AllianceBernstein®

Weekly Market Commentary

The Week in Muniland

December 8, 2025

Carry On

Key Takeaways

1. **Munis generated negative absolute returns but outperformed US Treasuries across the curve.**
2. **Technicals are expected to stay strong through the end of 2025.**
3. **State rainy-day funds continue to remain elevated.**

December kicked off with a slower start last week. The market grappled with volatility in the US Treasury market and the last big week of supply in the tax-exempt market. The yield curve steepened, with two-year AAA yields falling 1 basis point (bp) while 10- and 30-year yields rose 2 and 5 basis points, respectively. The Bloomberg Municipal Bond Index (the Index) returned –0.12% last week, bringing year-to-date returns to 4.03%.

- **Why it matters:** Despite the negative absolute performance, municipals did outperform US Treasuries, with after-tax spreads tightening 2-7 basis points across the curve. That outperformance is notable given issuance volume, with roughly $16 billion pricing last week. Demand was a key contributor to that outperformance, as the market saw $736 million in inflows according to Lipper. Year-to-date inflows now sit at $48 billion, with exchange-traded funds reaping about $31 billion of those inflows. In addition to inflows last week, the market was aided by December 1 reinvestment cash from coupon payments and maturities. Supply next week will begin to taper off as we approach year end, with roughly $10 billion of tax-exempts expected to price.

Following a standout October, November performance in the municipal market was more muted, with the Index returning 0.23%. What should investors expect as we close the chapter on 2025?

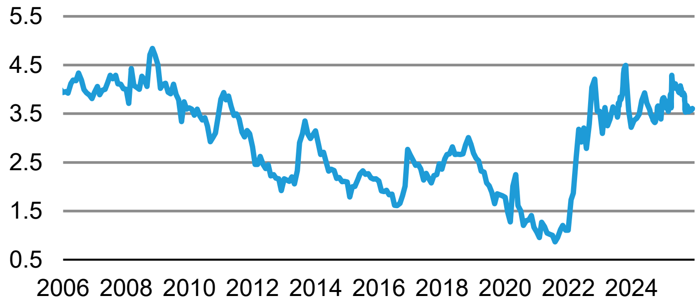
- **Why it matters:** Despite modest November performance, technicals have remained strong—something we expect to continue. Net supply for December is anticipated to be –$3 billion, meaning that there will be roughly three billion in additional cash from maturities, calls and coupon payments compared to expected issuance. Now that the market has cleared the last large week of supply for the year, we expect technicals to strengthen further. Over the last 10 years, the Index has generated positive returns in December nine times, with an average December return of 0.63%. Fortunately for investors, yields remain elevated (*Display 1*), and income is the engine of bond returns. Additionally, a barbell maturity structure can potentially enhance returns, allowing investors to not only take advantage of compelling valuations on both the front- and long-end of the curve, while also benefitting from strong absolute performance if yields fall (*Display 3*).

The National Association of State Budget Officers released its Fall 2025 Fiscal Survey of the States, highlighting the fact that despite slowing revenue growth, states remain in a strong fiscal position and credit quality continues to be strong.

- **Why it matters:** Per the report, following the two fastest growing years for general fund revenue in fiscal 2021 and fiscal 2022, growth in revenue collections has been modest in each year since. From fiscal 2023 through 2025, annual general fund revenue growth on a median basis has been between 1% and 3%, and the median increase projected for fiscal 2026 is 0.3%. Slower revenue growth is largely a function of slower economic growth and lower inflation, combined with some recently adopted tax reductions in various states. To be clear, however, revenue collections are still growing but albeit at a slower pace compared to prior years. Despite slowing revenue growth, rainy-day funds (RDFs) remain strong. RDF balances swelled to a total of $183 billion at the end of fiscal 2024, which is more than twice the aggregate level in 2019 and matches the all-time high the year prior. While RDF levels declined modestly in fiscal 2025 to $174 billion, the majority of states are expected to maintain—or further grow—their RDF balances in 2026. The significant flexibility maintained by states to adapt to changing revenue environments, combined with strong reserves, should give investors confidence in the underlying strength of municipalities.

Displays of the Week: December 8, 2025

Display 1: Bloomberg Municipal Bond Index Yield to Worst
Percent



As of December 5, 2025. Source: Municipal Market Data and AllianceBernstein (AB)

The municipal market continues to offer significant income.

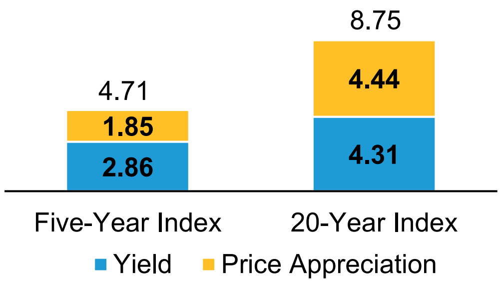
Display 2: Municipal/Treasury After-Tax Spreads
Basis points

	Dec 5, 2025	Sep 30, 2025	Five-Year Average
Two-Year	32	16	16
Five-Year	23	11	22
10-Year	32	46	43
15-Year	69	92	67
20-Year	110	122	75
30-Year	137	144	95

As of December 5, 2025. Source: Municipal Market Data and AB

A barbell maturity structure allows investors to capitalize on attractive valuations.

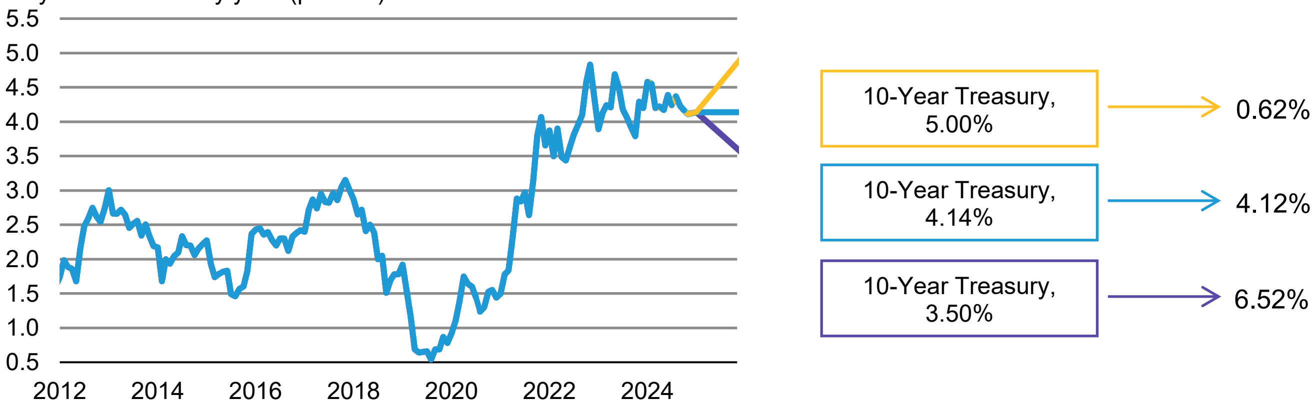
Display 3: 12-Month Hypothetical Return If Yields Fall Just 50 Basis Points



Long-maturity bonds offer more potential for a higher return as yields fall.

Based on respective Bloomberg indices
As of December 5, 2025. Source: Bloomberg and AB

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 5.00%, remain the same or decline to 3.50% over the next 12 months.
As of December 5, 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