



The Week in Muniland

February 2, 2026

Coming Out of the Chute Quickly

Key Takeaways

1. **Munis have gotten out of the chute quickly from a performance perspective.**
2. **February is shaping up to be another strong month given positive supply and demand technicals.**
3. **The FOMC left its target interest rate unchanged.**

A light new issue supply calendar allowed the muni market to rebound following last week's negative return. For the week, two-, 10- and 30-year AAA yields fell 3, 3 and 0 basis points (bps), respectively. The Bloomberg Municipal Bond Index (the Index) was up 0.29% last week, bringing year-to-date returns to 0.94%.

- **Why it matters:** The 10-year and longer parts of the yield curve exhibited some strength this week with the 10-year and longer indices up as much as 0.39%. The five-year and shorter indices were up as much as 0.20%. On the credit side, the AAA index was up 0.32%, while the BBB and high-yield indices were up 0.32% and 0.20%, respectively. For the month of January, high yield outperformed, up 0.98%, with the AAA index up 0.90%. Next week's new issue calendar appears light, with only \$6 billion in issuance. With February 1 coupon payments hitting on Monday, there should be sufficient demand to take down this light calendar. Like January, February could be coming out of the chute quickly. As always, any volatility associated with US Treasuries could impede that strong start. However, as discussed below, February as a whole offers a lot to be excited about.

Following the strong performance month of January, February is shaping up to be another positive month.

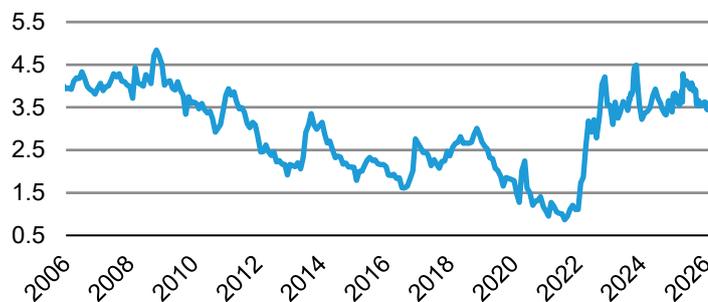
- **Why it matters:** In January, the seven-, 10- and 15-year indices returned 1.08%, 1.17% and 1.30%, respectively, outperforming other spots along the yield curve. Demand was strong, with fund inflows totaling in excess of \$6 billion, which when coupled with the \$33 billion of organic cash that came back into the market, the \$35 billion in new issue supply was easily digested. Looking forward to February, the supply/demand technicals appear favorable, with \$37 billion of tax-exempt supply and \$41 billion of organic cash. If fund flows continue their strong start, the demand side will be even stronger. The long end of the curve is getting some attention from investors, as 60% of flows have gone into longer strategies. Part of this demand may be due to the relative expensiveness of short munis (*Display 2*). Investors appear to be seeking out value. We do suggest that investors focus on the longer end of the yield curve, where yield plus roll is approaching 5% (*Display 3*). Given the expensiveness of shorter munis, we recommend that investors, when able, own US Treasuries for a portion of their short holdings.

The Federal Open Market Committee left its target interest rate unchanged at 3.50%–3.75%, as had been universally expected.

- **Why it matters:** The committee's statement suggests that it expects to leave rates unchanged for the time being; after previous statements emphasized downside risks to the labor market outlook, this week's release instead noted only that the committee "remains attentive to the risks to both sides of its dual mandate." The decision to stay on hold was clear from an economic perspective. While growth may have slowed in 2025, it did not slow very much, and that slowdown did not appear to accelerate late in the year. The labor market weakening that we saw in the middle of last year appears to be similarly limited, at least as of the most recent data, which showed stabilization rather than continued decline. That stability means that there is little imperative for the Fed to cut in the near term, especially with inflation still well above target. Not only that, but there are also some data to suggest that growth is set to pick up, especially on corporate capex, as tariff-induced uncertainty fades. If growth does pick up, that would reduce the probability of additional labor market weakening, as well as slow the pace at which inflation returns to target.

Displays of the Week: February 2, 2026

Display 1: Bloomberg Municipal Bond Index Yield to Worst Percent



As of January 30, 2026. Source: Municipal Market Data and AllianceBernstein (AB)

The municipal market continues to offer significant income.

Display 2: Municipal/Treasury After-Tax Spreads

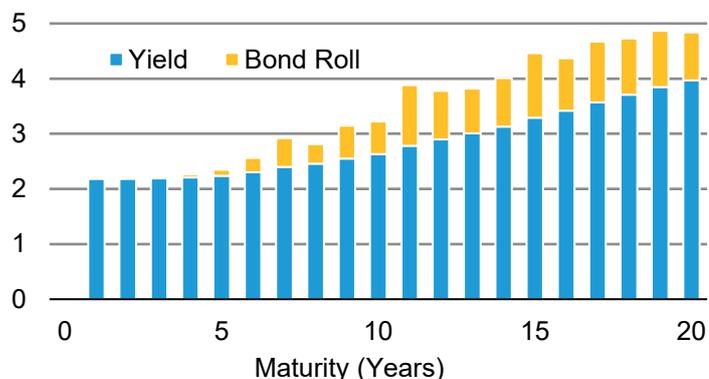
Basis points

	Jan 30, 2026	Jan 23, 2026	Five-Year Average
Two-Year	8	7	16
Five-Year	-2	0	20
10-Year	12	17	41
15-Year	55	61	65
20-Year	111	114	77
30-Year	139	143	99

As of January 30, 2026. Source: Municipal Market Data and AB

The shorter end of the yield curve is expensive, whereas the long-end remains cheap.

Display 3: Yield Plus Roll (Percent)



As of January 30, 2026. Source: Bloomberg and AB

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

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, 4.27% → 4.00%

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 30, 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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SMA-877551-2026-01-30

