

The Week in Muniland

March 16, 2026

This Too Shall Pass

Key Takeaways

1. **An idiosyncratic global event slams into the muni market.**
2. **Moody's revised its outlook on New York City to negative.**
3. **US CPI for February landed right on expectations.**

There's nothing like an idiosyncratic global event to roil the municipal market. Following a strong start to the year, the muni market ran headfirst into a brick wall. For the week, two-, 10- and 30-year AAA yields rose 4, 17 and 11 basis points (bps), respectively. The Bloomberg Municipal Bond Index (the Index) returned -0.68% last week, bringing year-to-date returns to 0.73% .

- **Why it matters:** Early 2026 is eerily similar to early 2025, with the Index up 2.20% through February 2026 versus 1.50% in 2025. In March 2025, the Index fell 1.69% , while so far in March 2026 it's down 1.44% . Although a similar return profile, the reasons are far different. The fear of limiting or eliminating municipal tax-exemption was the main reason in 2025, however, 2026 is being triggered by global issues. The impact of the current sell-off is that munis are cheapening relative to US Treasuries (*Display 2*) and parts of the curve that were steep are beginning to flatten. For example, the 10–20-year part of the curve this month has flattened from 130 bps to 114 bps, while the 10–30-year curve has flattened from 163 bps to 150 bps. The long end of the curve remains the most attractive part, with yield plus roll exceeding 5% (*Display 3*). The question is, what to do now? We are advocates of a barbell maturity structure with the 15–20-year part of the curve being the most provocative. Assuming a 5.8-year duration profile, a barbell maturity structure will provide a higher yield (3.43%) and potentially higher total return versus a concentrated (3.10%) or laddered maturity structure (3.22%). In our opinion, it's an opportune time to be a liquidity provider and invest in a market whose yields have increased 27 bps in just two weeks. Once we get through this period, we expect yields to fall and bonds to rally.

On March 11, 2026, Moody's revised the outlook on New York City to negative while affirming the city's Aa2 debt ratings.

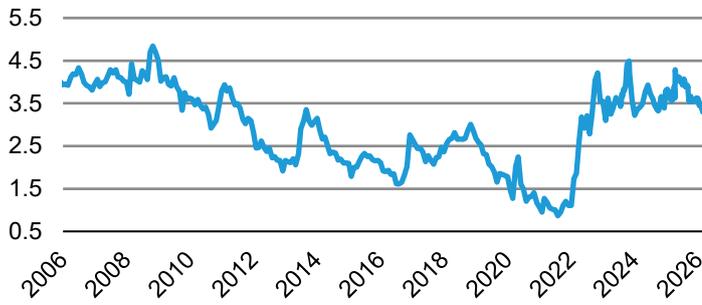
- **Why it matters:** Moody's cited concerns around sizable projected budget gaps pointing to a structural imbalance in the city's finances. Despite the outlook revision, New York City continues to maintain credit ratings that are among the highest of major US cities. It is early in the budget season with the fiscal 2027 budget not due until July 1. The budget gap has already been narrowed from an estimated \$12 billion to \$7.6 billion (assuming no increase in the property tax rate) based on personal income tax receipts being revised higher. And, historically, budget gaps have tended to organically narrow between the mayor's initial budget proposal and the final budget. We expect Mamdani's eventual response to Moody's negative rating revision will be constructive and that he will work with the City Council and the Governor to find recurring revenues or savings to satisfy the agency's need for "progress toward restoring structural balance." Further evidence to the contrary could change our opinion.

US CPI for February was uneventful, with both core (0.2% month over month and 2.4% year over year) and headline (0.3% month over month and 2.5% year over year) landing right on expectations.

- **Why it matters:** On a forward basis, the big issue for inflation today is the price of oil. If oil prices stay elevated, headline inflation will move higher almost immediately; the pass-through to gasoline is very rapid. While that won't prompt the Fed to hike, this will give it pause as it assesses the stability of inflation expectations. Away from the impact of oil prices, the general trajectory of CPI has been fairly consistent—a very gradual deceleration that has left the overall series above the Fed's target range. Tariffs pushed up the price of durable goods for a time, but we are now entering into a period in which the initial impact of tariffs should start to fade from the calculation. Given the war in Iran and the move higher in oil prices, the market has just 18 bps of Fed cuts priced into 2026 versus 60 bps of cuts priced prior to the Iran war.

Displays of the Week: March 16, 2026

Display 1: Bloomberg Municipal Bond Index Yield to Worst Percent



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

The municipal market continues to offer significant income.

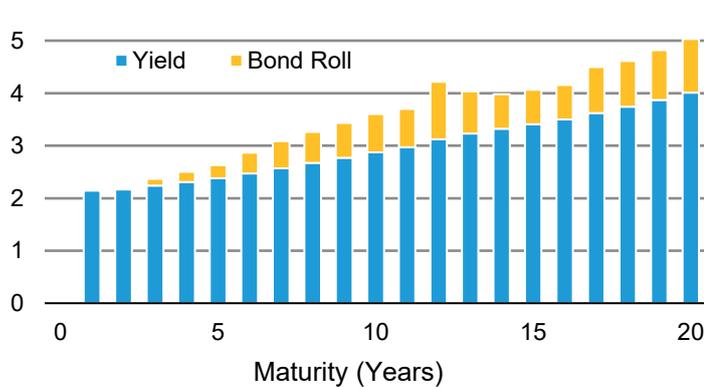
Display 2: Municipal/Treasury After-Tax Spreads

| | Mar 13, 2026 | Feb 27, 2026 | Five-Year Average |
|-----------|--------------|--------------|-------------------|
| Two-Year | -4 | 2 | 16 |
| Five-Year | 7 | 1 | 20 |
| 10-Year | 35 | 19 | 41 |
| 15-Year | 63 | 52 | 65 |
| 20-Year | 111 | 113 | 77 |
| 30-Year | 146 | 143 | 99 |

As of March 13, 2026. Source: Municipal Market Data and AB

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

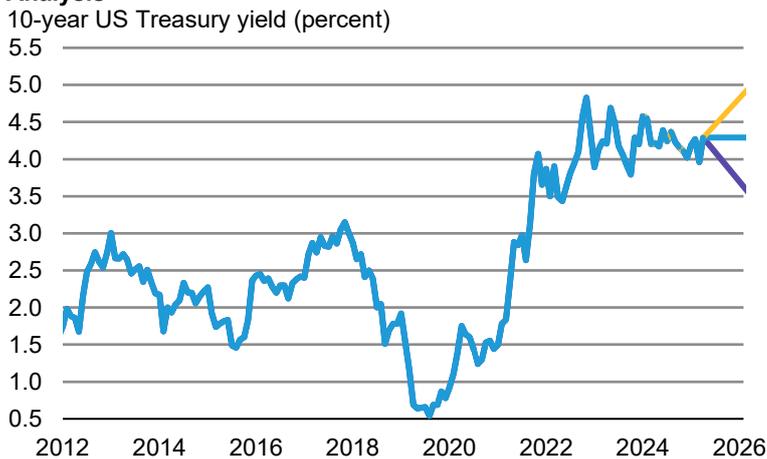
Display 3: Yield Plus Roll



As of March 13, 2026. Source: Bloomberg and AB

Yield plus roll is maximized in the 17- to 20-year part of the curve.

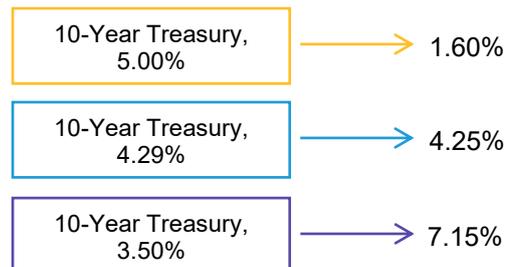
Display 4: Expected 12-Month Municipal Returns Scenario Analysis



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 March 13, 2026. Source: Bloomberg and AB



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