



The Week in Muniland

February 17, 2026

A Soft Spot for Municipals

Key Takeaways

1. **Municipal bonds continue to benefit from strong technicals.**
2. **US CPI was in line with market expectations.**
3. **While year-to-date issuance is ahead of last year's pace, it has not held back the market from a return perspective.**

It was another week of strong performance in the muni market, as demand continued to drive the market forward. For the week, two-, 10- and 30-year AAA yields fell 4, 7, and 3 basis points (bps), respectively. The Bloomberg Municipal Bond Index (the Index) returned 0.38% last week, bringing year-to-date returns to 1.63%.

- **Why it matters:** Last week's performance was even more notable, as it came in the face of a heavy week of issuance, with ~\$13 billion pricing last week. Demand continued to flood the market, with investors adding \$1.6 billion last week according to Lipper. These inflows are on the heels of two consecutive weeks of inflows each above \$2 billion—something not seen in the market since February of 2009. The muni market so far this year has been the top-performing US fixed-income asset class, with the Index's 1.63% and Bloomberg Municipal High Yield Index's 1.92% year-to-date returns outpacing the pre-tax 1.28% return of the Bloomberg US Aggregate and the 0.73% return of the Bloomberg US Corporate High Yield Index. Supply next week is expected to remain light given the shortened week, with ~\$7 billion expected to price.

US Core CPI for January rose 0.3% month over month and 2.5% year over year—both of which were in line with expectations.

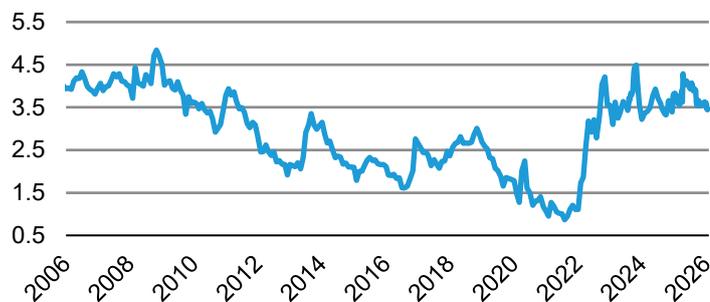
- **Why it matters:** The release showed a return to the pre-shutdown trend. The government shutdown in 4Q complicated the data collection and seems to have distorted the data for October and November relative to the underlying trend. Currently, each of the 3-, 6-, and 12-month run rates of inflation are hovering around 2.5%—which is close, but not quite at, the Fed's 2% target. This data release makes it clear that the extremely low inflation prints in 4Q were statistical noise rather than a meaningful signal. With inflation holding modestly above the Fed's target and the labor market still showing resilience, the Fed has ample justification to proceed slowly with rate cuts. We do not expect a rate cut in March, and unless the labor market weakens significantly, we anticipate it will take a few months of slower inflation to entice the Fed to restart its easing cycle. We think that will happen over time as the impact of tariffs gradually fades from the calculation, and thus, we continue to expect two rate cuts, totaling 50bps, later this year.

While tax-exempt issuance continues to make headlines, investors should not underestimate the impact of demand.

- **Why it matters:** Supply is once again breaking records, with year-to-date issuance exceeding 2025's pace. Perhaps more importantly, returns so far this year are a reminder that significant supply does not necessarily equate to poor market performance. Not only has the Index returned a very solid 1.63% this year, but the market has also been remarkably consistent. The Index has posted negative daily returns just two days this year. Municipals have also performed well relative to Treasuries—particularly in short and intermediate maturities—with after-tax spreads in those parts of the curve tightening upwards of 28 bps, as shown in *Display 2*. Reinvestment cash from coupons and maturities, coupled with strong demand, have been crucial in taking down the wave of issuance this year. The market has seen 12 consecutive weeks of inflows and 19 weeks of inflows out of the last 20. To be fair, it is unlikely to see this level of return consistency persist throughout the year. If (or when) demand does soften, it would likely cause some underperformance in the market—particularly given how expensive municipals have become in certain parts of the curve. As such, we believe investors should consider allocating a small portion of their portfolio to US Treasuries until valuations become more attractive.

Displays of the Week: February 17, 2026

Display 1: Bloomberg Municipal Bond Index Yield to Worst Percent



As of February 13, 2026. Source: Bloomberg and AllianceBernstein (AB)

The municipal market continues to offer significant income.

Display 2: Municipal/Treasury After-Tax Spreads

Basis points

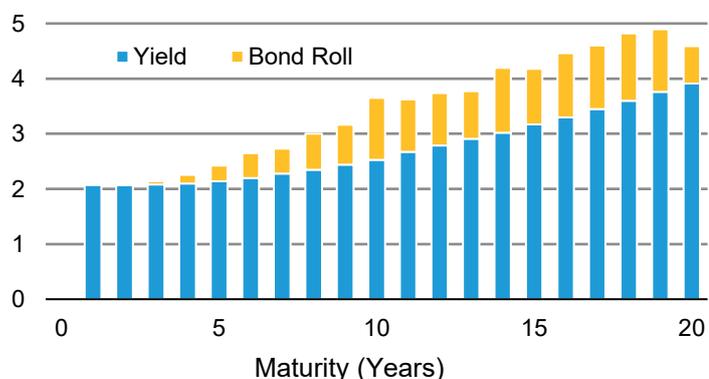
	Feb 13, 2026	Dec 31, 2025	Five-Year Average
Two-Year	5	33	16
Five-Year	0	20	20
10-Year	13	29	41
15-Year	59	65	65
20-Year	116	109	77
30-Year	148	137	99

As of February 13, 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 13, 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% → 0.47%

10-Year Treasury, 4.05% → 3.89%

10-Year Treasury, 3.50% → 6.38%

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 13, 2026. Source: Bloomberg and AB

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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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