

The Week in Muniland

September 28, 2026

Making Sense of the Nonsensical

Key Takeaways

1. Munis are entering the “oversold” zone.
2. Lean into recent volatility, as muni bonds have cheapened significantly.
3. Inflation protection can be both strategic and tactical.

The muni market was overcome by macro forces and significant secondary market trading to once again underperform US Treasuries. The muni yield curve flattened, with two-, 10- and 30-year AAA yields up 45, 30 and 18 basis points (bps), respectively. The Bloomberg Municipal Bond Index (the Index) returned –1.81% last week, bringing year-to-date returns to –3.63%.

- **Why it matters:** The same themes persist in the broader fixed-income markets, including elevated oil prices, a resilient economy as seen through stronger-than-expected US Flash PMI data, a hawkish Fed, and elevated supply in both corporate and municipal bonds. Although muni bonds have sold off, the sell-off has been orderly. LSEG Lipper reported inflows of \$633 million, recovering a portion of last week’s outflow. Much of the trading activity appears to be associated with tax-loss harvesting purposes, as exchange-traded funds gained \$2.1 billion, while open-end funds lost \$1.5 billion. Crossover buyers, such as banks and insurance companies, are beginning to purchase muni bonds given attractive relative values and yields.

The muni market is entering the “oversold” zone, as yields and relative value are becoming extremely attractive.

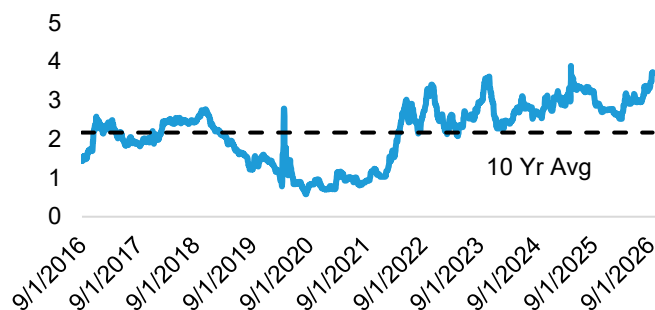
- **Why it matters:** We are sounding like a broken record, but if you liked munis yesterday, you have to love them today. Munis may get cheaper, but when the 10-year AAA muni is yielding 4.05%, which is the highest level in a decade (*Display 1*), investors take notice. That equates to a taxable equivalent yield (TEY) of 6.84%, which is higher than the taxable US Aggregate Bond Index of 5.46%! The price of the Index is below par at \$96.29, while its yield has risen to 4.69%, translating to a TEY of 7.92%. The last time the Index yield was this high was back in August 2001. Munis have become significantly more attractive relative to US Treasuries (*Display 2*), while the long end of the yield curve, specifically the 10- to 14-year range, offers meaningful roll potential of nearly 90 bps (*Display 3*). We’ve seen prior periods when munis sold off; most recently was August–October 2023 when the Index was down 5.2%, only to rally 8.7% in November–December. For these reasons, we suggest investors consider leaning into a down market, not running away.

To get ahead of inflation, municipal bond investors don’t need a crystal ball. They need a framework.

- **Why it matters:** Municipal bond investors face persistent inflation risks from geopolitical shocks, elevated government debt, demographic shifts, resource constraints and other structural pressures. Because inflation erodes real bond returns, investors may benefit from combining strategic protection with tactical positioning. Traditional hedges have limitations: Treasury Inflation-Protected Securities offer direct inflation exposure but can be tax inefficient and create taxable “phantom income,” while municipal inflation-protected securities are typically small, illiquid and expensive. Pairing tax-exempt municipal bonds with Consumer Price Index (CPI) swaps may provide a more effective alternative by accessing large, liquid markets and offering two potential tax advantages: federally tax-exempt municipal income and favorable capital gains treatment for swaps held longer than 12 months. Strategically, CPI swaps can help protect portfolios when inflation exceeds expectations without requiring precise timing. They may also create tactical opportunities when markets underprice inflation risk. Over the past decade, realized inflation has exceeded expectations by an average of 95 bps, including significant gaps during 2021–2023. We believe a [durable framework](#) should combine strategic portfolio protection with opportunistic positioning.

Displays of the Week: September 28, 2026

Display 1: 10-Year AAA Municipal Yield (Percent)



The municipal 10-year AAA yield is the highest in the past decade.

As of September 25, 2026. Source: Municipal Market Data and AllianceBernstein (AB)

Display 2: Municipal/Treasury After-Tax Spreads

Basis points

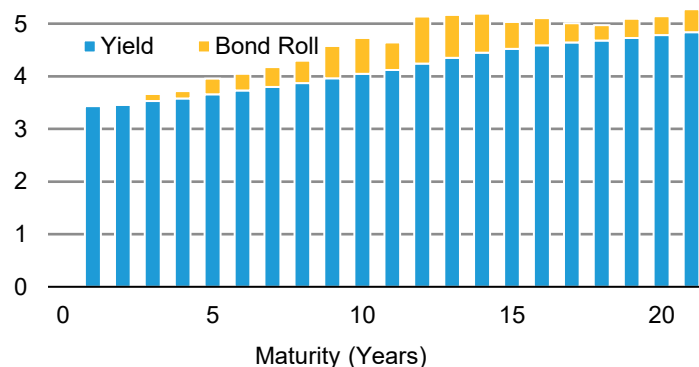
	Sept 25, 2026	Jun 30, 2026	Five-Year Average
Two-Year	59	-11	16
Five-Year	70	10	20
10-Year	102	32	41
15-Year	132	55	65
20-Year	150	86	77
30-Year	180	127	99

As of September 25, 2026. Tax rate used: 40.8%. Source: Municipal Market Data and AB

Munis are extremely cheap relative to US Treasuries.

Display 3: Yield Plus Roll

Percent

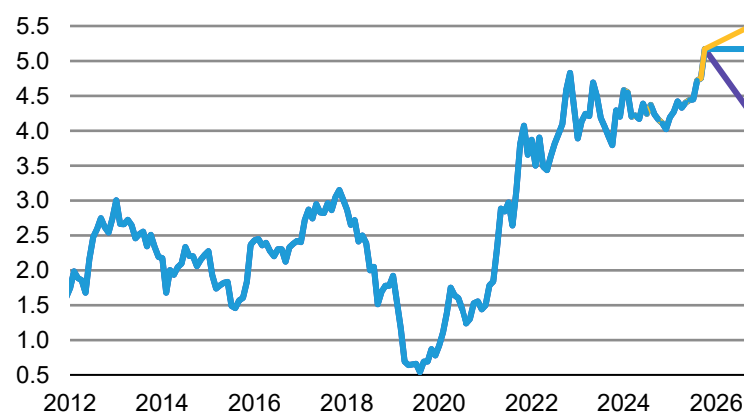


Bond roll is maximized in the 12- to 14-year part of the yield curve.

As of September 25, 2026. Source: Bloomberg and AB

Display 4: Expected 12-Month Municipal Returns Scenario Analysis

10-year US Treasury yield (percent)



10-Year Treasury, 5.50% → 4.15%

10-Year Treasury, 5.17% → 5.40%

10-Year Treasury, 4.25% → 8.90%

Past performance and historical analysis do not guarantee future results.

Display reflects expected returns of the Bloomberg Municipal Bond Index under three scenarios: 10-year US Treasury yields rise to 5.50%, remain the same or decline to 4.25% over the next 12 months.

As of September 25, 2026. Source: Bloomberg and AB

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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 | Not a bank deposit | Not insured by any federal government agency | No bank guarantee | May lose value

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