The Week in Muniland

August 3, 2026

Finding Opportunity Within Volatility

Key Takeaways

1. **Following a brutal first three weeks of July, the muni market found some relief.**
2. **Investing appropriately in volatile environments is vital.**
3. **Rates were held steady while the economy slowed…or did it?**

The muni market ended the month of July with positive performance, although last week ended on a sour note. Two- and 10-year AAA yields rose 2 basis points (bps) and 1 bps, respectively, while 30-year yields fell 1 bps. The Bloomberg Municipal Bond Index returned 0.13% last week, bringing month-to-date returns to –1.85%. Year-to-date returns now sit at 0.43%.

- **Why it matters:** Following a brutal first three weeks of July, the muni market found some relief with a slight bounce back. With yields spiking and munis becoming relatively more attractive versus US Treasuries, investors found an opportunity to become liquidity providers. What will challenge the market next week is an expected $17–$19 billion new issue calendar. This sizable new issue calendar could rank within the top three or four weeks of all time. At the beginning of the summer, August was anticipated to have a favorable supply/demand technical backdrop. However, elevated supply has brought that into question. Nevertheless, with yields materially higher (*Display 1*), munis relatively cheaper (*Display 2*) and August reinvestment hitting the market, there is a case to be made that munis will settle down.

Investing in a volatile environment is not always easy. Investors need to understand the data, and position appropriately.

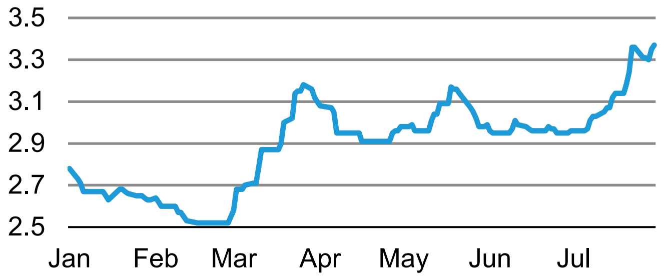
- **Why it matters:** There is still value out in the longer end of the yield curve, given its steepness and the value of roll (*Display 3*). We're not recommending investing in just long bonds, but rather to pair them with short bonds to build a barbell structure. The short and long ends of the yield curve have been the best performing, with the belly of the curve lagging. Given the recent underperformance within the belly of the curve, there are opportunities to find value. We have recommended reducing the barbell to take advantage of these opportunities, especially in prepay energy and airport bonds, particularly those that are subject to the alternative minimum tax (AMT). The AMT curve is inverted, creating more value in the belly rather than out long. On the other hand, investors want to be careful in the charter school sector, which is under pressure from a declining K–12 population due to in large part to declining birth rates. Staying with the education sector, lower-rated private higher education is also under stress due to declining enrollment and high costs. With Medicaid cuts likely over the next few years, hospitals reliant on this funding with little flexibility to adapt will likely find themselves under fiscal stress. Finally, 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*).

The Federal Open Market Committee (FOMC) held rates steady, while 2Q:26 GDP slowed relative to both 1Q:26 and expectations.

- **Why it matters:** The report of 2Q:26 GDP showed that the economy expanded at an annualized 1.5%, slightly slower than the 2.1% annualized rate in the first quarter and slightly below expectations. Despite the slowdown in the headline measure, the underlying details were much stronger. Private consumption and fixed investment, which tend to be more persistent from quarter to quarter, both accelerated in the second quarter, while net trade and inventories detracted from growth. The economy remains resilient with household consumption and AI investment, keeping growth on solid footing. On the rate front, the FOMC left its target interest-rate range unchanged at 3.50%–3.75%, with three members voting to raise rates by 25 bps. We believe that Chair Warsh is largely correct—underlying inflation dynamics aren't particularly troublesome. Once (if) the shocks that have buffeted the economy pass, inflation will come back toward target in a way that allows the Fed to stay on hold.

Displays of the Week: August 3, 2026

Display 1: 10-Year Maturity AAA Muni Yield (Percent)



As of July 31, 2026. Source: Bloomberg and AllianceBernstein (AB)

Muni yields are 59 bps higher compared to the beginning of the year.

Display 2: Municipal/Treasury After-Tax Spreads

Basis points

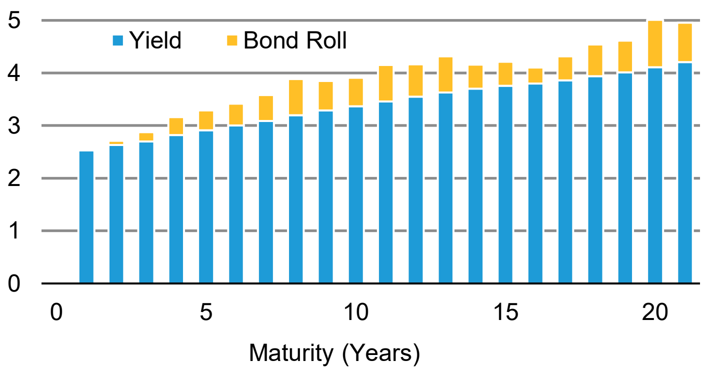
	July 31, 2026	June 30, 2026	Five-Year Average
Two-Year	10	–12	16
Five-Year	28	9	20
10-Year	60	34	41
15-Year	75	51	65
20-Year	99	85	77
30-Year	140	127	99

As of July 31, 2026. Source: Municipal Market Data and AB

Municipals have underperformed US Treasuries during July.

Display 3: Yield Plus Roll

Percent

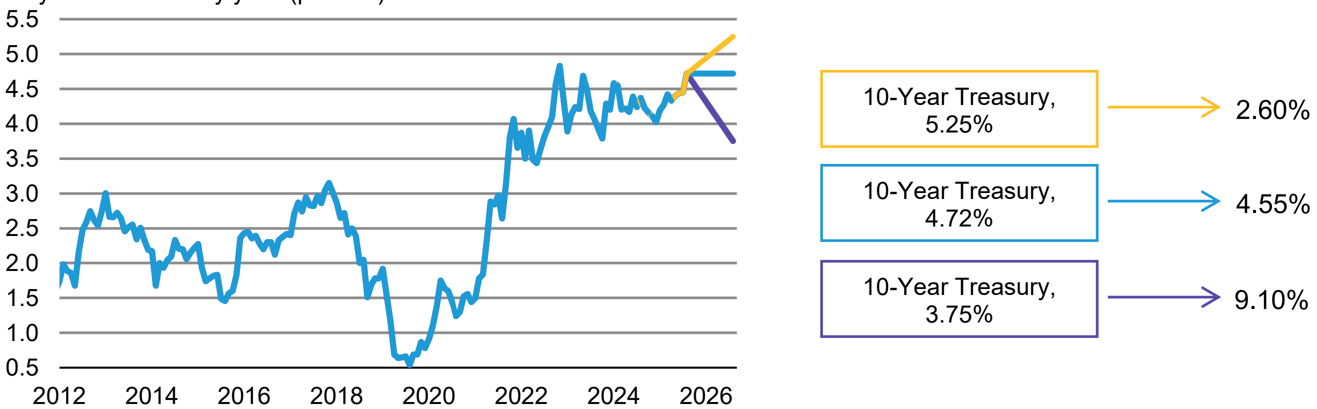


As of July 31, 2026. Source: Bloomberg and AB

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)



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 31, 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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