ALLIANCEBERNSTEIN

Weekly Market Commentary

The Week in Muniland

January 12, 2026

Playing a Little Bit of Catch-Up

Key Takeaways

1. **Following a weaker than expected December, January has started with a bang, seemingly playing a bit of catch-up.**
2. **The December employment report came in weaker than forecast, although the Federal Open Market Committee (FOMC) likely remains on hold in January.**
3. **The federal government freezing certain funds to five democrat-led states should not have a material impact on these states' financial position.**

The muni market has started out the new year strong with the Bloomberg Municipal Bond Index (the Index) up 0.73%. This follows a weaker than expected December that was down 0.33%.

- **Why it matters:** Last year was marked by a volatile ride in the muni market with record new issuance and the threat of municipal tax exemption being curtailed, which presented a significant headwind through the first half of the year. However, a significant tailwind during September through November resulted in the Index being up 4.25% for the full year. As we roll into 2026, we expect both headwinds and tailwinds, since performance never moves in a straight line. Nevertheless, with high yields, a steep yield curve and a bias toward additional fed rate cuts as the US economy slows, we anticipate munis to post another year of positive performance. Our 2026 muni outlook, High After-Tax Yields in an Uncertain World, provides additional insights into the drivers of 2026 performance.

The US economy added 50,000 jobs in December, lower than the previous month and lower than expected, and there were downward revisions to hiring data for both October and November. The unemployment rate, however, fell by a tenth to 4.4%.

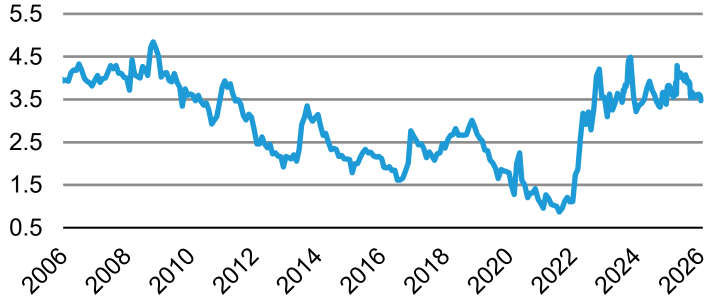
- **Why it matters:** On net we think that the data doesn't really change the fundamental picture. The labor market is stagnant but not collapsing, and we expect that will be sufficient for the Fed to pause in January and await more information rather than continuing to cut rates. We do get inflation data next week that could impact its thinking, but the Fed told us in December that its expectation is for a pause in January, and we expect it to deliver that outcome. For the January 28 meeting, markets have priced in 2 basis points of cuts, which equates to an 8% probability of a 25-basis-point reduction. Looking ahead, the next full 25-basis-point rate cut is anticipated for the June 17, 2026, FOMC meeting. In total, 53 basis points of cumulative cuts are expected between now and the end of 2026, with the terminal rate currently trading at 3.11%.

We have received many questions regarding the alleged fraud in Minnesota and California, and its subsequent effects on the municipal market. We anticipate this is only the start of what will be a rocky year in terms of political headlines, given the upcoming midterm election cycle.

- **Why it matters:** Minnesota has more than sufficient liquidity to withstand an estimated $2 billion cut in federal aid, which is 3% of the state's budget. The state's rainy day fund is projected to reach $3.5 billion, providing a solid financial safety net. In addition, a budget surplus of $2.5 billion is expected, further strengthening the state's fiscal position. Minnesota is well prepared to address any challenges that may arise, making spending cuts increasingly unlikely and ensuring continued stability. The State of California has $15 billion in cash reserves and $87 billion in additional liquidity, which makes a $2 billion reduction in federal aid inconsequential. The five democrat-led states that had their federal childcare and family assistance funds frozen have already filed a lawsuit and will likely be successful. For context, the broad freeze in federal funding in January of 2025 was rescinded in a week, and agencies were ordered to resume normal disbursements.

Displays of the Week: January 12, 2026

Display 1: Bloomberg Municipal Bond Index Yield to Worst
Percent



As of January 9, 2026. Source: Municipal Market Data and AllianceBernstein (AB)

The municipal market continues to offer significant income.

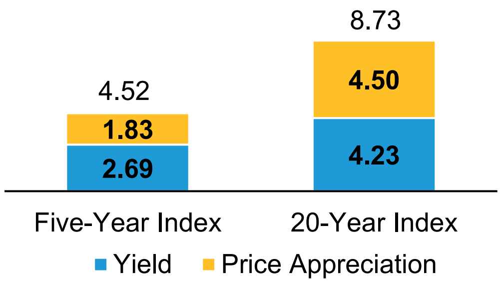
Display 2: Municipal/Treasury After-Tax Spreads
Basis points

	Jan 9, 2026	Sep 30, 2025	Five-Year Average
Two-Year	18	16	16
Five-Year	5	11	22
10-Year	20	46	43
15-Year	63	92	67
20-Year	111	122	75
30-Year	136	144	95

As of January 9, 2026. Source: Municipal Market Data and AB

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

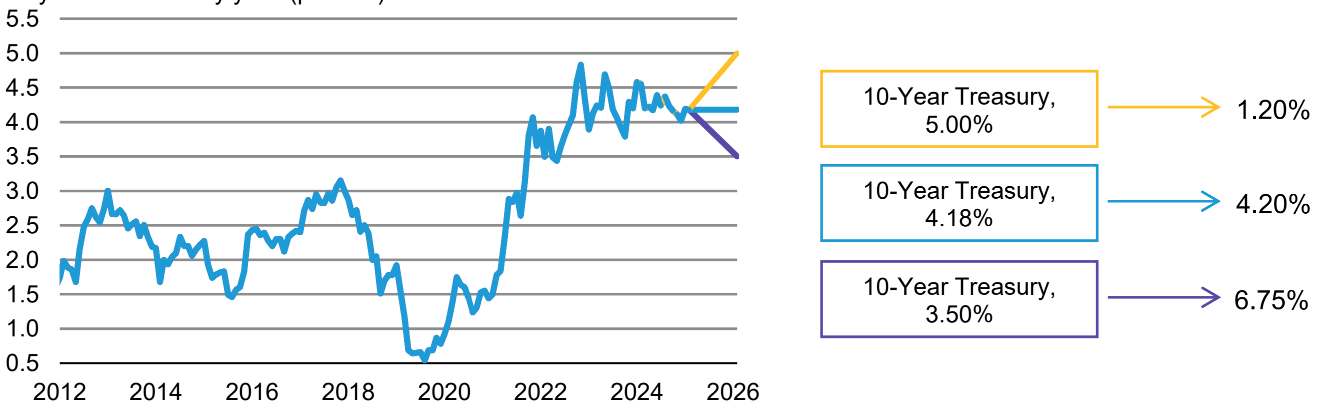
Display 3: 12-Month Hypothetical Return if Yields Fall Just 50 Basis Points



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

Based on respective Bloomberg indices
As of January 9, 2026. 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 January 9, 2026. 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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