The Week in Muniland

June 15, 2026

Playing Through Contact

Key Takeaways

1. **The muni market took a breather last week and generated negative returns.**
2. **US May CPI was in line with expectations.**
3. **Municipalities continue to adapt to a changing revenue environment.**

The municipal market generated modestly negative returns last week as the wave of supply continued to hit the market. Two-, 10- and 30-year yields rose 1, 4 and 2 basis points (bps), respectively. The Bloomberg Municipal Bond Index (Index) returned –0.12% last week, bringing year-to-date returns to 1.62%.

- **Why it matters:** The municipal market also modestly underperformed US Treasuries, with after-tax spreads widening 6 to 11 bps across the curve, as the market lagged the sharp rally in Treasuries on Thursday. In addition, the market was grappling with a somewhat heavy calendar. Market technicals continue to be the primary driver of relative performance, with elevated issuance weighing on the market despite steady inflows that helped absorb a portion of the calendar. Investors added $625 million last week, according to Lipper. While last week's inflows were modest compared to recent weeks, they have still been supportive to the market. May's inflows were the highest May print on record and seventh-highest month on record. Relative valuations improved across the curve last week, as shown in *Display 2*, but still look expensive on the front end of the curve–particularly for investors in high-tax bracket states. This week's calendar takes a (relative) breather given the shortened week, with ~$9 billion expected to price.

US May CPI was in line with expectations, with headline inflation up 4.2% year over year and core inflation up 2.9% year over year.

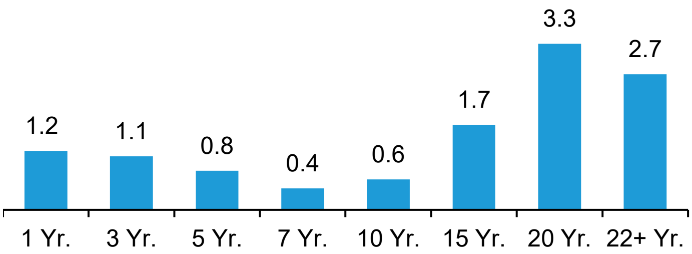
- **Why it matters:** With headline inflation having climbed 1.8 percentage points since the onset of the conflict in Iran, the energy-driven surge has dominated the near-term inflation picture. Gasoline prices have retreated so far this month, and we believe that the headline measure is likely at or near its near-term peak. The more consequential question is whether elevated energy costs continue to pass through core prices, which, at 2.9% year over year, remain well above the Fed's target and continue to move in the wrong direction. While it is clear that energy prices are the near-term driver in inflation, broader measures are also not consistent with the Fed's target. Services inflation has inflected higher this year, and while goods prices have largely stabilized following last year's tariff-induced increase, the balance between the two still leaves core CPI uncomfortably elevated. This means the Fed will almost certainly leave rates unchanged in its meeting this month, and the prospect of near-term rate cuts are very diminished. That said, while the odds of a rate hike over the coming months are increasing, our base case is for no change in rates. This week's updated dot plot will provide more insight into the FOMC's thinking and Chair Kevin Warsh's first press conference will give us a window into his perspective.

Despite a moderating revenue environment, municipal credit quality remains strong, as highlighted in the National Association of State Budget Officers' Spring 2026 Fiscal Survey.

- **Why it matters:** This report highlights a transition—not a deterioration—in state credit conditions. Budget management has become more active as the post-pandemic revenue surge fades. Revenue growth is still positive, but has moderated, which has prompted states to take measured actions such as targeted spending cuts, hiring restraints and other selective revenue changes to preserve their structural balance. While some states are utilizing portions of their historically high rainy-day funds, these reserves remain well above pre-pandemic historical levels and continue to provide a meaningful cushion against future economic volatility. In our view, this combination of budget adjustments and still-robust reserve positions supports the stability of state credit fundamentals. While fiscal conditions are normalizing, the sector continues to remain well positioned to navigate a more moderate revenue backdrop without undermining overall credit quality.

Displays of the Week: June 15, 2026

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



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

As of June 12, 2026. Source: Bloomberg and AllianceBernstein (AB)

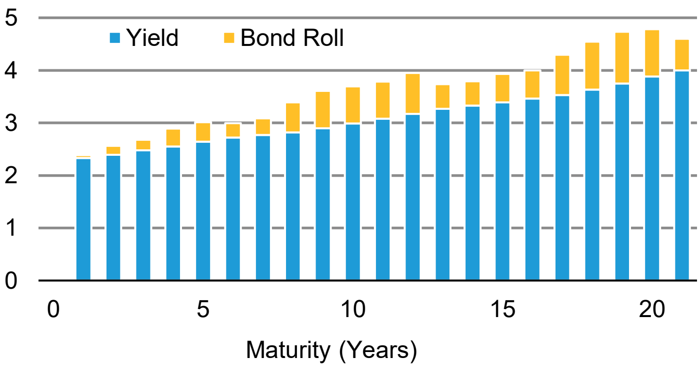
Display 2: Municipal/Treasury After-Tax Spreads
Basis points

	June 12, 2026	June 5, 2026	Five-Year Average
Two-Year	-3	-9	16
Five-Year	15	4	20
10-Year	34	27	41
15-Year	59	46	65
20-Year	93	88	77
30-Year	138	133	99

Municipal valuations improved last week but shorter maturities remain expensive.

As of June 12, 2026. Source: Municipal market data and AB

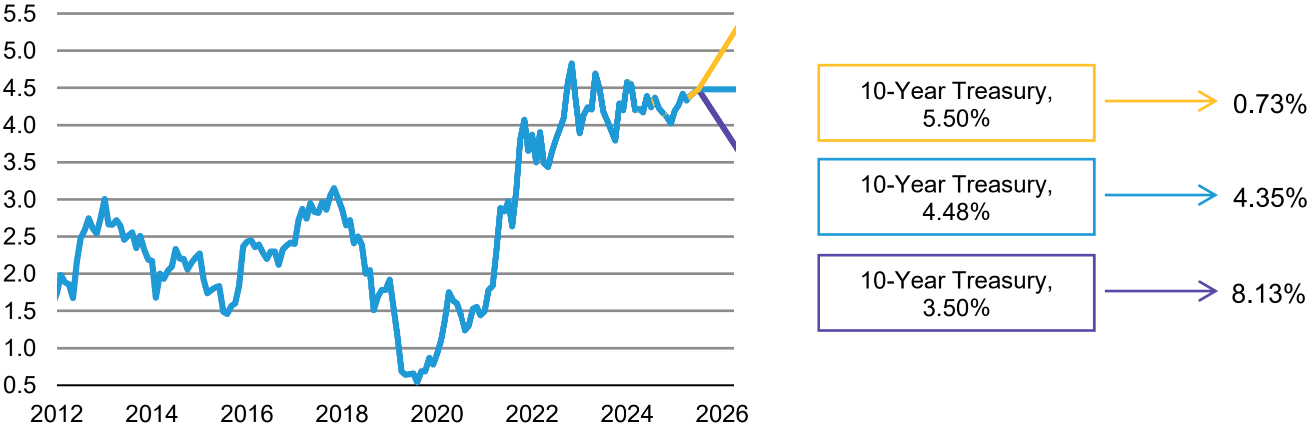
Display 3: Yield Plus Roll
Percent



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

As of June 12, 2026. Source: Bloomberg and AB

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 12, 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-952012-2026-06-12