AllianceBernstein

Weekly Market Commentary

The Week in Muniland

June 1, 2026

Insatiable Demand

Key Takeaways

1. **The muni market rebounded and turned what could have been a negative month into a positive.**
2. **The month of May was a gut-wrenching roller-coaster ride.**
3. **Positioning is key. Don't sit like an elephant.**

What a difference a week makes. The muni market rebounded this week with positive returns across the curve. Two-, 10- and 30-year yields fell 15, 16 and 16 basis points (bps), respectively. The Bloomberg Municipal Bond Index (Index) returned 1.03% last week, bringing month-to-date returns to 0.37%. Year-to-date returns now sit at 1.34%.

- **Why it matters:** A better tone in the US Treasury market, a lighter new issue supply calendar and anticipated June 1 coupon payments resulted in a significant performance rebound week. Credit and longer-duration bonds outperformed. The Bloomberg BBB index returned 1.25% versus 1.02% for the AAA index, while the 20-year index returned 1.51% and the 5-year index 0.57%. This outcome is a microcosm of 2026. As seen in *Display 1*, the longer end of the muni curve has significantly outperformed shorter maturities. On the credit side, for the year to date the Bloomberg BBB index and Muni High Yield index are up 2.10% and 2.72%, respectively, compared to the AAA index up just 1.12%. Demand for muni bonds remains insatiable, which has also supported our market. According to J.P. Morgan, LSEG Lipper reported inflows of $2.3 billion into weekly reporting municipal funds, which is the second-highest weekly inflow dating back to 1992. Flows continue to favor investment grade at $2 billion and long bonds at $1.6 billion. An interesting note is that tax-exempt money-market funds realized outflows of $1.4 billion. Perhaps investors are beginning to realize the value in extending duration and investing in longer bonds.

Performance for the month of May was certainly a roller-coaster ride. Just last week it seemed as though May's performance would be a repeat of March.

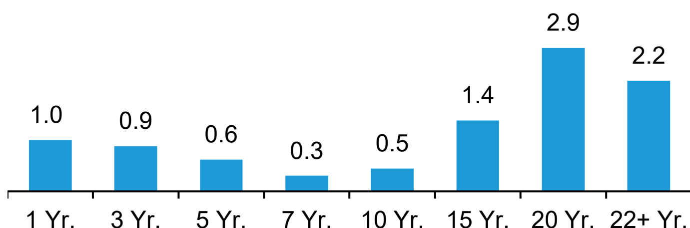
- **Why it matters:** Through May 8, the month-to-date return of the Index was up 0.21% and just seven trading days later on May 19, the Index was down 0.85%—a 1.06% swing. Eight trading days later on May 29, the Index was up 0.37%, which is another 1.22% swing. These types of swings can be stomach churning for many retail investors. One of the reasons we recommend being patient during volatile periods or being a liquidity provider when bonds sell off sharply is because, eventually, bonds will rally. And while you're waiting for that rally you are earning an attractive yield. On May 19, the yield to worst of the Index was 3.85% (6.5% taxable equivalent). Since that date, performance was a positive 1.22% as yields fell to 3.7%. The key is to stay invested and pick your spots. When yields jump nearly 20 bps in two weeks, that's likely an indication to begin putting cash to work.

Positioning in today's market can be challenging given the macro uncertainty and overall volatility. However, sitting like an elephant is no way to manage a portfolio.

- **Why it matters:** Most importantly in today's environment, we recommend a barbell maturity structure. Such a structure will lean into a combination of longer maturity bonds (15–20 year) and shorter maturity bonds (one–five year). We like this structure today because the longer end of the yield curve offers the most value (*Display 3*). However, in an intermediate portfolio you can't buy all long bonds because the overall duration will be too long, so you buy shorter-maturity bonds to shorten the portfolio's overall duration. As seen in *Display 1*, so far this year this positioning has clearly provided a better outcome. For an investor in the top tax bracket, we recommend an all-tax-exempt portfolio given munis are fair value to cheap relative to US Treasuries (*Display 2*). We also recommend an allocation to credit (A, BBB and high yield) not only because you can earn an additional 40 bps to 200 bps in yield above an AAA muni, but because given strong demand and an economy that is doing just fine, the upside potential above the yield is potentially meaningful. As mentioned earlier, credit is meaningfully outperforming high-grade bonds this year and we expect that to continue for the remainder of the year.

Displays of the Week: June 1, 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 29, 2026. Source: Bloomberg and AllianceBernstein (AB)

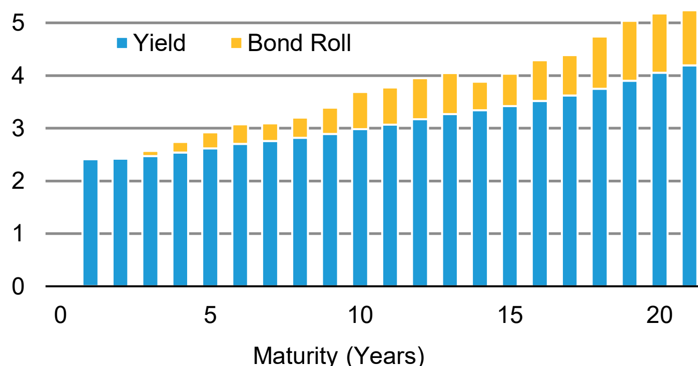
Display 2: Municipal/Treasury After-Tax Spreads
Basis points

	May 29, 2026	Feb 27, 2026	Five-Year Average
Two-Year	5	3	16
Five-Year	16	2	20
10-Year	37	17	41
15-Year	54	57	65
20-Year	97	113	77
30-Year	139	143	99

Still makes sense to own tax-exempt munis for an investor in the top federal marginal tax bracket.

As of May 29, 2026. Source: Municipal Market Data and AB

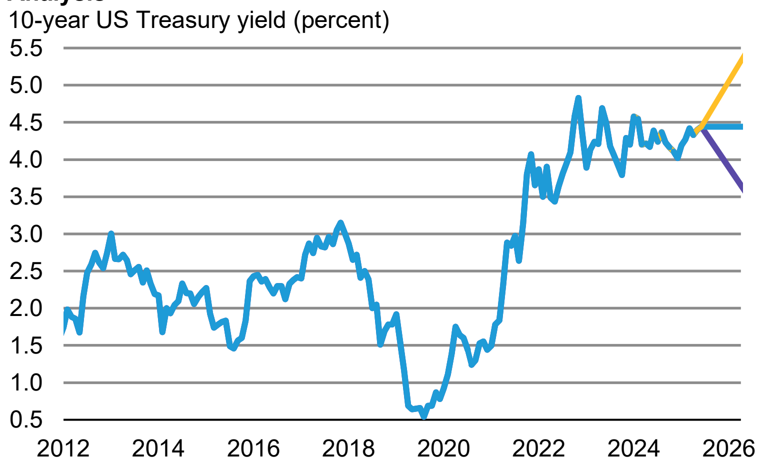
Display 3: Yield Plus Roll
Percent



Yield plus roll is maximized in the 15- to 21-year part of the curve.

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

Display 4: Expected 12-Month Municipal Returns Scenario Analysis
10-year US Treasury yield (percent)



10-Year Treasury, 5.50% → 0.40%

10-Year Treasury, 4.44% → 4.30%

10-Year Treasury, 3.50% → 7.70%

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 29, 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.

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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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