



# The Week in Muniland

February 23, 2026

## Stored Value in Muni Bonds

### Key Takeaways

1. **Strong technicals continue to support the muni market.**
2. **Stored value can be found in longer maturity muni bonds.**
3. **Now is not the time to be sitting in cash.**

The muni market once again outperformed the US Treasury market as strong demand continued to propel the munis. For the week, two-, 10- and 30-year AAA yields fell 1, 1 and 3 basis points (bps), respectively. The Bloomberg Municipal Bond Index (the Index) returned 0.23% last week, bringing year-to-date returns to 1.86%.

- **Why it matters:** New issue supply for the holiday-shortened week totaled only \$7.9 billion while demand continued to flood the market, with investors adding \$1.6 billion, according to Lipper. The muni market so far this year has been the top-performing US fixed-income asset class, with the Index's 1.86% and Bloomberg Municipal High Yield Index's 2.21% year-to-date returns outpacing the pre-tax 1.20% return of the Bloomberg US Aggregate and the 0.92% return of the Bloomberg US Corporate High Yield Index. Supply next week is expected to remain light, with ~\$10 billion expected to price. Light supply and strong demand should lead to another positive week for munis.

There is no question that the long end of the municipal yield curve holds almost all the stored value.

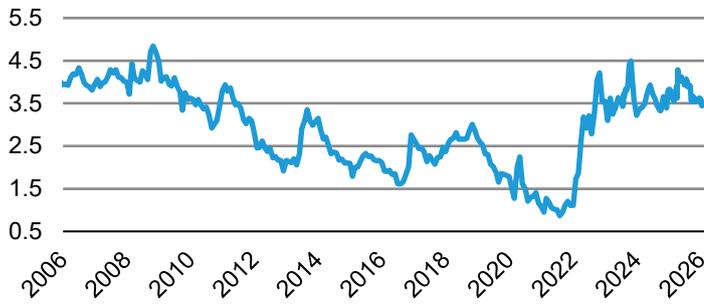
- **Why it matters:** The current rally in the muni market has caused the muni yield curve to stand up. The muni curve is as steep as it's been in well over a decade. This steepness is being caused by a technical: demand. Demand has been strong this year, with mutual fund and ETF flows approaching \$18 billion. However, demand has been somewhat concentrated in the belly and shorter end of the yield curve, which has resulted in a steep yield curve. This uneven demand has resulted in shorter-maturity muni bonds becoming relatively expensive, while longer bonds remain relatively cheap (*Display 2*). *Display 3* will provide a sense of the stored value in longer-maturity bonds. Yield plus roll is basically the total return of a bond. Roll is, in essence, profiting through the passage of time due to a steep yield curve; it's a freebie. Looking across the yield curve, yield plus roll is 4.5%–5.0% for bonds maturing between 15 and 20 years. Bonds in the five-to-nine-year part of the curve have yield plus roll of only 2.25% to 3.15%. Eventually, the muni curve will flatten toward normal, and when that happens the returns of long bonds will likely be even higher than yield plus roll. In the meantime, investors are being rewarded to wait.

There is a time and a place for every investment. Now is not the time to be sitting in cash. If you've been sitting in cash, you've been losing to muni bonds.

- **Why it matters:** For the past three 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. Today, the after-tax yield on a three-month T-bill is 2.18%. If the fed cuts 50 bps this year, that yield will decline to 1.88%. Today, yield plus roll on a five-year bond is 2.3%, and if yields do fall, a five-year bond will return even more. We believe it's time for cash investors to step out along the curve. The further investors go out along the curve, the greater the potential return. A barbell maturity structure will allow investors to take advantage of attractive long bonds without just buying long bonds. For example, 20% in the one-year index, 25% in the three-year index and 55% in the 20-year index would yield 3.34% with a 5.8-year duration. In our opinion, this is a material pickup in yield for a modest increase in duration.

## Displays of the Week: February 23, 2026

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



As of February 20, 2026. Source: Bloomberg and AllianceBernstein (AB)

The municipal market continues to offer significant income.

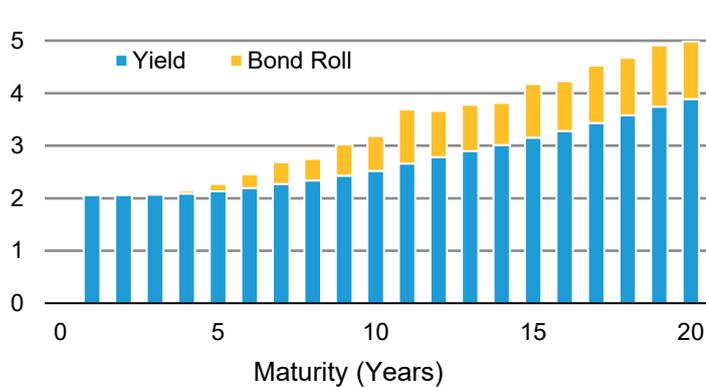
### Display 2: Municipal/Treasury After-Tax Spreads

	Feb 20, 2026	Dec 31, 2025	Five-Year Average
Two-Year	0	33	16
Five-Year	-4	20	20
10-Year	12	29	41
15-Year	52	65	65
20-Year	113	109	77
30-Year	144	137	99

As of February 20, 2026. Source: Municipal Market Data and AB

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

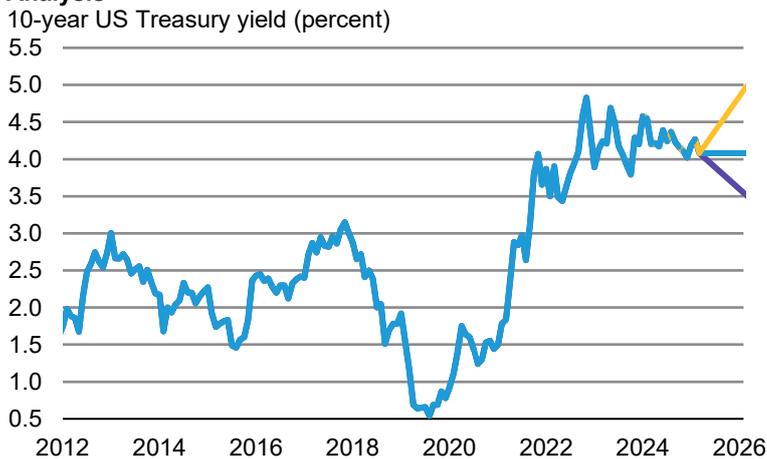
### Display 3: Yield Plus Roll



As of February 20, 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



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 20, 2026. Source: Bloomberg and AB

10-Year Treasury, 5.00% → 0.60%

10-Year Treasury, 4.08% → 4.00%

10-Year Treasury, 3.50% → 6.15%

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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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