The Week in Muniland

January 20, 2026

Start Me Up

Key Takeaways

1. **The muni market continued its hot streak, and 2026 is off to a great start.**
2. **Consumer inflation in December remained moderate.**
3. **The strong start to the year is emblematic of the seasonality of the municipal market.**

It was another firm week in the market as investor demand for municipals remained constructive. For the week, two-year AAA yields fell seven basis points (bps), 10-year yields fell four bps and 30-year yields were flat. The Bloomberg Municipal Bond Index returned 0.19% last week, bringing year-to-date returns to 0.93%.

- **Why it matters:** Inflows and reinvestment cash continued to support the market, with investors adding $1.8 billion last week, according to Lipper data. This marks the eighth consecutive week of inflows, and year-to-date inflows now total ~$5 billion. Municipals continued to outperform US Treasuries (USTs) across most of the curve—particularly on the front end, where after-tax spreads tightened by as much as 11 bps. As we highlight below, January has historically been a favorable month for tax-exempts, and this year is following that familiar seasonal pattern. Month to date, the Index's yield to worst has fallen by 16 bps, and after-tax spreads have compressed meaningfully (see *Display 2*). With valuations in the belly of the curve looking rich, we recommend that investors with flexibility shift a modest portion of their exposure in those maturities into USTs until valuations become more attractive. Next week's calendar appears manageable, with roughly $11 billion expected to price.

December CPI was released last week. Headline inflation came in at 2.7% year over year, while core inflation rose 2.6%. Goods inflation increased 1.4% year over year.

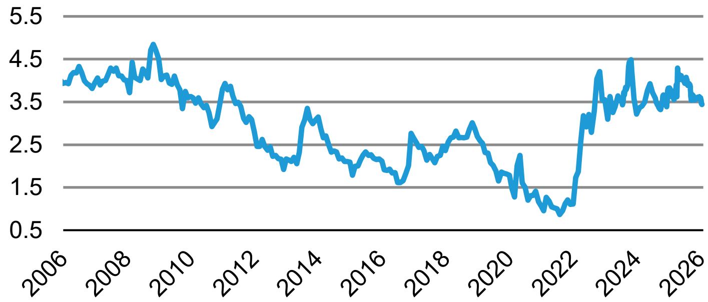
- **Why it matters:** Given that this was the first clean inflation release after the government shutdown, the print carried additional significance. Overall, inflation remained moderate and broadly consistent with November's report, which had been interpreted cautiously due to shutdown-related distortions. The data reinforced expectations that the Fed would hold rates steady at its meeting later this month. Goods inflation remained positive and roughly in line with where it has been since August, with tariffs continuing to exert some upward pressure. Shelter continues to account for more than half of core inflation, and December's shelter data resumed its pre-shutdown path, rising 3.2% year over year. With home prices rising slightly over 1% in the past year, further shelter disinflation is expected in the coming quarters. The broader economic picture remains mixed—economic activity appears solid for now, the labor market is characterized by both weak supply and weak demand, and inflation is above target but not reaccelerating. This backdrop gives the Fed room to pause in January and seek additional clarity before its next meeting in late March. As long as inflation stays relatively in check and eases throughout the year, the labor market will be the key determinant of future Fed decisions. We continue to expect rate cuts this year, and if the Fed does not engage in proactive easing, it could ultimately require more significant cuts later in the year.

The "January Effect" in the municipal market has played out so far this month.

- **Why it matters:** The muni market is one that can experience periods of seasonal strength and weakness. January, however, is historically a period of strength, with the Index averaging a 0.4% return in January over the last 10 years. This positive seasonality is generally due to strong demand for bonds—both from dealers, which tend to finish years with lower inventories, as well as investors with cash to put to work. Based on Lipper data, January fund flows are typically the strongest throughout the year, with a 10-year average of $6.8 billion in inflows in the month. In addition to strong demand for tax-exempts, the beginning of the year tends to feature outsize reinvestment cash from coupons and maturities, further adding to the technical strength. That said, it is likely that market technicals will weaken at some point over the next few months. That scenario could be an opportunity for investors to add to their muni exposure at more attractive valuations.

Displays of the Week: January 20, 2026

Display 1: Bloomberg Municipal Bond Index Yield to Worst
Percent



As of January 16, 2026. Source: Municipal Market Data and AllianceBernstein (AB)

The municipal market continues to offer significant income.

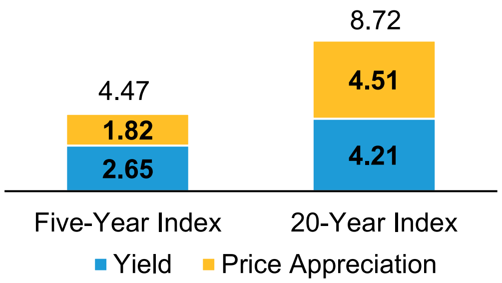
Display 2: Municipal/Treasury After-Tax Spreads
Basis points

	Jan 16, 2026	Dec 31, 2025	Five-Year Average
Two-Year	7	33	16
Five-Year	-3	20	22
10-Year	12	29	43
15-Year	58	65	67
20-Year	107	109	75
30-Year	135	137	95

As of January 16, 2026. Source: Municipal Market Data and AB

Municipals have significantly outperformed US Treasuries to start 2026.

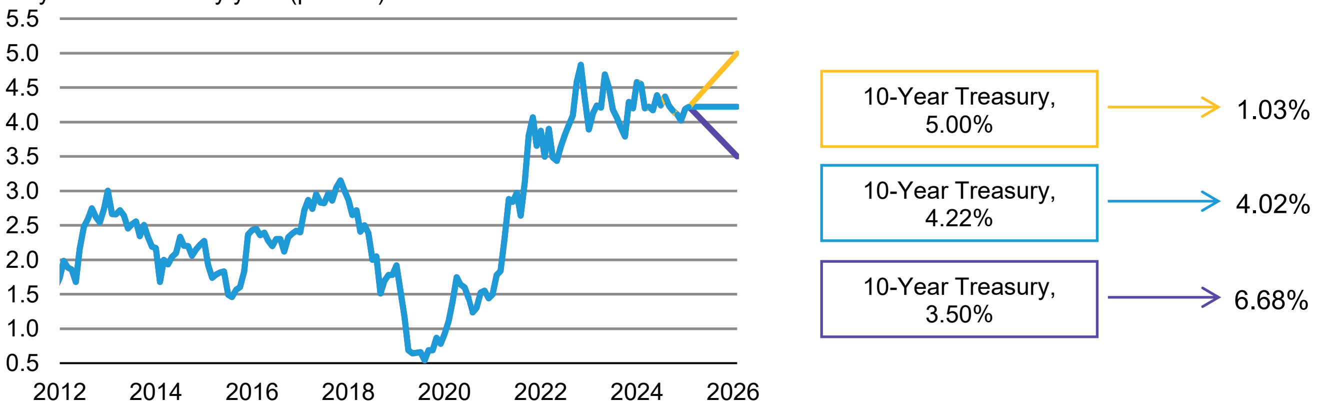
Display 3: 12-Month Hypothetical Return if Yields Fall Just 50 Basis Points



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

Based on respective Bloomberg indices
As of January 16, 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 16, 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