ALLIANCEBERNSTEIN®

Weekly Market Commentary

The Week in Muniland

August 24, 2026

Shifting Currents

Key Takeaways

1. **The market generated negative returns and underperformed US Treasuries.**
2. **Supply patterns continue to influence market technicals and performance.**
3. **While downgrades outpaced upgrades in 2Q:26, it was largely concentrated in well-anticipated sectors.**

It was a bumpy week in the municipal market, as it contended with a heavy new issue calendar combined with broader volatility across the fixed-income markets. For the week, two-year AAA yields were flat, while 10- and 30-year AAA yields rose 8 and 7 basis points (bps), respectively. The Bloomberg Municipal Bond Index (Index) returned –0.58% last week, bringing year-to-date returns to 0.65%.

- **Why it matters:** Fund flows remained supportive last week, with investors adding $839 million to the market, and extending the inflow streak to 18 consecutive weeks. However, the calendar and US Treasury volatility proved too much for the market to fully absorb, resulting in higher absolute yields and weaker relative performance versus US Treasuries. After-tax spreads widened across most tenors of the curve, with the biggest increase seen in 10- to 20-year bonds, which widened upwards of 11 bps. Short-maturity munis, however, continue to remain stubbornly expensive and investors may consider short-maturity US Treasuries in lieu of short tax-exempts. Looking forward, this week's calendar looks more manageable, with $11–$12 billion of tax-exempts expected to price. For investors, while there is certainly the potential for short-term volatility, the market currently offers investors plenty of income, with the Index currently sporting a yield to worst of 3.90%, which is within a few basis points of the highest level we have seen this year. Not only that, but after-tax spreads look much more compelling, as shown in *Display 2.*

Municipal issuance remains on a record pace in 2026, but the supply story for investment-grade bonds has not been consistent across the curve. New-money borrowing has helped drive increased issuance in intermediate maturities, while longer-dated issuance has continued to decline.

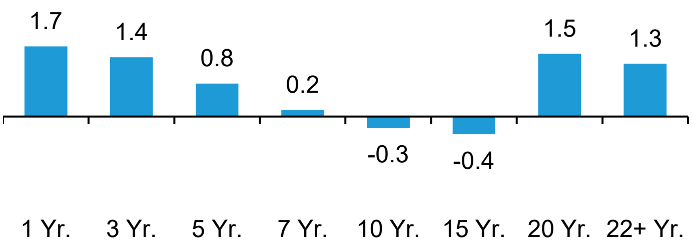
- **Why it matters:** Not only has issuance in the 6–10-year maturity range increased 30% year over year, that growth has been led by new-money financing (rather than refunding activity), which has increased significantly in those tenors of the curve. By contrast, issuance in 21–30 year and 30+ years have declined 19% and 25%, respectively, driven by lower levels of new-money issuance. Heavier intermediate-maturity issuance has created pressure in the belly of the curve, while the scarcity of long-dated supply, combined with increased inflows into longer-dated products, has supported the long-end of the curve. As such, year-to-date performance across the curve has not been uniform, as shown in *Display 1*. But this underperformance in intermediate maturities has created opportunities—particularly in sectors such as prepay gas and alternative minimum tax (AMT) airport bonds, where the inverted AMT spread curve adds additional potential for price appreciation in the belly.

Downgrades outpaced upgrades in the second quarter of 2026, according to a recently released Moody's report.

- **Why it matters:** Per the report, downgrades accounted for slightly more than half of all rating actions, with 116 obligors downgraded compared to 96 that were upgraded. Importantly, the negative rating activity remained largely confined to sectors facing well-anticipated headwinds (as we noted early last year) as opposed to broad-based fundamental weakness. Higher education, K–12 education and not-for-profit healthcare experienced the most downgrades as demographic, enrollment and operating headwinds continue to create some ratings pressure. In our view, the report reinforces themes that we have been mentioning for some time. Higher education and healthcare are not necessarily sectors to avoid entirely, but rather areas where issuer selection and fundamental analysis are critical. At the same time, Moody's also noted, and we would agree, that the broader municipal credit landscape remains resilient, with many issuers continuing to demonstrate solid financial performance and balance-sheet flexibility despite a more challenging backdrop.

Displays of the Week: August 24, 2026

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



As of August 21, 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.

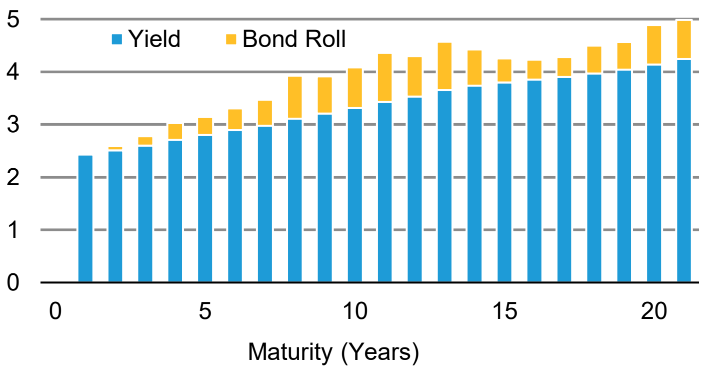
Display 2: Municipal/Treasury After-Tax Spreads
Basis points

	Aug 21, 2026	June 30, 2026	Five-Year Average
Two-Year	0	–12	16
Five-Year	18	9	20
10-Year	51	34	41
15-Year	84	51	65
20-Year	103	85	77
30-Year	140	127	99

As of August 21, 2026. Source: Municipal Market Data and AB

While short municipals continue to be expensive, intermediate and longer maturities look more attractive.

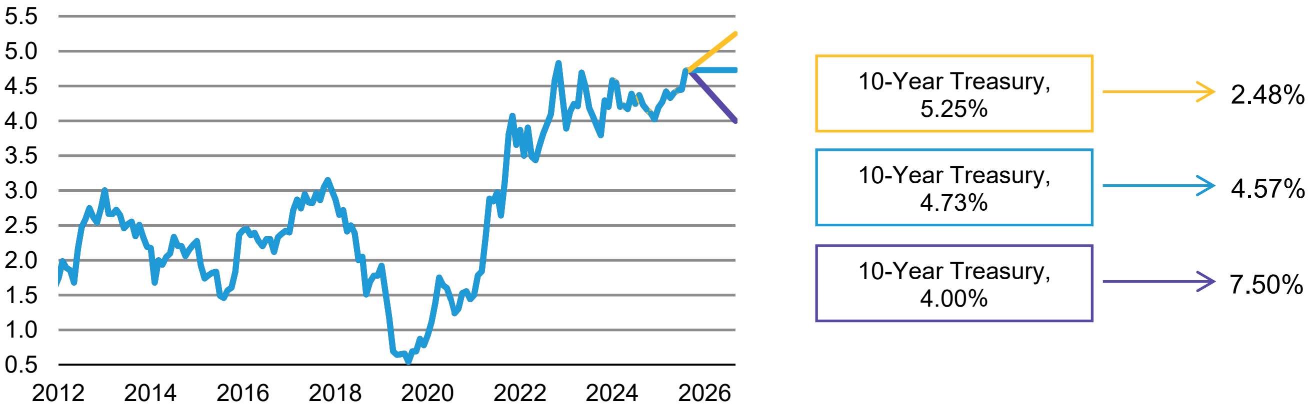
Display 3: Yield Plus Roll
Percent



As of August 21, 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 4.00% over the next 12 months.
As of August 21, 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