



The Week in Muniland

March 2, 2026

Rolling Along

Key Takeaways

1. Demand for tax-exempt income continued to flood the market.
2. The market has been off to an incredibly strong start in 2026.
3. Upgrades outpaced downgrades in both the fourth quarter and full year 2025.

Another week, another strong performance out of the municipal market as technicals remained firm. For the week, two- and 30-year AAA yields fell 3 and 6 basis points (bps), respectively, while 10-year yields were unchanged. The Bloomberg Municipal Bond Index (the Index) returned 0.33% last week, bringing year-to-date returns to 2.20%.

- **Why it matters:** While relative performance versus US Treasuries was softer across the curve, the market continues to deliver strong returns to municipal investors. Demand remained a significant tailwind, with investors adding \$1 billion to the market last week, per Lipper. This marks the 14th consecutive week of inflows, and 21 out of the last 22 weeks have seen inflows. Year-to-date fund flows have been significant at \$17.6 billion, which is tracking to be the third highest on record to start a year. As we have mentioned, demand for tax-exempt income has more than offset the record-breaking amount of issuance this year. Issuance this week is estimated at ~\$11 billion and should not be problematic as March reinvestment cash hits the market.

With the Index returning 1.25% in February, municipal bonds delivered strong returns, extending the rally that began earlier in the year as demand continued to overwhelm supply.

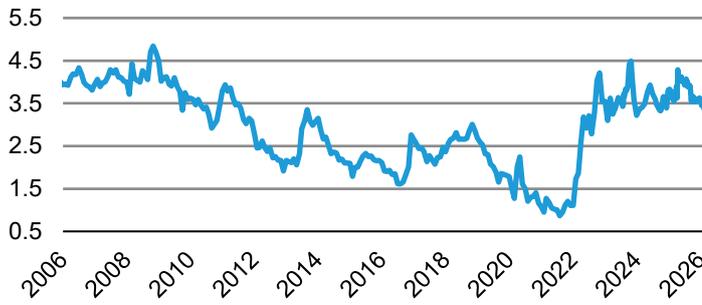
- **Why it matters:** Persistent fund flows have absorbed new issuance and reinforced positive momentum throughout the market. Despite record-breaking supply, the market has enjoyed tailwinds from record February reinvestment cash and inflows that are more than double compared with last year. Against this strength, two-, 10- and 30-year AAA yields fell 15, 11 and 12 bps in February. And while demand has been quite significant, it has been primarily concentrated in the belly and shorter end of the curve, causing the yield curve to steepen and driving valuations in short-to-intermediate bonds to expensive levels, as shown in *Display 2*. Looking forward, investors should remember that there is some seasonality in the muni market. Historically, the spring months tend to feature weaker fund flows (as investors sell for tax purposes) and elevated supply when compared to the winter months. To be clear, we do not expect any technical shift to drive a material sell-off in municipal bonds, but rather provide an opportunity to purchase tax-exempts at more favorable valuations. And with after-tax spreads at expensive levels in the belly of the curve, we believe investors should consider allocating a small portion of their portfolio in US Treasuries until valuations become more attractive.

Credit upgrades continued to outpace downgrades in both the fourth quarter and calendar year 2025, according to a recently released Moody's report.

- **Why it matters:** This marks the fifth consecutive year where upgrades have exceeded downgrades. To be fair, however, the margin of upgrades versus downgrades narrowed in 2025 compared to prior years. This is not unexpected, as revenue growth has begun to normalize following years of record-breaking strength. As we have consistently highlighted, today is an environment for active credit research as the fundamental backdrop becomes more uneven with winners and losers. For example, the higher education sector saw more downgrades than upgrades in 2025, while state and local governments saw more upgrades compared to downgrades. More broadly, municipal credit has delivered strong returns in 2026, with the Bloomberg Municipal High Yield Index returning 2.67% and outperforming the 2.20% return of the Index. The longer-duration nature of muni credit offers investors a compelling blend of duration and income, with the Bloomberg Municipal High Yield Index currently sporting a yield to worst of 5.38%.

Displays of the Week: March 2, 2026

Display 1: Bloomberg Municipal Bond Index Yield to Worst Percent



As of February 27, 2026. Source: Bloomberg and AllianceBernstein (AB)

The municipal market continues to offer significant income.

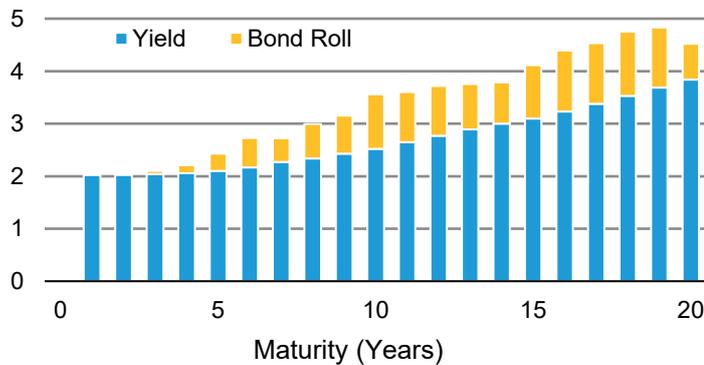
Display 2: Municipal/Treasury After-Tax Spreads Basis points

	Feb 27, 2026	Dec 31, 2025	Five-Year Average
Two-Year	3	33	16
Five-Year	2	20	20
10-Year	17	29	41
15-Year	57	65	65
20-Year	113	109	77
30-Year	143	137	99

As of February 27, 2026. Source: Municipal Market Data and AB

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

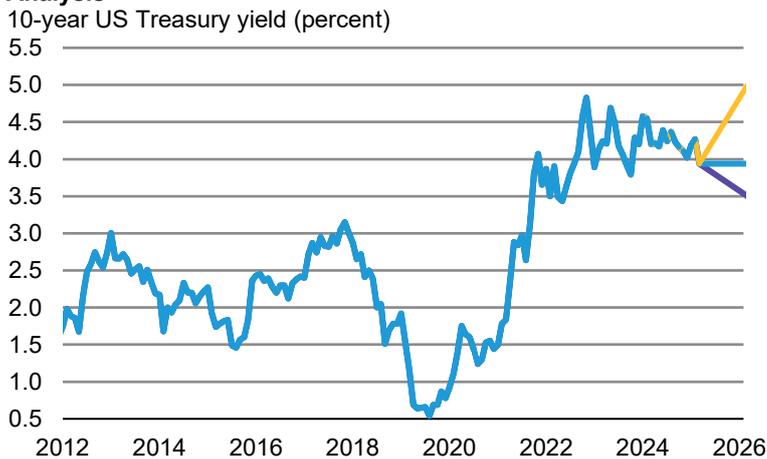
Display 3: Yield Plus Roll Percent



As of February 27, 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 Treasury, 5.00%

→ 0.30%

10-Year Treasury, 3.94%

→ 3.91%

10-Year Treasury, 3.50%

→ 6.02%

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 27, 2026. Source: Bloomberg and AB

The views expressed herein do not constitute research, investment advice or trade recommendations, and do not necessarily represent the views of all AB portfolio-management teams. Views are subject to change over time.

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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