The Week in Muniland

July 13, 2026

Summer Support

Key Takeaways

1. **The market generated negative returns, but we believe it remains well supported by demand.**
2. **We remain constructive on municipal bonds entering the second half of 2026.**
3. **Municipal SMA growth is reshaping market structure and liquidity.**

The market has gotten off to a slow start in the third quarter as geopolitical volatility has returned to the fixed-income markets. For the week, two-, 10- and 30-year yields rose 2, 7 and 7 basis points respectively. The Bloomberg Municipal Bond Index returned –0.32% last week, bringing month-to-date returns to –0.40%. Year-to-date returns now sit at 1.91%.

- **Why it matters:** The market did see some modest underperformance relative to US Treasuries, with after-tax spreads widening a handful of basis points in the belly of the curve. That said, the market remained on solid footing. Demand continued to support the market, with investors adding $1.4 billion to the market last week, according to Lipper, extending the positive streak of inflows to 12 weeks. With June now fully in the rearview mirror, investors added a whopping $6.5 billion to the market. Year-to-date inflows now sit at nearly $57 billion, continuing to track at the second-highest level on record for the comparable period. This week's supply picks up slightly, with $11 billion expected to price. However, we anticipate the market to remain well supported given inflows and July 15 reinvestment cash hitting the market.

As investors enter the third quarter, some may be wondering whether the supportive market conditions can continue throughout the rest of 2026.

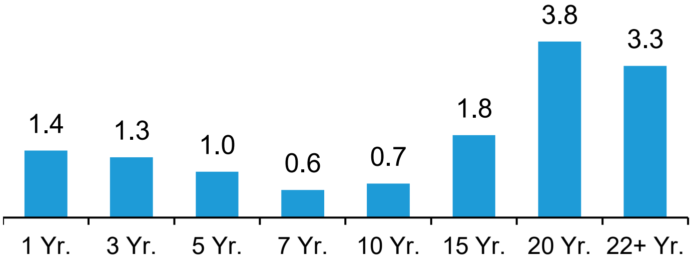
- **Why it matters:** While there will likely continue to be uncertainty around economic growth, inflation and interest rates, we believe several of the key drivers supporting municipal bonds will remain intact. As we mentioned in our first section above, demand has remained robust despite an elevated issuance calendar, helping the market absorb a significant amount of supply while generating positive returns. At the same time, yields remain elevated, and attractive after-tax income opportunities continue to draw investor interest. Furthermore, seasonal reinvestment flows should provide an additional technical tailwind during the summer months. We also believe the opportunity set has widened—particularly in intermediate maturities—creating opportunities for active investors to be selective across duration, maturity structures and credit exposures. To be clear, periodic volatility is likely along the way, but the combination of supportive technicals, relative value and a constructive demand backdrop leaves us optimistic about the market for the remainder of the year. For a more detailed discussion of our outlook, see our blog Municipal Midyear Outlook: Room to Run as Demand Drives the Market.

As municipal separately managed accounts (SMAs) continue to grow, they are reshaping the market in ways that extend far beyond asset growth alone.

- **Why it matters:** The municipal market looks very different today than it did just a few years ago. According to recent research from J.P. Morgan, municipal SMA assets reached approximately $1.6 trillion at year-end 2025, representing the majority of household muni ownership and roughly one-third of the entire market. At the same time, the Municipal Securities Rulemaking Board noted that 2025 was another record year for trading activity—with trade counts more than doubling from 2021 levels. Beneath that is a meaningful shift in market structure. As SMA adoption has grown, average trade sizes have declined while the number of transactions has increased dramatically, reflecting a market that is increasingly driven by customized portfolios and individualized client mandates. While a more fragmented market can create challenges for some investors, it can also create opportunities for managers with the scale, technology and trading resources necessary to efficiently navigate the market. The ability to analyze large amounts of market data, source liquidity electronically and customize portfolios at scale is becoming an even more important differentiator.

Displays of the Week: July 13, 2026

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



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

As of July 10, 2026. Source: Bloomberg and AllianceBernstein (AB)

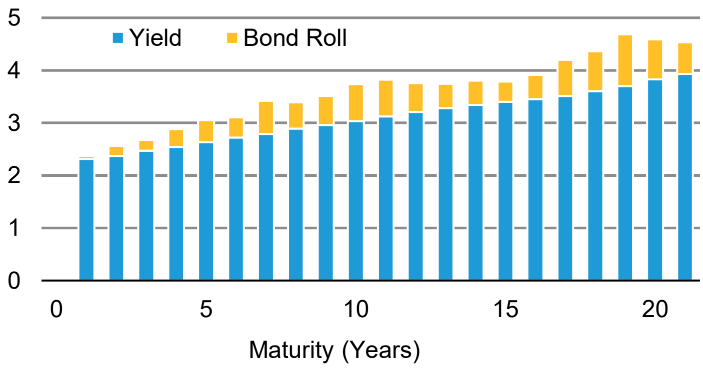
Display 2: Municipal/Treasury After-Tax Spreads
Basis points

	Jul 10, 2026	Dec 31, 2025	Five-Year Average
Two-Year	–12	33	16
Five-Year	8	20	20
10-Year	33	29	41
15-Year	54	65	65
20-Year	83	109	77
30-Year	127	137	99

Municipal valuations have shifted significantly this year.

As of July 10, 2026. Source: Municipal Market Data and AB

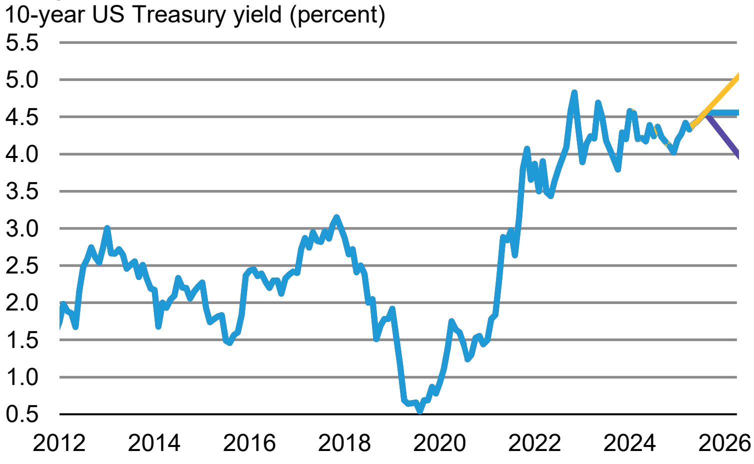
Display 3: Yield Plus Roll
Percent



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

As of July 10, 2026. Source: Bloomberg and AB

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



10-Year Treasury, 5.25% → 1.19%

10-Year Treasury, 4.56% → 4.25%

10-Year Treasury, 3.75% → 7.83%

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 3.75% over the next 12 months.
As of July 10, 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