



The Week in Muniland

May 26, 2026

Opportunity in the Volatility

Key Takeaways

1. **The muni market sold off earlier in the week but stabilized heading into the holiday weekend.**
2. **Returns favor the patient in the municipal market.**
3. **Upgrades outpaced downgrades in the first quarter of 2026.**

It was a challenging week in the market, with municipals delivering negative absolute returns while also underperforming US Treasuries. Two-year AAA muni yields were unchanged, while 10- and 30-year yields rose 5 and 4 basis points (bps), respectively. The Bloomberg Municipal Bond Index returned -0.28% last week, bringing month-to-date returns to -0.65% . Year-to-date returns now sit at 0.31% .

- **Why it matters:** The market continued to grapple with broader macro and geopolitical volatility as well as a sizeable new issue calendar. This pressured relative performance, with after-tax spreads widening up to 10 basis points last week. It is not surprising to see a bit of underperformance as relative valuations had started to become modestly expensive—particularly in shorter and intermediate maturities. However, despite the underperformance, the market still feels quite orderly and well supported by demand, with investors adding \$1.5 billion to the market last week, according to Lipper. This continues the positive flow trend with inflows in 24 out of the last 26 weeks. Year-to-date inflows sit at \$38 billion, which is now the second-highest level on record for the comparable period. As we have mentioned, this demand has been critical in absorbing the wave of issuance this year. Year-to-date tax-exempt issuance currently sits at $\sim\$190$ billion—a 7% increase compared to last year’s pace, which was a previous high watermark. That said, this week’s calendar looks much more manageable given the shortened week with $\sim\$7$ billion expected to price.

The recent uptick in yields may provide investors an attractive opportunity to enter the market or add to their municipal bond exposure.

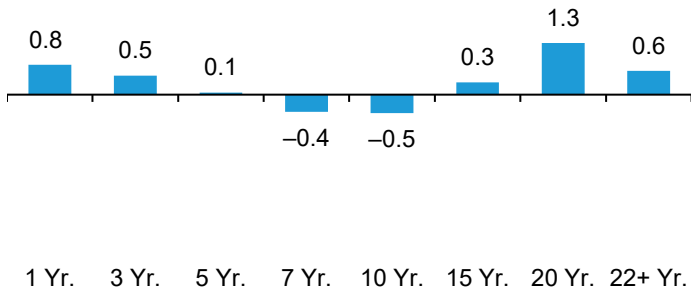
- **Why it matters:** As we have consistently mentioned, this year is one that is likely to experience periodic episodes of volatility. The last three months have been nothing less, with the Index returning -2.32% in March, followed by a 1.15% return in April and has returned -0.65% so far in May. While we understand it may be unnerving to some investors, 2025 was also not without volatility (albeit for different reasons). Yet, the Index still delivered a very respectable 4.25% return last year. The lesson? Returns favor the patient in the municipal market. It also highlights the risks of short-term market timing, as things can turn quickly. For the investors continuing to sit on cash or those looking to increase their allocation, the current market may provide an attractive entry point for long-term investors. For example, the yield to worst of the Index currently sits at 3.83% , equating to a staggering taxable-equivalent yield of 6.47% for top tax-bracket investors. Furthermore, while the long end generated respectable returns so far this year, it continues to look attractive, with after-tax spreads well north of longer-term averages (*Display 2*) and yield plus roll near or above 5% for longer-dated municipal bonds (*Display 3*).

Municipal bond credit upgrades outpaced downgrades in the first quarter of 2026, according to a recently released Moody’s report.

- **Why it matters:** Overall, the upgrade to downgrade ratio was $\sim 1.6x$, with 234 upgraded credits versus 143 that were downgraded. To be fair, however, some of those were due to a methodology change for special purpose issuers. Excluding that change, the upgrade to downgrade ratio was $\sim 1.1x$. Per the report, credit fundamentals remained generally supportive, with steady employment levels, generally conservative financial management and ongoing tax base stability. In addition, there continues to be divergence within sectors. For example, higher education saw 15 downgrades compared to just four upgrades. This is to be expected as the sector as a whole continues to face demographic and cost pressures. To be clear, this does not mean that the sector should be avoided entirely, but it is certainly a sector that particularly requires active credit research.

Displays of the Week: May 26, 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 22, 2026. Source: Bloomberg and AllianceBernstein (AB)

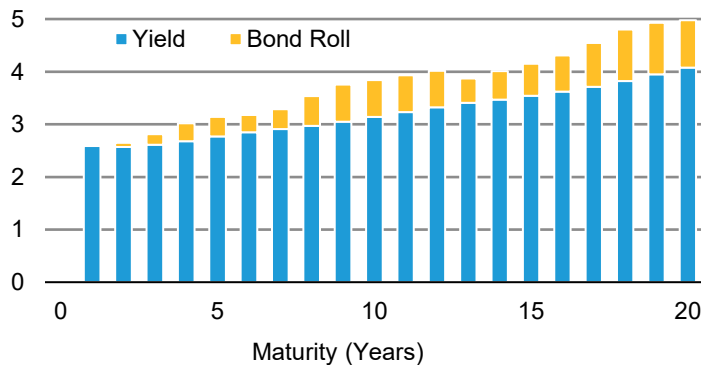
Display 2: Municipal/Treasury After-Tax Spreads
Basis points

	May 22, 2026	Feb 27, 2026	Five-Year Average
Two-Year	13	3	16
Five-Year	25	2	20
10-Year	44	17	41
15-Year	69	57	65
20-Year	108	113	77
30-Year	150	143	99

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

As of May 22, 2026. Source: Municipal Market Data and AB

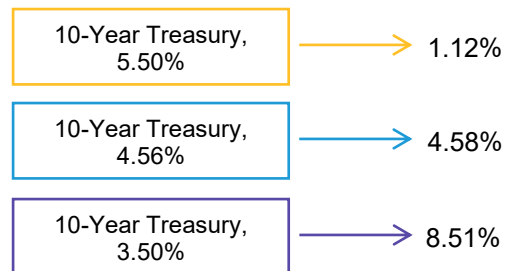
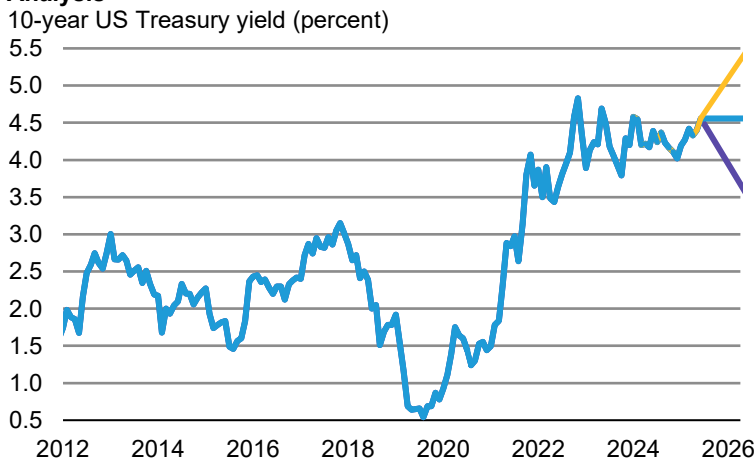
Display 3: Yield Plus Roll
Percent



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

As of May 22, 2026. Source: Bloomberg and AB

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 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 22, 2026. Source: Bloomberg and AB

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