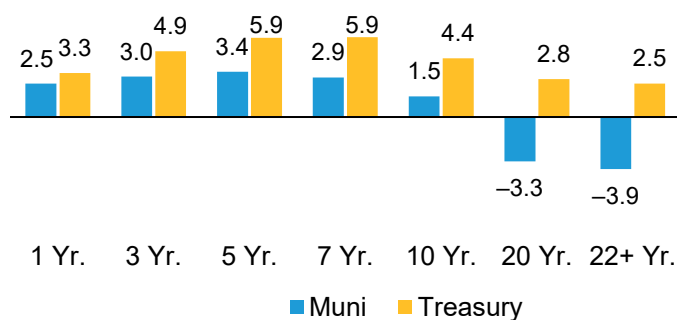
Display 1: 10s/20s Municipal Yield Curve Slope (Basis Points)



As of August 1, 2025. Source: Municipal Market Data and AllianceBernstein (AB)

The yield curve is as steep as it's been since 2014.

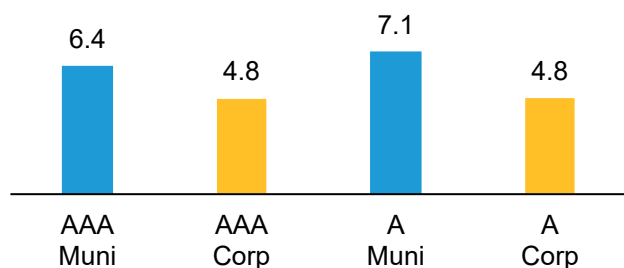
Display 2: YTD Index Returns by Maturity (Percent)



As of August 1, 2025
Source: Bloomberg and AB

Longer maturity muni bonds have significantly underperformed shorter maturity bonds.

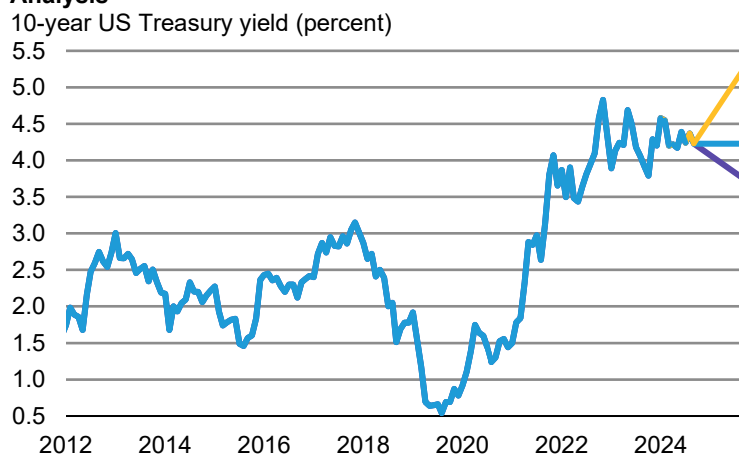
Display 3: Muni vs. Corporate: Tax-Equivalent Yield-to-Worst Comparison (Percent)



As of August 1, 2025
Source: Bloomberg and AB

Taxable equivalent muni yields are significantly higher than corporate bond yields.

Display 4: Expected 12-Month Municipal Returns Scenario Analysis



10-Year Treasury, 5.25% → 1.35%

10-Year Treasury, 4.23% → 5.25%

10-Year Treasury, 3.75% → 7.10%

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 August 1, 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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