



The Week in Muniland

May 18, 2026

Patience Is a Virtue

Key Takeaways

1. The muni market sold off hard due to a confluence of events.
2. Yield plus roll is nearly 5% in certain parts of the yield curve.
3. The State of California's tax revenues come in well-above expectations.

Munis outperformed US Treasuries this week although returns were negative across the board. Two, 10- and 30-year AAA muni yields rose 7, 8 and 10 basis points (bps), respectively, while similar UST yields rose 12, 10 and 8 bps, respectively. The Bloomberg Municipal Bond Index was down 0.58%, bringing the year-to-date return to 0.59%.

- **Why it matters:** A confluence of events, including inflation data, new Federal Reserve Chair Kevin Warsh and a \$13 billion new issue calendar, generated volatility in munis. Despite this volatility the muni sell-off was highly orderly. The new issue calendar was well subscribed and inflows into the muni market were sizable. According to J.P. Morgan, municipal mutual funds and exchange-traded funds recorded another solid week of inflows totaling \$1.3 billion. By maturity, inflows were decisively concentrated in the intermediate and long end of the curve, with \$416 million into intermediate funds and \$656 million into long-term funds. Credit quality remained skewed toward investment-grade funds (+\$1.1 billion), while high-yield funds also attracted incremental demand (+\$218 million). On a year-to-date basis, municipal fund inflows now total \$36.5 billion, marking the second-highest YTD level on record for this point in the year—surpassing 2019 and trailing only 2021. The continued strong demand for long bonds is evident in how much the long end of the curve has outperformed (*Display 1*). We anticipate the long end of the curve to continue to outperform over time given its current steepness. However, we may see additional volatility next week as the new issue calendar is once again sizable, totaling \$14 billion. This could be a good time to put cash to work, as issuance the week of Memorial Day will likely be much lighter. Investors need to be patient given the recent bouts of volatility and take advantage of the high yields being offered by the market.

US CPI rose 0.6% month over month (MoM) and 3.8% year over year (YoY) and core inflation rose 0.4% MoM and is up 2.8% YoY as the impact of the war in Iran filters into prices.

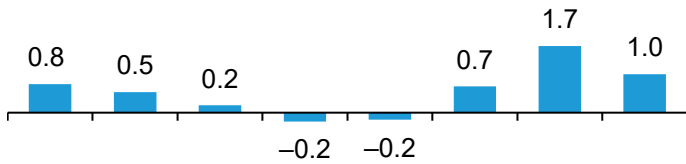
- **Why it matters:** The increase in prices will keep the Fed on hold for the time being. While core inflation normally gets the focus, we think it's worth starting with headline inflation because it is the index most impacted by the surge in oil prices. Headline inflation has gone from 2.4% to 3.8% over two months, pushed higher by a surge in gasoline prices. Unless and until gasoline prices come down meaningfully, headline inflation is likely to stay elevated and even increase further. This increase, coupled with a producer price index that came in at a 6% annual rate, has caused UST yields to spike with the 10- and 30-year reaching 4.57% and 5.12%, respectively. Muni yields jumped as well, which should be viewed as an opportunity to be a liquidity provider as yield plus roll is near or above 5% for bonds with maturities in and around 20-years (*Display 3*).

The State of California hit the AI/tech jackpot as tax revenues came in much higher than expected.

- **Why it matters:** Governor Gavin Newsom's May revision to the 2026–2027 California state budget introduces a \$349 billion spending plan that fully eliminates the state's projected deficit through July 2028, driven by \$16.5 billion in higher-than-expected tax revenues from a booming, tech-driven stock market. To insulate the state against future economic volatility, the updated plan avoids new ongoing spending and instead builds a massive \$29.9 billion total reserve cushion. This comprehensive fiscal safety net includes \$23 billion across core liquid accounts—headlined by a \$14.4 billion rainy-day fund—alongside a newly created \$5.8 billion surplus holding account designed to lock away current windfalls to protect the subsequent 2027–2028 fiscal year.

Displays of the Week: May 18, 2026

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



An intermediate-duration barbell approach has outperformed other maturity structures.

1 Yr. 3 Yr. 5 Yr. 7 Yr. 10 Yr. 15 Yr. 20 Yr. 22+ Yr.
As of May 15, 2026. Source: Bloomberg and AllianceBernstein (AB)

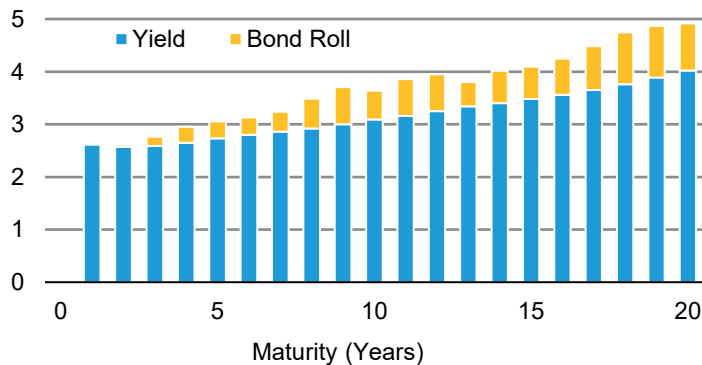
Display 2: Municipal/Treasury After-Tax Spreads
Basis points

	May 15, 2026	Feb 27, 2026	Five-Year Average
Two-Year	15	3	16
Five-Year	20	2	20
10-Year	39	17	41
15-Year	55	57	65
20-Year	98	113	77
30-Year	143	143	99

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

As of May 15, 2026. Source: Municipal Market Data and AB

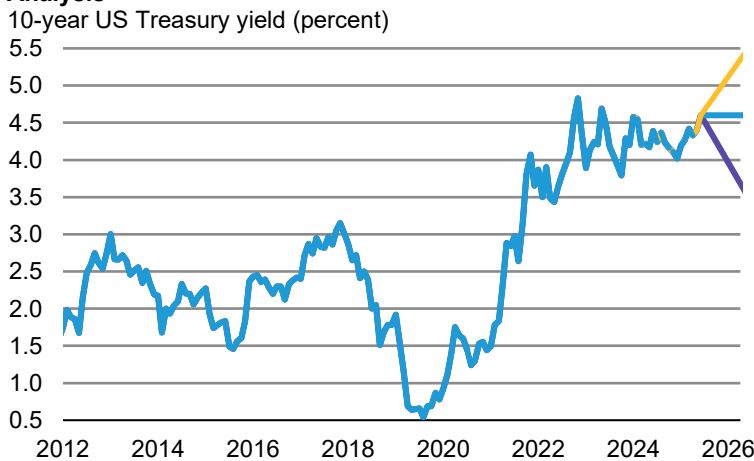
Display 3: Yield Plus Roll
Percent



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

As of May 15, 2026. Source: Bloomberg and AB

Display 4: Expected 12-Month Municipal Returns Scenario Analysis



- 10-Year Treasury, 5.50% → 1.15%
- 10-Year Treasury, 4.60% → 4.45%
- 10-Year Treasury, 3.50% → 8.45%

Past performance and historical analysis do not guarantee future results.

Display reflects expected returns of the Bloomberg Municipal Bond Index under three scenarios: 10-year US Treasury yields rise to 5.50%, remain the same or decline to 3.50% over the next 12 months.

As of May 15, 2026. Source: Bloomberg and AB

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