

The Week in Muniland

January 26, 2026

Performance Never Comes in a Straight Line

Key Takeaways

1. **US Treasury volatility slowed down the muni market.**
2. **Roll down math is once again becoming provocative.**
3. **Prepay energy bonds provide higher yields and the potential for credit spreads to narrow.**

Volatility this week in the US Treasury market sent muni yields higher and made the curve steeper. For the week, two-, 10- and 30-year AAA yields rose 1, 3 and 8 basis points (bps), respectively. The Bloomberg Municipal Bond Index (the Index) was down 0.28% last week, bringing year-to-date returns to 0.64%.

- **Why it matters:** Munis underperformed US Treasuries this week, which was welcomed as munis cheapened relative to US Treasuries. As seen in *Display 2*, munis cheapened slightly and remain cheap in the 5-to-10-year part of the curve. In our opinion, the best value remains on the longer end of the curve, particularly 15 years and longer. The value on the shorter end of the curve, specifically in the 5-year part of the curve, is not necessarily in munis but rather in US Treasuries. *Display 2* shows a -3 bp after-tax spread, which means you are earning 3 bp more to own a US Treasury bond versus a AAA muni bond, whereas investors should be earning at least 22 bps more on the muni bond. This negative spread means munis are expensive. When possible, investors should look at owning US Treasuries in the 5-year part of the curve instead of munis. We are not necessarily recommending selling to make that move, but perhaps invest cash in shorter US Treasuries.

The steepness of the municipal yield curve potentially provides significant upside for active muni bond investors.

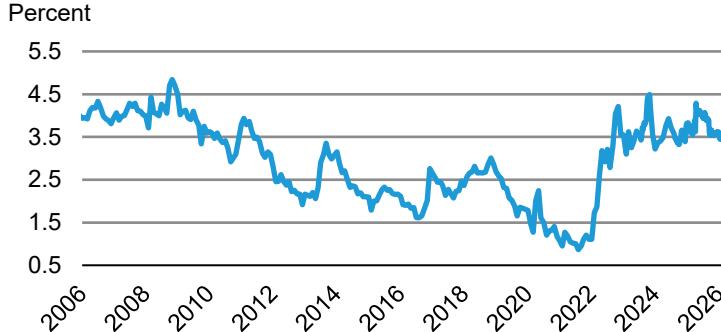
- **Why it matters:** The value found in a steep yield curve comes not only in the form of higher yields, but also in the form of roll (*Display 3*). Roll is, in essence, profiting through the passage of time due to a steep yield curve. As a bond rolls down the curve, the bond is gaining in value as its yield falls. As the yield curve steepens, the value of roll becomes even more valuable. Yield plus roll is basically the estimated total return of that bond. We recommend investors take advantage of this steep yield curve by investing in longer maturity bonds. However, be mindful that the long end of the yield curve comes with longer durations, so to reign in durations we suggest investors also pair these long bonds with shorter munis and perhaps US Treasuries. This will have the effect of reducing the overall interest-rate risk of the portfolio. For those investors who are okay with tolerating interest-rate volatility, there is no need to invest in shorter bonds. The changing shape of the yield curve is just another reason why investors should be somewhat active in their approach to the market, to take advantage of opportunities such as roll. Sitting like an elephant is generally a losing strategy.

Security selection is somewhat overlooked by investors, but there are corners of the muni bond market where bonds are relatively cheap.

- **Why it matters:** We believe one area of opportunity is in the prepay energy sector. Prepay energy bonds allow issuers to lock in discounted power rates from an energy provider. The prepay energy market is not mainstream, but it is growing rapidly. Most muni separately managed account managers avoid this sector, but that may change over time as the sector continues to grow. For those innovative investors who are willing to seek out opportunities, there is potential upside. Many prepay obligors are rated in the single-A category, but they have yields that are much higher than the typical single-A issuer. On average a prepay obligor rated single-A has a credit spread to a AAA muni bond of 103 bps, which is 64 bps above a typical single-A rated bond. This structure offers a built-in yield advantage, and spreads could decline as adoption increases. For those investors looking for more information, please read our recent blog, [Prepay-Energy Bonds: A Muni Segment Poised for Growth](#).

Displays of the Week: January 26, 2026

Display 1: Bloomberg Municipal Bond Index Yield to Worst



The municipal market continues to offer significant income.

As of January 23, 2026. Source: Municipal Market Data and AllianceBernstein (AB)

Display 2: Municipal/Treasury After-Tax Spreads

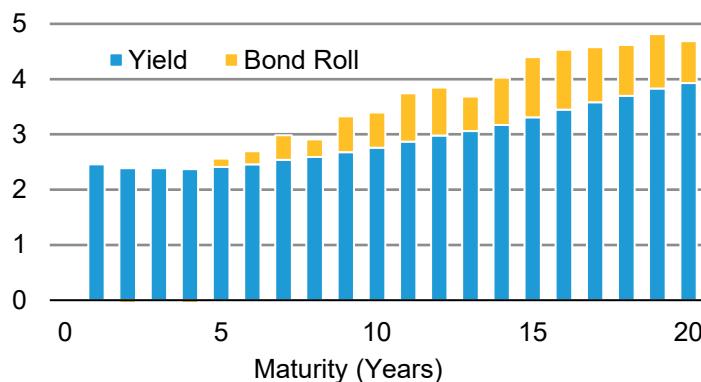
Basis points

	Jan 23, 2026	Jan 16, 2026	Five-Year Average
Two-Year	7	7	16
Five-Year	0	-3	22
10-Year	17	14	43
15-Year	61	54	67
20-Year	114	107	75
30-Year	143	135	95

Municipals have significantly outperformed US Treasuries to start 2026.

As of January 23, 2026. Source: Municipal Market Data and AB

Display 3: Yield Plus Roll (Percent)

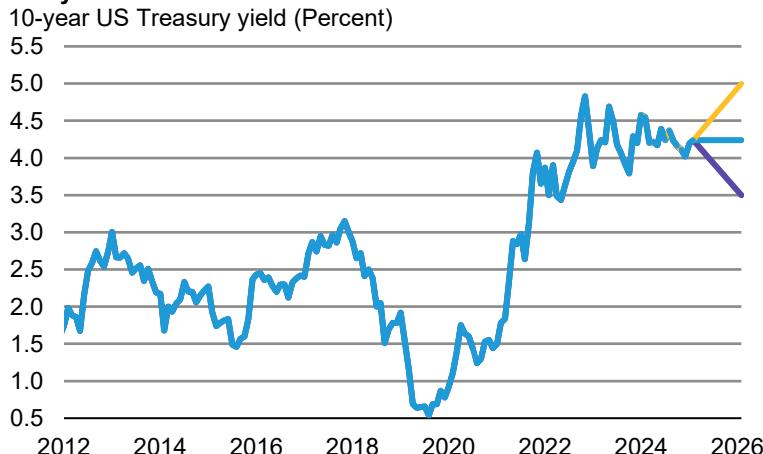


Yield plus roll is maximized in the 15- to 20-year part of the curve.

As of January 23, 2026. Source: Bloomberg and AB

Display 4: Expected 12-Month Municipal Returns Scenario Analysis

10-year US Treasury yield (Percent)



10-Year Treasury, 5.00%	→ 1.30%
10-Year Treasury, 4.22%	→ 4.10%
10-Year Treasury, 3.50%	→ 6.85%

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 23, 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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