The Week in Muniland

June 29, 2026

Strength in Numbers

Key Takeaways

1. **The muni market posted another week of positive returns.**
2. **Supply has been significant, but so has demand.**
3. **Intermediate maturities have underperformed this year.**

While it was a relatively sanguine week in the muni market, it remained on solid footing and generated positive returns for a second consecutive week. Two- and 10-year yields each fell 1 basis point (bp) respectively, while 30-year yields fell 6 bps. The Bloomberg Municipal Bond Index (Index) returned 0.15% last week, bringing month-to-date returns to 0.80%.

- **Why it matters:** While absolute returns were positive, relative performance versus US Treasuries was mixed. Short and intermediate maturities modestly underperformed, with after-tax spreads widening up to 6 bps in those parts of the curve. Long maturities, however, saw after-tax spreads tighten slightly. It is unsurprising to see some underperformance in shorter maturities given how expensive they have become. That said, the drumbeat of demand continued, with investors adding $633 million inflows to the market last week, marking the 10th consecutive week of inflows. The calendar this week looks extremely light—particularly so for this year—with just ~$5 billion expected to price. This should be more than digested by the market as July 1 reinvestment cash from coupons and maturities hits the market this week.

The first half of 2026 demonstrated the resilience of the municipal market. The Index has seen a respectable 2.15% return so far this year, as investors absorbed elevated issuance through historically strong fund flows and persistent demand for tax-exempt income.

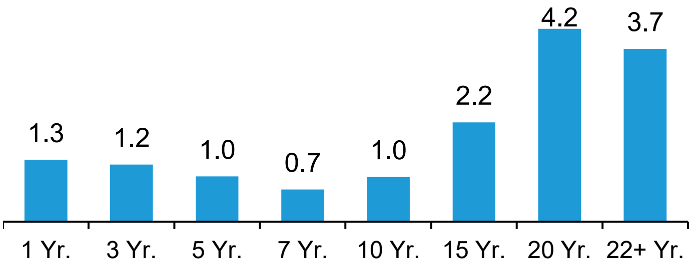
- **Why it matters:** At the start of the year, many investors, including ourselves, expected another challenging supply backdrop, and those expectations have largely proved correct. Issuance this year sits around $250 billion, marking a 6% increase over 2025's high watermark, and a 40% increase versus the five-year average. Demand, however, has been just as significant as supply. Year-to-date inflows into mutual funds and exchange-traded funds now sit at $50 billion and continue to track at the second-highest pace on record. However, as we detail in our third section below and in *Display 2*, relative performance has been mixed across the curve. Both short- and long-maturity municipals have significantly outperformed comparable maturity Treasuries, while intermediate maturities have underperformed. From a credit perspective, lower-rated bonds have lead the way, with the Bloomberg Municipal HY Index returning 3.87% this year, outpacing the 1.97% return of the Bloomberg AAA Index. While supply overall has been significant, high-yield supply has been relatively subdued, particularly given the increase in flows to high-yield mandates this year. Turning the page to July and August, we do expect the technical backdrop to strengthen further, with only ~$4 billion in net supply expected.

As markets shift, active managers must adjust their positioning accordingly.

- **Why it matters:** A barbell maturity structure has significantly outperformed this year (*Display 1*), and the belly of the curve has underperformed. Not only have intermediate maturities underperformed in absolute terms, but they have also widened relative to US Treasuries, with 10-year AAA after-tax spreads increasing 7 bps year to date. Some of the weakness in the belly of the curve can be attributable to the shift in issuance. For example, issuance in the six-to-10-year maturity range is up a staggering 34% compared to last year, while issuance in the 21-to-30-year maturity range has *decreased* 19%. Not only that, but demand patterns have also shifted, with flows into longer-maturity products up 18% year-over-year. Given the barbell outperformance, it may make sense to reduce (but not eliminate) the magnitude of the barbell maturity structure to capture attractive opportunities—such as prepay gas and AMT airports—in the belly of the curve. To be clear, the long end of the curve still looks attractive, and a barbell may still make sense for investors, albeit to a lesser degree than at the beginning of this year.

Displays of the Week: June 29, 2026

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



As of June 26, 2026. Source: Bloomberg and AllianceBernstein (AB)

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

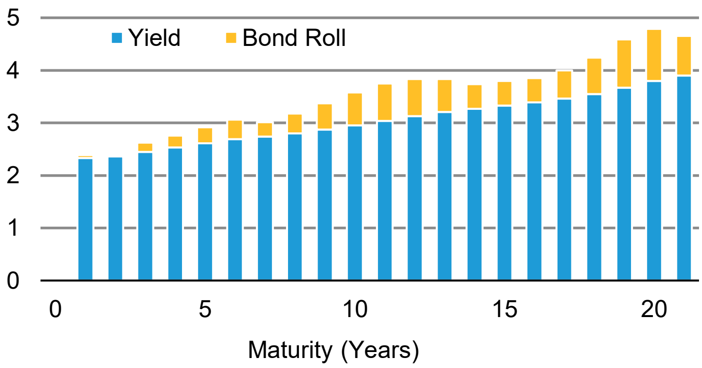
Display 2: Municipal/Treasury After-Tax Spreads
Basis points

	June 26, 2026	Dec 31, 2025	Five-Year Average
Two-Year	-6	33	16
Five-Year	17	20	20
10-Year	36	29	41
15-Year	59	65	65
20-Year	92	109	77
30-Year	133	137	99

As of June 26, 2026. Source: Municipal Market Data and AB

Municipal valuations have shifted significantly this year.

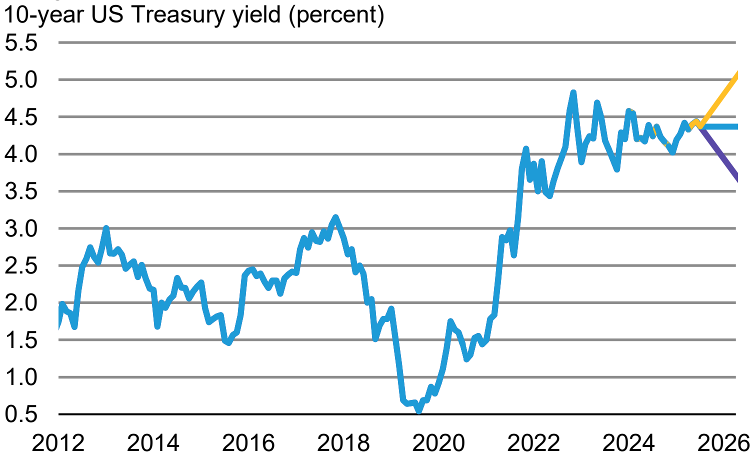
Display 3: Yield Plus Roll
Percent

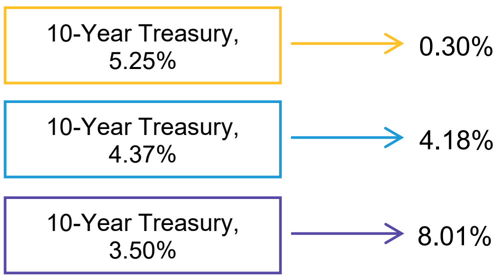


As of June 26, 2026. Source: Bloomberg and AB

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 5.25%, remain the same or decline to 3.50% over the next 12 months.
As of June 26, 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

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