AllianceBernstein

Weekly Market Commentary

The Week in Muniland

July 20, 2026

Stay Active, My Friends

Key Takeaways

1. **The third quarter has gotten off to a rough start.**
2. **During bouts of volatility, investors should be liquidity providers.**
3. **The US consumer price index for June was meaningfully lower than expected.**

The slow start to the third quarter continues as geopolitical events further impact fixed-income markets. For the week, two-, 10- and 30-year yields rose 6, 11 and 6 basis points (bps) respectively. The Bloomberg Municipal Bond Index returned –0.40% last week, bringing month-to-date returns to –0.80%. Year-to-date returns now sit at 1.50%.

- **Why it matters:** The muni market remains on solid ground despite the slight giveback in returns this month. Demand totaled $1.4 billion this week, while year-to-date inflows have reached $58.1 billion, continuing to track at the second-highest level on record for the comparable period. Despite the strength of the muni market, global macro events like the Iran conflict can increase volatility. Recall that this year got off to a good start only to stumble in March due to the onset of the Iran conflict. Once the market adjusted, munis had positive performance in April, May and June only to again stumble in July as the conflict in Iran began to heat up. The point being, investors should look to be liquidity providers during times of volatility. Muni yields this month are up between 8 bps and 19 bps with the largest increases in the 10- to 15-year part of the curve. It's not easy to predict entry points, but when you have a strong technical market that is being impacted by a global macro event causing yields to rise, investors should consider looking to take advantage of a higher-yield environment to position for the eventual rally.

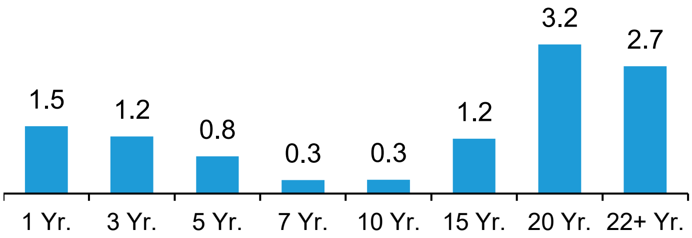
As investors find themselves in the midst of volatility, what is the best way to position a muni bond portfolio?

- **Why it matters:** The first thing to do is not panic. During that pullback look to be a liquidity provider. So with that said, how should investors position in today's environment? There is still value out in the longer end of the yield curve, given its steepness and the value of roll (*Display 3*). We're not recommending just to invest in long bonds but rather to pair them with short bonds to build a barbell structure. As seen in *Display 1*, the short and long ends of the yield curve have been the best performing, with the belly of the curve lagging. Given the recent underperformance within the belly of the curve, there are opportunities to find value. We have recommended to reduce the barbell to take advantage of these opportunities, especially in prepay energy and airport bonds. Especially those airport bonds that are subject to the alternative minimum tax (AMT). The AMT curve is inverted, creating more value in the belly rather than out long. Also, investors should consider investing in short-maturity US Treasuries, if able, given how expensive munis have become on the shorter end of the curve (*Display 2*). For a more detailed discussion of our outlook and positioning recommendations, see our blog [Municipal Midyear Outlook: Room to Run as Demand Drives the Market].

The US consumer price index for June was meaningfully lower than expected and lower than recent prints.

- **Why it matters:** Falling oil prices were the primary driver, pulling headline inflation down 0.4% points month over month (MoM). Core inflation was flat on a MoM basis and is up 2.6% YoY, roughly back to where it was before the conflict in Iran. We continue to believe that the Fed will not raise rates, and this print supports that view. It is of course still too early to have complete confidence that the Fed is on hold. It is clear that several members of the Federal Open Market Committee are out of patience with inflation being above target, and oil prices are up 20% so far in July, which will again pull inflation higher in the next release. Still, June's data should be sufficient to take a July hike off the table and ease concerns that non-energy inflation is steadily moving higher. That's good news and should buy the Fed some time before it has to take seriously the prospect of a rate hike. Our expectation is that underlying inflation will behave well enough in the next few months for them to keep rates unchanged.

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



As of July 17, 2026. Source: Bloomberg and AllianceBernstein (AB)

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

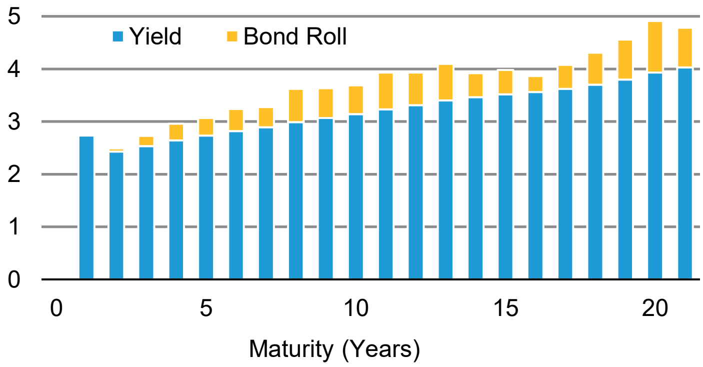
Display 2: Municipal/Treasury After-Tax Spreads
Basis points

	Jul 17, 2026	Dec 31, 2025	Five-Year Average
Two-Year	–4	33	16
Five-Year	20	20	20
10-Year	44	29	41
15-Year	67	65	65
20-Year	93	109	77
30-Year	133	137	99

As of July 17, 2026. Source: Municipal Market Data and AB

Municipal valuations have shifted significantly this year.

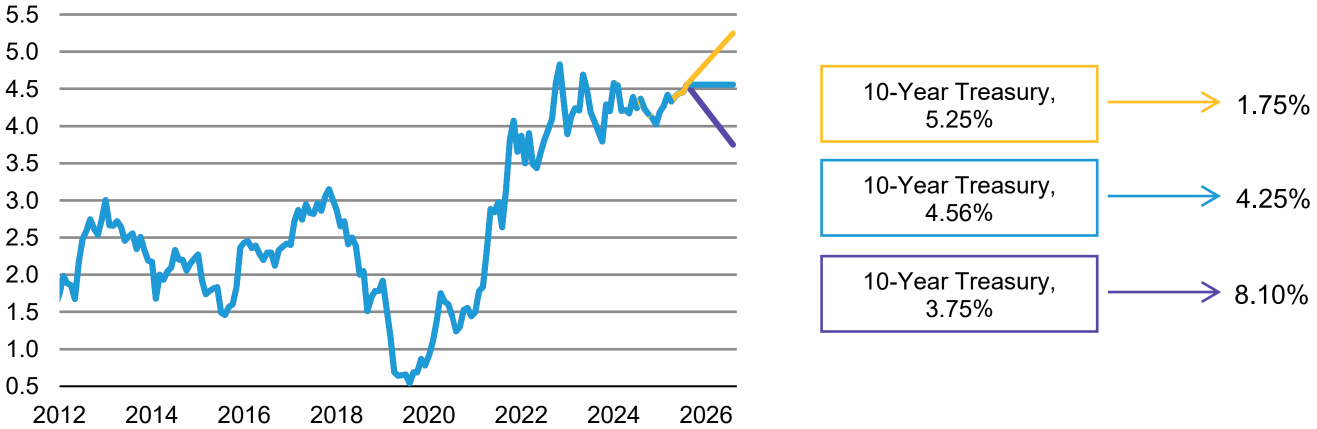
Display 3: Yield Plus Roll
Percent



As of July 17, 2026. Source: Bloomberg and AB

Yield plus roll is maximized in the 17- 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 3.75% over the next 12 months.
As of July 17, 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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