



The Week in Muniland

March 9, 2026

Dialing It Back

Key Takeaways

1. **After a streak of positive returns, the market took a breather last week.**
2. **The February employment report was weaker than expected.**
3. **Rainy day funds remain an important source of credit stability and support.**

The municipal market was not entirely insulated from the geopolitical volatility that struck all markets last week. For the week, two-, 10-, and 30-year AAA yields rose 10, 18, and 9 basis points (bps), respectively. The Bloomberg Municipal Bond Index (the Index) returned -0.78% last week, bringing year-to-date returns to 1.41%.

- **Why it matters:** It was quite a run of stability for the municipal market. Prior to March 2nd, the Index had not only generated positive returns for 27 consecutive days, but it had only seen two days of negative absolute performance all year. Last week was also only the second week of negative performance all year. We did also see after-tax spreads widen – particularly in short and intermediate maturities. But perhaps most importantly, last week’s volatility felt relatively orderly in the municipal market as inflows continued to be supportive. Per Lipper, investors added \$1.4 billion to the market last week, marking the 15th consecutive week of inflows. Year to date, investors have added a whopping \$18.4 billion to the market. This demand has been a key catalyst in municipal outperformance this year, with short and intermediate maturity after-tax spreads tightening upwards of 31 bps, as shown in *Display 2*. Supply is expected to pick up this week, with ~\$13 billion expected to price. As we have previously mentioned, in the event heavy new-issue supply injects periodic volatility, it can provide investors with an attractive opportunity to enter the market or add to their exposure at more attractive valuations.

The U.S. economy lost 92,000 jobs in February, falling well short of the expected gain of 50,000.

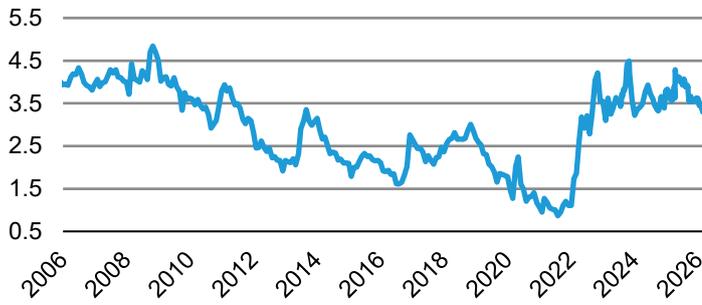
- **Why it matters:** While some of the weakness is a reflection of strike activity in the medical sector, downward revisions to the prior two months removed an additional 69,000 from reported payrolls, and the unemployment rate rose by a tenth of a percentage point to 4.4% despite a decline in labor force participation. In short, the report was weak across every meaningful dimension. In a vacuum, one weak payrolls report is unlikely to be sufficient to prompt the Federal Reserve to cut rates this month—particularly with oil prices surging and prices rising at the gas pump, which pose risks to inflation and inflation expectations. That said, the Fed is likely to acknowledge that if the labor market weakness proves durable—this is the only weak payrolls print so far this year—they are in a good position to respond with rate cuts, if necessary. The Fed will not (nor should it) overreact to one month’s print in what tends to be a volatile data series.

Despite a more challenging budget environment, state rainy day funds remained near all-time highs entering fiscal 2026, according to NASBO.

- **Why it matters:** Per the report, a modest change in reserve ratios is a reflection of a slight uptick in general fund spending rather than widespread drawdowns of savings. In fact, most states continued to increase rainy-day fund balances in fiscal 2025 and enacted fiscal 2026 budgets point to further strengthening, with many states planning additional deposits or maintaining balances at elevated levels. In scenarios in which states are considering the usage of reserves, it is planned, intentional and limited in scope. Generally, states are not tapping reserves to cover routine operating gaps and are treating their reserves as shock absorbers, not revenue substitutes. Overall, states’ strong reserve positions remain an important source of credit support and help cushion states against near-term economic uncertainty.

Displays of the Week: March 9, 2026

Display 1: Bloomberg Municipal Bond Index Yield to Worst Percent



As of March 6, 2026. Source: Bloomberg and AllianceBernstein (AB)

The municipal market continues to offer significant income.

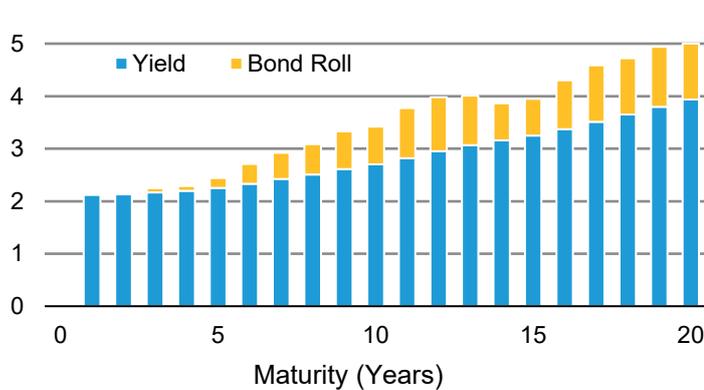
Display 2: Municipal/Treasury After-Tax Spreads Basis points

| | Mar 6, 2026 | Dec 31, 2025 | Five-Year Average |
|-----------|-------------|--------------|-------------------|
| Two-Year | 2 | 33 | 16 |
| Five-Year | 4 | 20 | 20 |
| 10-Year | 24 | 29 | 41 |
| 15-Year | 62 | 65 | 65 |
| 20-Year | 113 | 109 | 77 |
| 30-Year | 144 | 137 | 99 |

As of March 6, 2026. Source: Municipal Market Data and AB

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

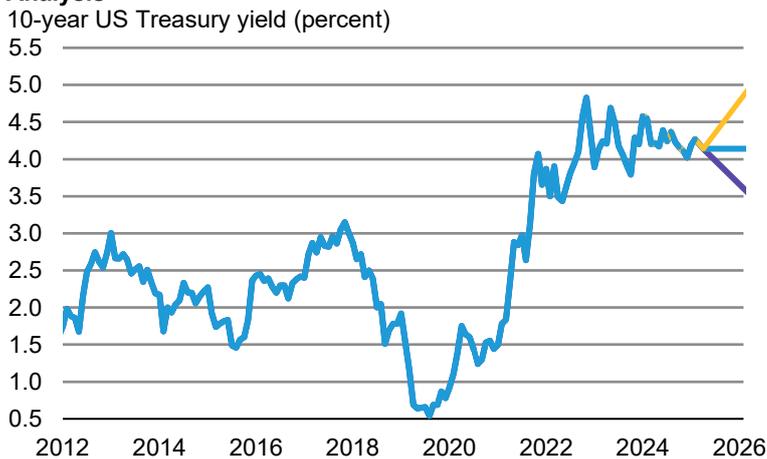
Display 3: Yield Plus Roll Percent



As of March 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 Treasury, 5.00% | → | 0.59% |
| 10-Year Treasury, 4.14% | → | 4.18% |
| 10-Year Treasury, 3.50% | → | 6.56% |

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 March 6, 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

The [A/B] logo and AllianceBernstein® are registered trademarks used by permission of the owner, AllianceBernstein L.P.

© 2026 AllianceBernstein L.P.
SMA-897093-2026-03-06