



# The Week in Muniland

February 9, 2026

## Stepping Out Along the Curve

### Key Takeaways

1. **Muni credit and longer maturity bonds have outperformed shorter, higher-grade bonds.**
2. **Cash has underperformed short maturity over the past three calendar years.**
3. **The Low-Income Housing Tax Credit sector is a growing area of the municipal credit market that offers potential value.**

Strong muni demand with light new issue supply continues to push the muni market higher. For the week, two-, 10- and 30-year AAA yields fell 7, 3 and 0 basis points (bps), respectively. The Bloomberg Municipal Bond Index (the Index) was up 0.30% last week, bringing year-to-date returns to 1.24%.

- **Why it matters:** The muni market has started off the year strong with credit and longer maturity bonds generally outperforming shorter, higher-grade bonds. From an index perspective, the best performing parts of the yield curve have been the seven-, 10- and 15-year, returning 1.46%, 1.56% and 1.62%, respectively. The shorter indices, one-, three- and five-year, have returned 0.69%, 1.01% and 1.28%, respectively. Driving this outperformance has been an increased demand for longer maturity bonds. J.P. Morgan has reported that of the approximate \$13 billion net flows into municipal mutual funds and exchange-traded funds, \$9.6 billion or 74% have gone into 10-year and longer bonds. Given how expensive the short end of the muni curve has become (*Display 2*), it's not surprising that investors are seeking out value in longer maturity bonds. Considering the steepness of the municipal yield curve, investors are being rewarded in yield plus roll (*Display 3*) to step out along the curve. We recommend, when able, investors take advantage of cheap, longer maturity muni bonds.

Some investors have sought the safety of cash and cash-like investments during the past few years. Such a strategy may have provided a certain degree of comfort, but it also provided a missed opportunity.

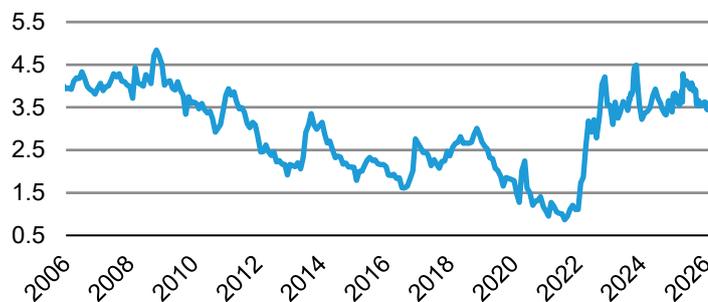
- **Why it matters:** Using a three-month T-bill as a cash surrogate, cash has underperformed shorter maturity municipals over the past three calendar years. The average after-tax annualized return (assuming the top federal marginal tax bracket) for a three-month T-bill was 2.89%. Over this same time period, shorter maturity municipals outperformed. For example, the one-, three- and five-year muni indices returned 3.19%, 3.20% and 3.49% respectively. From a duration perspective, investors don't need to take on much in the way of interest-rate risk. The durations of these indices are between 1.3 and 3.6 years, so for investors sitting in cash they should consider such a move to munis as an easy hop out of cash. Looking forward, the market is pricing in 60 basis points of fed cuts this year, which means cash yields will only fall, while short munis, even with their short durations, will gain in value and once again outperform cash. We believe it's time for cash investors to step out along the curve.

The Low-Income Housing Tax Credit (LIHTC) sector is a growing area of the municipal credit market that offers potential value and low risk for those investors that are active and research oriented.

- **Why it matters:** Municipal high yield can be somewhat overlooked by investors given the perception of higher risk. Yes, high yield can result in higher default risk and price volatility, but if investors are able to withstand this volatility high-yield munis can provide meaningful upside. Within the muni high-yield market, in our experience, LIHTC transactions stand out as one of the most resilient and rewarding market segments, with a rare combination of yield and solid fundamentals. Deals typically offer between 200 and 250 basis points of added spread over high-grade municipals, even though default rates are similar. And their multiple financing layers—equity via the tax credit, municipal bonds and grants—provide strong structural support. LIHTC properties have been resilient even in downturns, aided by Section 8 subsidies and lasting demand for affordable housing. These structures are prevalent in California and can offer California investors much needed yield and credit spread. For more information on this sector please read [Affordable Housing and LIHTC: Off the Beaten Path, but a Compelling Muni Segment](#).

## Displays of the Week: February 9, 2026

### Display 1: Bloomberg Municipal Bond Index Yield to Worst Percent



As of February 6, 2026. Source: Municipal Market Data and AllianceBernstein (AB)

The municipal market continues to offer significant income.

### Display 2: Municipal/Treasury After-Tax Spreads

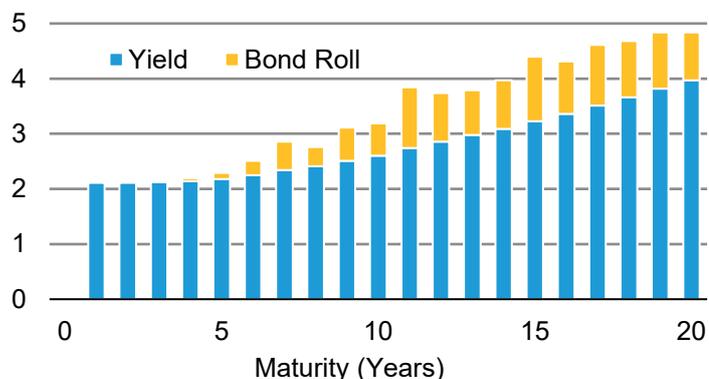
Basis points

	Feb 6, 2026	Jan 30, 2026	Five-Year Average
Two-Year	4	8	16
Five-Year	-5	-2	20
10-Year	12	12	41
15-Year	52	55	65
20-Year	113	111	77
30-Year	142	139	99

As of February 6, 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 February 6, 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% → 1.15%

10-Year Treasury, 4.22% → 4.00%

10-Year Treasury, 3.50% → 6.70%

**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 February 6, 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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