ALLIANCEBERNSTEIN®

Weekly Market Commentary

The Week in Muniland

December 15, 2025

Calm, Cool and Collected

Key Takeaways

1. **It was a quiet week in the municipal market, with both yields and after-tax spreads remaining relatively rangebound.**

2. **The Federal Open Market Committee cut its benchmark interest rate as expected.**

3. **This year provides a valuable lesson in active tax-loss harvesting.**

It was a relatively unassuming week in the municipal market, as the market digested the Fed's decision and began to look forward to 2026. Yields remained relatively unchanged across the curve. Two-year AAA yields were flat, while 10-year yields fell 1 basis point (bp), and 30-year yields rose 3 bp. The Bloomberg Municipal Bond Index (the Index) returned -0.04% last week, bringing month-to-date and year-to-date returns to -0.16% and 3.99%, respectively.

- **Why it matters:** Relative performance versus Treasuries was mixed last week. Short-maturity municipals modestly underperformed with 2-year after-tax spreads widening a few basis points. Further out the curve, however, after-tax spreads were unchanged week over week. Flows in the market were much more muted last week, with only $16 million of inflows according to Lipper. Of note, open-ended funds saw $394 million of outflows, while exchange-traded funds (ETFs) saw $410 million of inflows—potentially indicative of year-end tax trading as investors swap between mutual funds and ETFs. Supply will continue to slow down next week, with just $6 billion expected to price.

The FOMC cut its benchmark interest rate last week by 25 bps to 3.50%–3.75% as was widely expected.

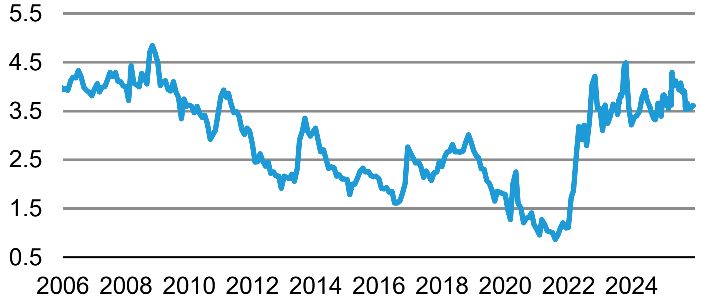
- **Why it matters:** In its statement, the Fed hinted that a pause is likely in January, stating that the "extent and timing" of any additional move on rates would depend on data—words that were not included in the last meeting's statement, and words that historically have signaled an intention to pause. Its intention to pause was reinforced during Chair Jerome Powell's press conference. He mentioned repeatedly that with the policy rate now within a broad range of estimates of the neutral policy rate, the Fed is "well positioned to wait and see how the economy evolves." To be clear, that does not mean that the Fed won't cut rates in January, but it is relatively clear that its base case is to pause at the next meeting. We believe that additional weakness in the labor market would entice the Fed to cut. And to be fair, the last payrolls report was released in September, and if the data we receive between now and the end of January suggest that the labor market has weakened further, the FOMC could very well cut rates once again. Our belief is that the labor market will continue to soften to the point that it makes sense for the Fed to cut rates closer to 3% in the coming months—and eventually below that. That said, investors should remember to take the long view—whether or not the Fed cuts rates again in January, it is likely to cut rates throughout 2026. The dot plot shows most members of the committee anticipate lowering rates in 2026, although by varying degrees. If the labor market happens to hold up, then the pace of easing will be determined by the degree that inflation falls. And as the impact of tariffs falls out of the year-over-year equation, inflation should resume its downward trend, opening the way for cuts.

With the Index up 3.99% this year, it has been a relatively solid year of performance for the municipal market. However, there has been significant volatility throughout the year creating what we believe is an opportunity for proactive tax management strategies.

- **Why it matters:** As we highlight in our recent blog, 2025 is a perfect example as to why waiting to year-end may not always be advantageous for tax-loss harvesting. Fifteen-year municipal bond yields began the year at 3.27%, then rose to 4.24% by mid-April, only to drop back down to 3.71% a few weeks later and then climbed to 4% in July. These significant moves in yields created many opportunities for managers to harvest losses. However, longer-maturity yields have dropped significantly since August, eroding many of the tax-loss harvesting opportunities for the year.

Displays of the Week: December 15, 2025

Display 1: Bloomberg Municipal Bond Index Yield to Worst
Percent



The municipal market continues to offer significant income.

As of December 12, 2025. Source: Municipal Market Data and AllianceBernstein (AB)

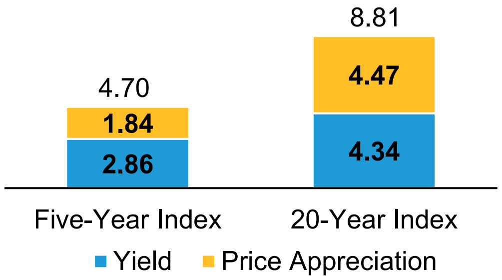
Display 2: Municipal/Treasury After-Tax Spreads
Basis points

	Dec 12, 2025	Sep 30, 2025	Five-Year Average
Two-Year	33	16	16
Five-Year	20	11	22
10-Year	29	46	43
15-Year	58	92	67
20-Year	107	122	75
30-Year	137	144	95

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

As of December 12, 2025. Source: Municipal Market Data and AB

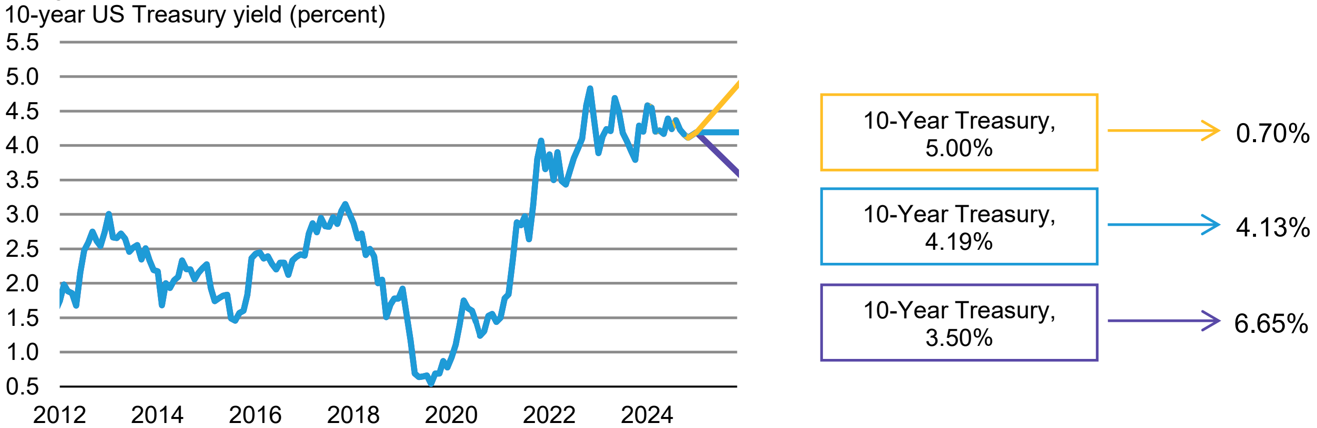
Display 3: 12-Month Hypothetical Return if Yields Fall Just 50 Basis Points



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

Based on respective Bloomberg indices
As of December 12, 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 12, 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