The Week in Muniland

July 27, 2026

The Bond Engine Has More Horsepower

Key Takeaways

1. **The conflict in Iran continues to impact the muni market.**
2. **During bouts of volatility, investors should be liquidity providers.**
3. **Portfolio positioning is critical in all environments, especially periods of volatility.**

The Iran conflict along with elevated supply continue to rattle the muni market. For the week, two-, 10- and 30-year yields rose 18, 22 and 19 basis points (bps), respectively. The Bloomberg Municipal Bond Index returned –1.19% last week, bringing month-to-date returns to –1.98%. Year-to-date returns now sit at 0.30%.

- **Why it matters:** July feels eerily similar to March. With the onset of the Iran conflict, the muni market was down 2.32% (*Display 1*). The market settled down from April through June, only to sell off again in July as the conflict began to intensify. For the month, muni yields have increased 26–41 bps with the largest increases in the 10- to 15-year parts of the curve. Munis underperformed US Treasuries (USTs) in July and have thus materially cheapened (*Display 2*). As we enter August, the market could be in a better place from a supply and demand perspective, as net supply is expected to be flat. Typically, when supply and demand technicals are in an investor's favor, performance tends to be positive. New issue supply has surprised on the high end, so August is not yet a forgone conclusion. Nevertheless, with yields materially higher, munis relatively cheaper and August reinvestment about to hit the market, there is a case to be made that munis will settle down.

Investors tend to get spooked during periods of volatility. During these periods, how should investors respond? Hold, sell or invest?

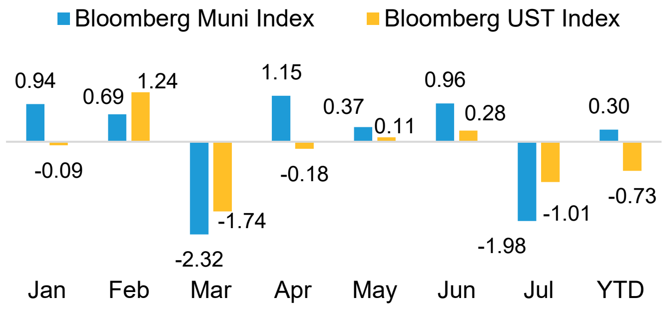
- **Why it matters:** It's not easy to predict entry points, but when you have a strong technical market that is being primarily impacted by a global macro event and causing yields to rise, investors should consider taking advantage of the higher-yield environment. The beauty of bonds is that they're math, which means you know what your return will be at the time you invest if you hold that bond to its maturity. So if investors can look through the month-to-month volatility, they should let their yield be the engine of returns. Today, the horsepower in a bond portfolio is greater than it was at the beginning of the month. What that does is provide more income, higher return potential and greater downside protection against future yield increases (*Display 4*). What we recommend is that investors be liquidity providers during periods of volatility by investing in higher-yielding bonds—not necessarily investing every dollar, but dollar-cost averaging into the higher-yielding market. The thought is that a potentially stronger technical market in August coupled with the relatively attractive muni market should provide stability. Also, investors should be looking to harvest losses in their bond portfolios. Given this month's sell-off, there are likely opportunities to take advantage by selling losses, increasing book yields and accumulating tax-loss carryforwards.

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

- **Why it matters:** Consider adding duration. Bond yields just jumped as much as 41 bps in three weeks. The market will find calm waters; when it does, duration will likely outperform as it has throughout the course of this year. In our opinion, there is still value in the longer end of the yield curve, given its steepness and the value of roll (*Display 3*). We're not recommending investing in only long bonds but rather pairing them with short bonds to build a barbell structure. 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, there are opportunities to find value. We have recommended reducing the barbell to take advantage of these opportunities, most notably 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. We have also recommended that investors consider investing in short-maturity USTs, if able, given how expensive munis had become. Since munis have recently underperformed USTs, that trade has been successful.

Displays of the Week: July 27, 2026

Display 1: Index Monthly Performance (Percent)



As of July 24, 2026. Source: Bloomberg and AllianceBernstein (AB)

Munis have materially outperformed US Treasuries.

Municipals have underperformed US Treasuries during July.

Display 2: Municipal/Treasury After-Tax Spreads

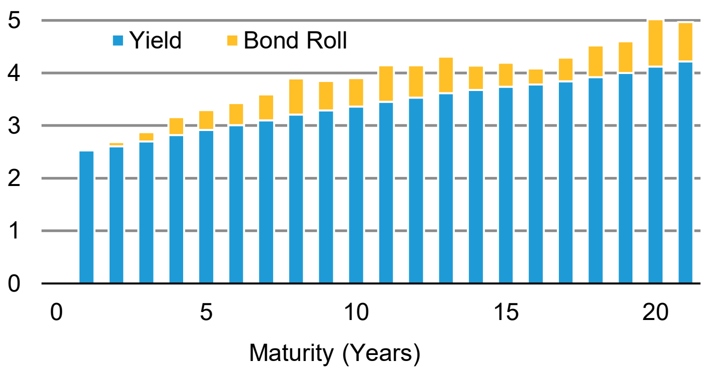
Basis points

	July 24, 2026	June 30, 2026	Five-Year Average
Two-Year	4	–12	16
Five-Year	29	9	20
10-Year	60	34	41
15-Year	77	51	65
20-Year	105	85	77
30-Year	146	127	99

As of July 24, 2026. Source: Municipal Market Data and AB

Display 3: Yield Plus Roll

Percent

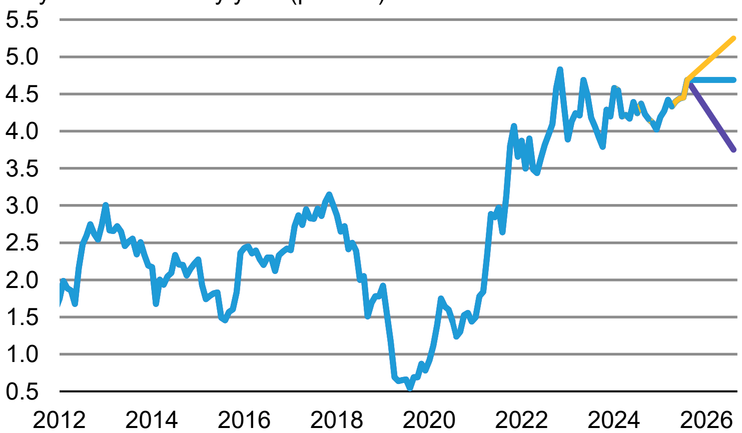


As of July 24, 2026. Source: Bloomberg and AB

Yield plus roll is maximized in the 18- to 21-year parts of the curve.

Display 4: Expected 12-Month Municipal Returns Scenario Analysis

10-year US Treasury yield (percent)



10-Year Treasury, 5.25% → 2.40%

10-Year Treasury, 4.69% → 4.50%

10-Year Treasury, 3.75% → 8.85%

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 24, 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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