The Week in Muniland

September 8, 2026

Nothing Stays Cheap Forever

Key Takeaways

1. **The market continues to struggle under the weight of significant supply.**
2. **Bonds are cheap and yields are high…investors should consider dollar-cost averaging.**
3. **Labor market resilience keeps Fed hike in play.**

The muni market posted another negative performance week, with broader macro events and significant new issue supply continuing to weigh on the market. The muni yield curve steepened with two-, 10- and 30-year AAA yields up 11, 14 and 15 basis points (bps), respectively. The Bloomberg Municipal Bond Index (the Index) returned –0.81% last week, bringing year-to-date returns to –0.33%.

- **Why it matters:** The recent muni market sell-off has been orderly, suggesting investors are not exiting the market. In fact, demand remains positive, though it has slowed: Lipper reported $138 million of inflows, just 14% of the 25-week average. Year-to-date net inflows now total $69.3 billion, the second-highest level on record behind only 2021's $81.1 billion. Next week's sizable $15 billion new issue calendar could create another challenging return environment. Heavy September supply is common, and the market has averaged a –0.66% return for the month over the past 10 years. Still, performance has typically improved into the fourth quarter, making September weakness a potential opportunity for investors to add exposure.

How should investors think about investing in a muni market that has posted two consecutive months of negative performance with sizable new issuance on the horizon.

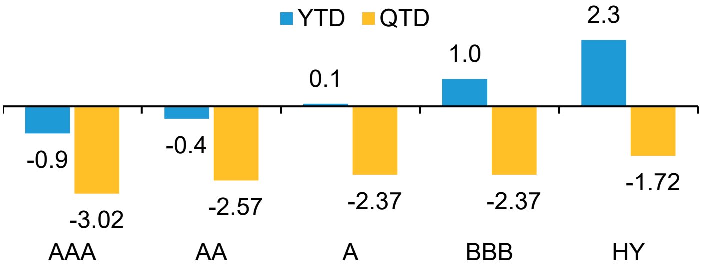
- **Why it matters:** Investors should consider using any near-term weakness in the municipal bond market as an opportunity to begin dollar-cost averaging. While technical conditions may be more challenging in the fall with sizable net supply expected in September and October, that potential volatility can create more attractive entry points rather than a reason to remain on the sidelines. Current valuations already offer a compelling starting point: the Index yield has risen to 4.07%, translating to a taxable-equivalent yield (TEY) of 6.88%, a level not seen since July 2025. Following that prior peak, yields later declined meaningfully, underscoring the risk of waiting too long for a perfect entry point. Through another lens, the yield on the Bloomberg Corporate High Yield Index is 7.37%, which is only 49 bps above the TEY of the Index with a lot more credit risk. Dollar-cost averaging allows investors to participate in today's elevated income levels while preserving flexibility. With the average price of the Index slightly below par, munis have become more attractively valued on both an absolute and relative basis, particularly after cheapening materially versus US Treasuries since June 30 *(Display 2)*. Municipal credit (A, BBB and high yield) has outperformed high–grade bonds *(Display 1),* while the long–end of the yield curve, specifically the 11- to 13-year range, offers meaningful roll potential of nearly +100 bps *(Display 3)*. We've seen prior periods when munis become relatively cheap and absolute yields too high only for munis to rally. Nothing stays cheap forever.

Labor market resilience keeps Fed hike in play.

- **Why it matters:** The August labor report showed a clear rebound in the US job market, with payrolls rising by 162,000 and July's initially negative figure revised up to a gain of 21,000. Together, the data indicate that the labor market remains solid, giving the Federal Reserve room to raise rates if inflation warrants it. The economy has added roughly 100,000 jobs per month over the past three months, enough to keep labor market conditions balanced. The unemployment rate remains low by historical standards and below the Fed's forecast, although weaker labor force participation may be overstating the apparent strength of the job market. Participation improved slightly in August but remains subdued, partly due to demographics and migration policy. Overall, the report suggests the labor market is resilient and stable, leaving the September Fed decision highly dependent on the next core CPI reading. In our opinion, a monthly increase of 0.30% or higher would likely prompt a hike, while below 0.20% would likely lead to a pause.

Displays of the Week: September 8, 2026

Display 1: Returns by Municipal Credit Index (percent)



As of September 4, 2026. Source: Bloomberg and AllianceBernstein (AB)

Municipal credit has held its value better and outperformed high–grade bonds.

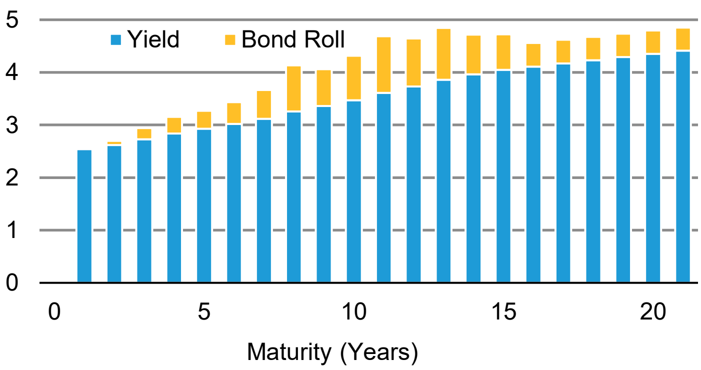
Display 2: Municipal/Treasury After-Tax Spreads
Basis points

	Sept 4, 2026	Jun 30, 2026	Five-Year Average
Two-Year	3	–11	16
Five-Year	24	10	20
10-Year	64	32	41
15-Year	108	55	65
20-Year	124	86	77
30-Year	160	127	99

As of September 4, 2026. Tax rate used: 40.8%. Source: Municipal Market Data and AB

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

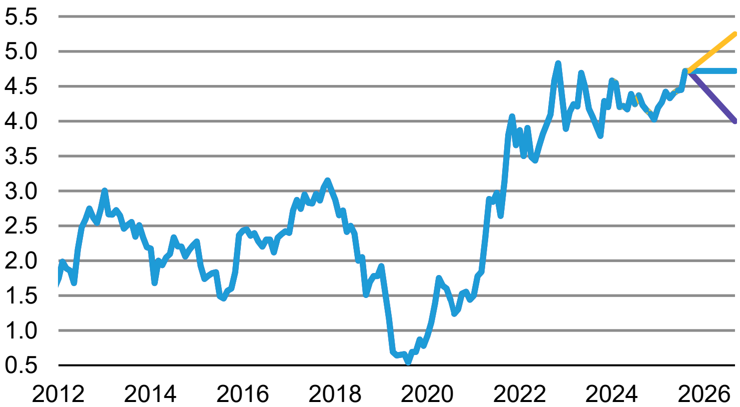
Display 3: Yield Plus Roll
Percent



As of September 4, 2026. Source: Bloomberg and AB

Bond roll is maximized in the 11 – 13 part of the yield curve.

Display 4: Expected 12-Month Municipal Returns Scenario Analysis
10-year US Treasury yield (percent)



10-Year Treasury, 5.25% → 3.10%

10-Year Treasury, 4.78% → 4.90%

10-Year Treasury, 4.00% → 7.90%

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 September 4, 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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