ALLIANCEBERNSTEIN®

Weekly Market Commentary

The Week in Muniland

August 17, 2026

Firmer Ground

Key Takeaways

1. **The market remained well supported and produced another week of positive returns.**
2. **US CPI for July was in line with expectations.**
3. **High-yield issuance has been subdued compared to investment-grade supply.**

The municipal market continued to stabilize following a challenging July and generated another week of positive performance. For the week, both two- and 10-year AAA yields fell 2 basis points (bps), while 30-year AAA yields were flat. The Bloomberg Municipal Bond Index (Index) returned 0.12% last week, bringing year-to-date returns to 1.23%.

- **Why it matters:** At the risk of sounding like a broken record, flows continued to flood the muni market. Last week, investors added $759 million to the market, according to Lipper. This extended the streak of inflows to 17 weeks, although last week's flows did moderate—particularly compared to the week prior—with last week's flows representing 0.7 times the 25-week trailing average. Year-to-date flows sit at $64.7 billion, continuing to hold as the second-highest pace on record behind 2021. Those flows helped drive relative outperformance, with after-tax spreads tightening in most tenors of the curve. But with market yields remaining attractive and intermediate and long maturity after-tax spreads still offering reasonable value, the market continues to offer opportunities for long-term investors. This week's calendar is sizeable, with ~$17 billion expected to price, but August 15th reinvestment cash and any additional inflows should further support the market.

US CPI for July was in line with expectations, with core CPI rising 0.2% month over month and 2.5% year over year, while headline inflation was up 0.1% month over month and 3.4% year over year.

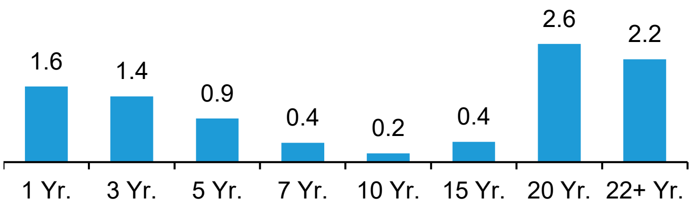
- **Why it matters:** This data does not swing the pendulum closer or further away from a rate hike. That decision is very much still pending, although our expectation is that they will stay on hold for the remainder of the year. With core CPI at 2.5%, it is tied for the lowest level since the pandemic, although it is still elevated relative to the Fed's target. Shelter inflation remained relatively contained and, given its lagging relationship with home prices, should slow further in the upcoming months. To be fair, it is important to remember that the Fed's preferred measure is core PCE, which is an outlier. It has moved higher in recent months despite core CPI and other measures easing. That gap explains the range of views within the FOMC. Members that maintain a firm focus on the target believe persistent inflation (measured by PCE) warrant tighter policy, while members who take a broader view of inflation do not. Fed Chair Kevin Warsh appears to be in the latter camp, although it is hard to know for sure given the limited detail he has offered so far. Looking forward, there is plenty for investors to watch, between his speech at Jackson Hole later this month, where he may provide more insight into his perspective of the economy, the Fed's reaction function, and tools he would use to slow inflation if needed. After that, there is still another payrolls report and another CPI report before the next Fed meeting.

Despite record levels of tax-exempt issuance this year, supply growth has not been evenly distributed across the entire market.

- **Why it matters:** High-yield supply has been muted relative to the surge in investment-grade supply. Year to date, HY issuance has accounted for ~6% of total tax-exempt issuance, near the lows reached in 2023. But this trend is not new. From 2019-2021, HY issuance represented ~9-13% of overall supply, but has dropped to 5-8% of issuance over the last five years. The composition of issuance has also shifted. Since 2025, over half of HY issuance has been 20-year maturities or longer, compared with just 25% during the 2013-2019 period. That said, the combination of constrained supply and strong investor demand for credit has created a strong technical tailwind for lower-rated bonds, propelling the Bloomberg Municipal High Yield Index to a 3.43% year-to-date return versus the 1.23% return of the Index.

Displays of the Week: August 17, 2026

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



As of August 14, 2026. Source: Bloomberg and AllianceBernstein (AB)

The short and long ends of the yield curve have outperformed, creating opportunities in the belly of the curve.

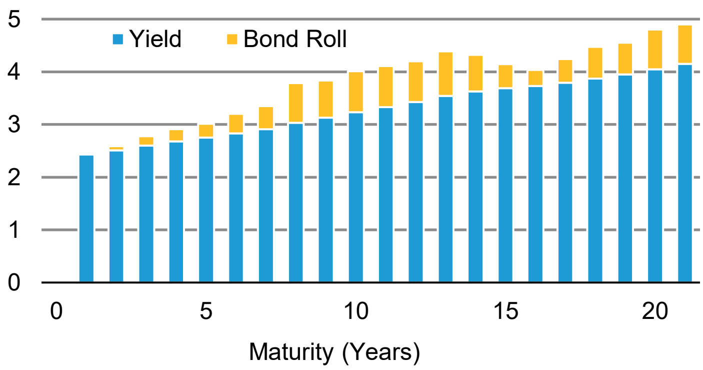
Display 2: Municipal/Treasury After-Tax Spreads
Basis points

	Aug 14, 2026	June 30, 2026	Five-Year Average
Two-Year	4	–12	16
Five-Year	17	9	20
10-Year	45	34	41
15-Year	74	51	65
20-Year	94	85	77
30-Year	134	127	99

As of August 14, 2026. Source: Municipal market data and AB

Municipals are once again becoming expensive on the short end of the yield curve.

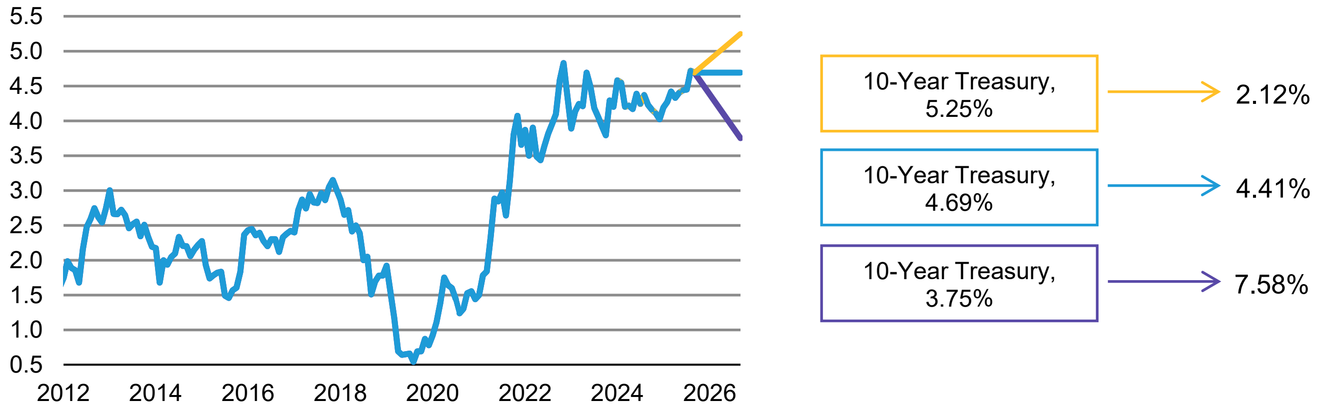
Display 3: Yield Plus Roll
Percent



As of August 14, 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 August 14, 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

SMA-987116-2026-08-14