The Week in Muniland

June 8, 2026

Demand Defies Supply

Key Takeaways

1. **The muni market shrugged off a huge new issue calendar and posted positive returns.**
2. **With a little love from New York State, New York City was able to find budget relief.**
3. **The market is pricing in a fed rate hike as employment gains continue to exceed expectations.**

The muni market shrugged off a $22 billion new issue calendar and posted positive returns for a second consecutive week. Two-, 10- and 30-year yields fell 4, 3 and 4 basis points (bps), respectively. The Bloomberg Municipal Bond Index (Index) returned 0.39% last week, bringing year-to-date returns to 1.74%.

- **Why it matters:** Demand remains insatiable, and despite a large new issue calendar and US Treasury (UST) volatility, munis continue to power through. Last week, flows reached $1.4 billion and now total $46 billion year to date. Long bonds continue to benefit with $1.3 billion flowing last week into long strategies. As seen in Display 1, long bonds continue to meaningfully outperform other maturities. Given the steepness of the muni yield curve as seen in Display 3, we continue to recommend a barbell maturity structure with yield plus roll nearly reaching 5% in longer maturities. With demand for munis generally strong and USTs increasingly volatile, munis are once again becoming expensive in the shorter end of the yield curve. As shown in Display 2, the two-year after-tax spread is negative, which means investors can earn 9 bps more on a UST versus a comparable muni, while even the five-year spread is far below average. In our opinion, these spreads indicate that owning short USTs will either provide more income in the near term and likely better returns over time as munis move back toward fair value.

New York State lawmakers approved a budget package that provides several forms of support for New York City.

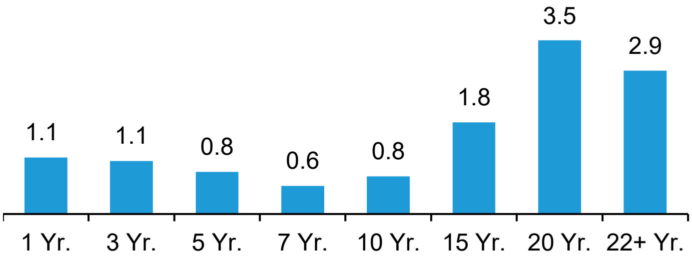
- **Why it matters:** New York City's credit profile remains supported following the state budget agreement, which provided meaningful near-term fiscal relief through a new pied-à-terre tax expected to generate approximately $500 million annually, pension re-amortization estimated to deliver about $2.3 billion of budget relief and flexibility on class-size mandates that may reduce spending pressure. While the city continues to face structural budget challenges and is relying in part on transitional measures, its credit fundamentals remain anchored by a large and diversified economic base, resilient tax revenues and roughly $7.4 billion in reserves, without currently drawing down cash reserves for budget balance. We view the pension action as manageable on its own, though repeated reliance on similar measures would be less favorable over time. Concerns around taxpayer migration and population trends warrant monitoring, but they are moderated by the scale and diversity of the city's tax base, relatively strong pension funding and institutional credit guardrails, including debt limits, City Council oversight and ongoing state engagement. Overall, we remain constructive on NYC's long-term credit outlook and view it as consistent with a high-grade AA-rated municipal issuer.

May payroll data far exceeded expectations.

- **Why it matters:** The May payroll report showed a gain of 172,000 jobs, along with upward revisions of 93,000 to the prior two months, reinforcing the view that any near-term rate cut is effectively off the table. While we still do not view a rate hike as the base case, the Federal Reserve will likely need to acknowledge that possibility more directly in the weeks and months ahead, as the labor market has clearly regained momentum this year. Hiring was particularly strong in leisure and hospitality, while government employment also contributed meaningfully with an increase of 52,000 jobs. The unemployment rate held steady at 4.3%, though on a more precise basis it edged down from 4.337% to 4.296%. Over the past three months, job gains of 172,000, 179,000 and 214,000 have remained well above most estimates of the breakeven pace. Market pricing now reflects 22 bps of hikes by the end of 2026, or roughly an 88% probability of a 25 bp increase, which is 7 bps higher following the US payrolls release.

Displays of the Week: June 8, 2026

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



As of June 5, 2026. Source: Bloomberg and AllianceBernstein (AB)

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

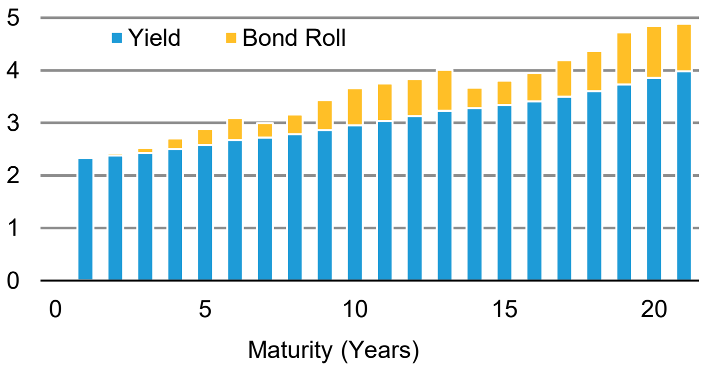
Display 2: Municipal/Treasury After-Tax Spreads
Basis points

	June 5, 2026	Feb 27, 2026	Five-Year Average
Two-Year	-9	3	16
Five-Year	3	2	20
10-Year	27	17	41
15-Year	46	57	65
20-Year	88	113	77
30-Year	133	143	99

As of June 5, 2026. Source: Municipal Market Data and AB

Owning USTs in the shorter end of the yield curve is favorable for those investors in the top marginal federal tax bracket.

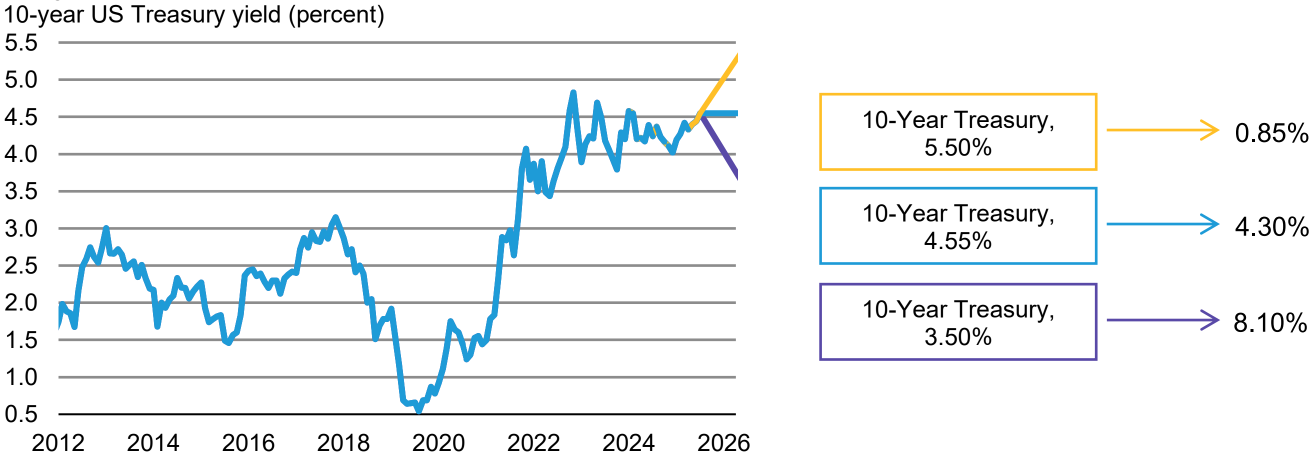
Display 3: Yield Plus Roll
Percent



As of June 5, 2026. Source: Bloomberg and AB

Yield plus roll is maximized in the 15- to 21-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 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 June 5, 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

SMA-948458-2026-06-05