ALLIANCEBERNSTEIN®

Weekly Market Commentary

# The Week in Muniland

## March 23, 2026

### Bracket Buster

**Key Takeaways**

1. **Yields rose as volatility continued to be a theme across fixed-income markets.**
2. **The FOMC kept interest rates unchanged, as expected.**
3. **Intermediate maturities have underperformed so far this month.**

It was another rollercoaster week, as geopolitical volatility continued to dominate the fixed-income markets. For the week, two-, 10- and 30-year AAA yields rose 12, 13, and 8 basis points (bps), respectively. The Bloomberg Municipal Bond Index (the Index) returned –0.49% last week, bringing year-to-date returns to 0.23%.

- **Why it matters:** As we have mentioned, the muni market will not be entirely insulated from broader moves in the US Treasury market. But in addition to the move higher in yields last week, we did see some modest underperformance versus US Treasuries, with after-tax spreads widening a few basis points across the curve. On a more positive note, the market did feel relatively orderly as inflows continue to hit the market. Investors added $1.8 billion to the market last week, according to Lipper. This marks the 17th consecutive week of inflows, and 24 out of the last 25. Year-to-date inflows now sit at ~$24.6 billion and have been crucial in digesting the record-breaking issuance this year. This week's calendar will be sizeable, with nearly $15 billion expected to price. As a result of the selloff this month, we believe high-grade valuations have become more attractive *(Display 2)*. If next week's supply drives after-tax spreads even wider, it could provide an opportunity for investors to add to their exposure at much more compelling valuations.

The FOMC left its policy rate unchanged at 3.50% to 3.75%, as had been widely expected.

- **Why it matters:** In their accompanying statement, the Fed—as one should expect—noted that the war in Iran's impact on the economy is "uncertain." Given this, the growth and inflation forecasts are tentative at best until the effects of the war filter through the economy. Fed Chair Jerome Powell did comment that the Fed believes itself to be well-positioned to react once those effects become clearer. If we take the Fed's assessment as describing the economy before the oil shock, the likely path of interest rates over the medium term is toward very gradual rate cuts—roughly 50 bps or so. No members of the committee foresee a rate hike this year, and only one does next year. Powell also indicated that the key variable in the near term—leaving aside the oil shock—is the behavior of core goods prices, which the Fed expects to moderate as tariffs fall out of the calculation. In that scenario, the Fed will need to decide how to respond if higher oil prices begin to push inflation higher. All that said, we continue to expect a total of 50 bps of cuts over the medium term, which would bring the policy rate down to 3.00% to 3.25%, a reasonable estimate of the neutral rate. If the war persists, the Fed could remain on hold for longer, but it is too early to make that determination with confidence.

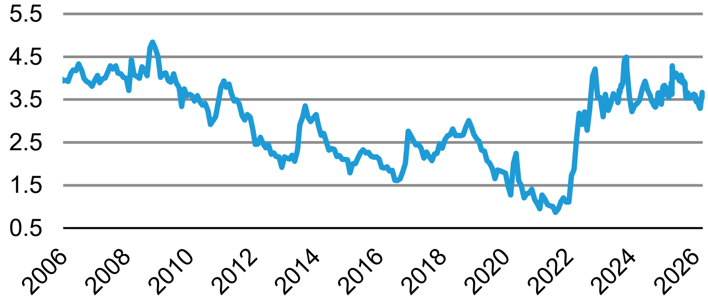
The belly of the yield curve has seen some weakness over the last few weeks in the municipal market.

- **Why it matters:** This weakness has shown up both in absolute terms and relative to US Treasuries. From an absolute perspective, 10-year AAA yields have risen 48 bps this month compared to the 26 bps increase both in 2- and 20-year AAA yields. Furthermore, after-tax spreads in the intermediate part of the curve have widened up to 23 bps this month *(Display 2)*. While certainly not the sole contributor to this weakness, it is worth noting that we have seen an increase in issuance in the belly of the curve, with supply in the 5- to 15-year spot compromising ~43% of year-to-date issuance, marking both a 5% increase versus 2025 and versus the trailing 10-year average. Despite the recent weakness, we continue to advocate for a barbell maturity structure, as it allows investors to capitalize on attractive yield plus roll *(Display 3)*.

## Displays of the Week: March 23, 2026

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

Percent




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

The municipal market continues to offer significant income.

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

Basis points

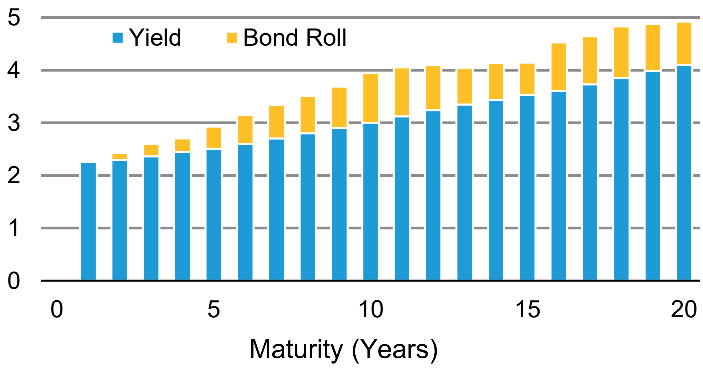
| | Mar 20, 2026 | Feb 27, 2026 | Five-Year Average |
|---|---|---|---|
| Two-Year | –2 | 3 | 16 |
| Five-Year | 13 | 2 | 20 |
| 10-Year | 40 | 17 | 41 |
| 15-Year | 75 | 57 | 65 |
| 20-Year | 115 | 113 | 77 |
| 30-Year | 152 | 143 | 99 |

As of March 20, 2026. Source: Municipal market data and AB

Intermediate maturities have underperformed this month and are now closer to fair value. The long end remains cheap.

### Display 3: Yield Plus Roll

Percent

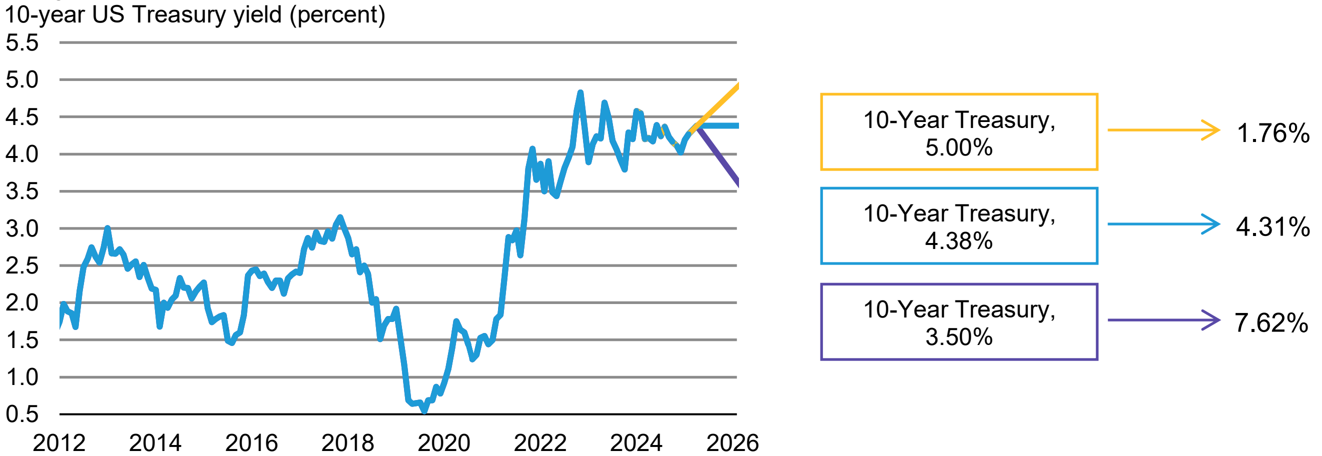



As of March 20, 2026. Source: Bloomberg and AB

Yield plus roll is maximized in the 15- to 20-year part of the curve.

### Display 4: Expected 12-Month Municipal Returns Scenario Analysis

10-year US Treasury yield (percent)




**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 20, 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 I Not a bank deposit I Not insured by any federal government agency I No bank guarantee I May lose value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