AllianceBernstein

Weekly Market Commentary

# The Week in Muniland

May 4, 2026

## Ending April on a Low Note

**Key Takeaways**

1. **The muni market took a step back last week.**
2. **Active muni managers meaningfully outperform passive strategies over time.**
3. **The Fed left rates where they are, and they aren't expected to move any time soon.**

The muni market was down for the week due in large part to rate volatility but nevertheless outperformed US Treasuries (UST). Two-, 10- and 30-year AAA yields rose 10, 5 and 6 basis points (bps), respectively. The Bloomberg Municipal Bond Index (the Index) returned –0.35% last week, bringing April returns to 1.15%. Year-to-date returns now sit at 0.97%.

- **Why it matters:** A busy economic reporting calendar and rate volatility resulted in a down week. However, net inflows were positive, totaling $615 million, which raised year-to-date (YTD) net inflows to $29.5 billion. Of YTD inflows, 53% have gone into long bonds and 13% into high yield. Issuance has also been supportive, with high yield representing only 6% of total issuance, while bonds longer than 10 years represent only 22%. This high level of support is a significant reason why these subsets of the muni market have been the best performing. As seen in *Display 1,* longer bonds have significantly outperformed intermediate- and shorter-maturity bonds. High-yield bonds have been the other bright spot, with the Bloomberg Municipal Bond High Yield Index up 2.13% YTD, compared to 0.84% for the Bloomberg AAA muni index. We have recommended, and continue to recommend, owning both long-maturity bonds and high yield as part of an overall municipal bond allocation.

In our opinion, actively managing a muni bond portfolio is far superior to taking a passive approach. Don't take our opinion. Look at the data.

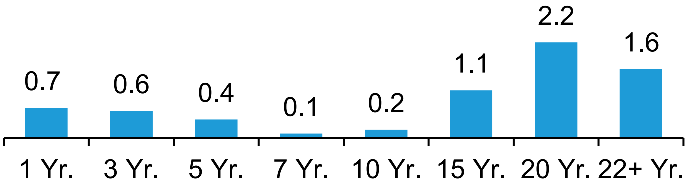
- **Why it matters:** We make that statement without an axe to grind. We manage both active and passive strategies, although we do lean toward active. According to Morningstar data, active muni strategies outperform passive strategies +97% of the time over rolling three-year periods; 75% would be astounding, let alone over 97%. This year is a microcosm of this outperformance. Assuming a duration-neutral approach and using Bloomberg index data, an active barbelled approach is outperforming a passive laddered approach. Assuming a 5.9-year duration, a barbell is yielding 3.64% with a return of 1.38%, versus a ladder yielding 3.53% with a return of 0.91%. The reason for the outperformance this year is the ability of an active manager to take advantage of a very steep yield curve (*Display 2*) and add credit where appropriate. In addition, managers that have the ability to invest in USTs when munis become too expensive, as they were in February (*Display 3*), can add additional value as munis eventually move back toward fair value. In a market of over 1 million CUSIPs and 50,000 issuers, there is plenty of opportunity if you know where to look.

The Federal Open Market Committee (FOMC) left its target interest rate unchanged at 3.50%–3.75%, as had been unanimously expected.

- **Why it matters:** Given the uncertain impact of the war in Iran on both growth and inflation, the Fed remains in wait-and-see mode, a point made both in the statement accompanying the rate decision and in Chair Powell's press conference. We anticipate that the Fed will leave rates unchanged for the next several months at least, barring a dramatic change in the economic data. There were three dissents to the Fed's statement. Those members dissented in favor of a statement that does not have an easing bias in it. We interpret those dissents as making clear that those members of the FOMC will not be willing to vote for rate cuts any time soon, barring a dramatic deterioration in the labor market. That's a signal to incoming Fed Chair Kevin Warsh that he should not expect the committee to start cutting rates immediately—which we were not anticipating in any event.

## Displays of the Week: May 4, 2026

**Display 1: Year-to-Date Returns by Municipal Maturity Index**
Percent




An intermediate duration barbell approach has outperformed other maturity structures.

As of May 1, 2026. Source: Bloomberg and AllianceBernstein (AB)

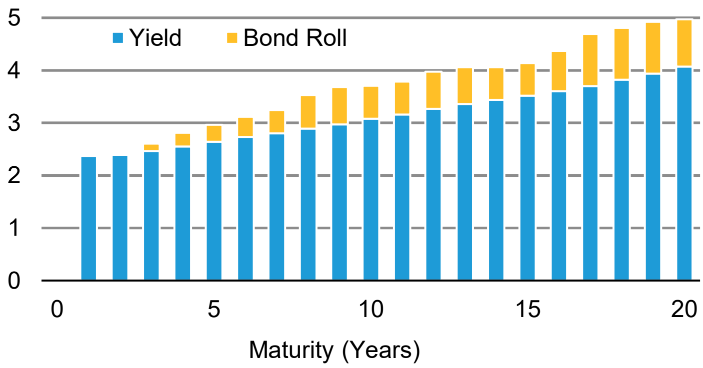
**Display 2: Municipal/Treasury After-Tax Spreads**
Basis points

| | May 1, 2026 | Feb 27, 2026 | Five-Year Average |
|---|---|---|---|
| Two-Year | 17 | 3 | 16 |
| Five-Year | 21 | 2 | 20 |
| 10-Year | 40 | 17 | 41 |
| 15-Year | 56 | 57 | 65 |
| 20-Year | 101 | 113 | 77 |
| 30-Year | 139 | 143 | 99 |

As of May 1, 2026. Source: Municipal Market Data and AB

Intermediate maturities are closer to fair value. The long end remains cheap.

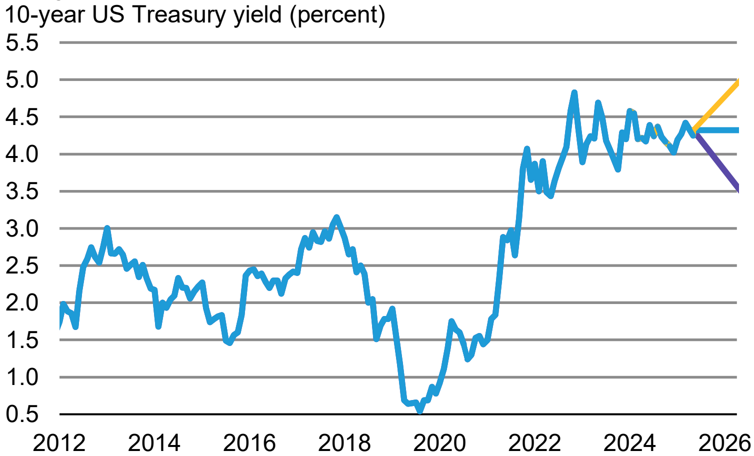
**Display 3: Yield Plus Roll**
Percent

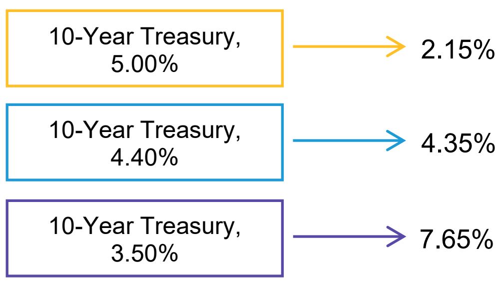



As of May 1, 2026. Source: Bloomberg and AB

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 May 1, 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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