The Week in Muniland

September 14, 2026

Muni Clearance Sale

Key Takeaways

1. **The market continues to struggle under the weight of both broad macro issues and significant supply.**
2. **Lean into recent volatility, as muni bonds have cheapened significantly.**
3. **Higher CPI prints may mean a Fed hike next week.**

The muni market posted another negative performance week as the broader themes—volatile macro events and significant new issue supply continuing to weigh on the market—remained in place. Muni yields meaningfully increased with two-, 10- and 30-year AAA yields up 20, 23 and 17 basis points (bps), respectively. The Bloomberg Municipal Bond Index (the Index) returned –1.23% last week, bringing year-to-date returns to –1.55%.

- **Why it matters:** It's been a rough start to September, with yields up 29–34 bps across the curve. Demand remains positive, though it continues to be tepid: Lipper reported $193 million of inflows, just 21% of the 25-week average, but extending the inflow streak to 21 weeks. Year-to-date net inflows now total $69.9 billion, the second-highest level on record behind only 2021's $83.3 billion. Next week's new issue calendar takes a breather, with only $9.6 billion coming to market due to the upcoming Federal Open Market Committee meeting. Outside of macro events, we would expect the muni market to stabilize somewhat next week given the lighter calendar, recent sizable increase in yields and the relative attractiveness of munis. Expect net supply to remain elevated through the latter part of September into October—not an uncommon seasonality shift in the muni market. Performance has typically improved into the fourth quarter, making September weakness a potential opportunity for investors to add exposure.

For some investors, this recent bout of volatility can be unnerving. So much so, they may be considering liquidating their bond portfolios. We believe that would be a mistake.

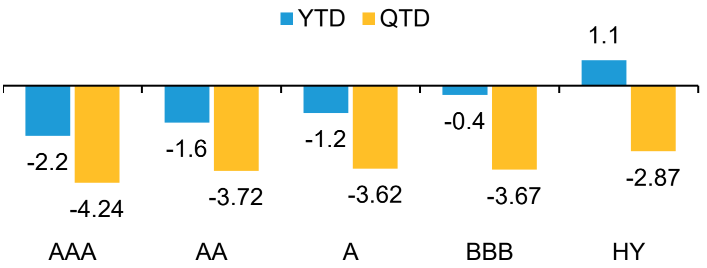
- **Why it matters:** There is a phrase used by managers that can be viewed as somewhat derogatory to investors: "Buy high, sell low, repeat until broke." What's being referred to is the emotional state of investors during periods of volatility. It's behavioral finance. Investors invest when times are good but sell when times are perceived as bad. From a manager's point of view, it's during the "bad" times that investors should lean into a cheaper market. Absent perfect market clarity, investors should consider dollar-cost averaging into a cheaper market. Why are munis viewed as cheap? Current valuations already offer a compelling starting point—the price of the Index is below par at $98.56, while its yield has risen to 4.28%, translating to a taxable-equivalent yield (TEY) of 7.23%. The Muni High Yield Index has a TEY of 9.92%! Munis have become significantly more attractive relative to US Treasuries *(Display 2)*. Municipal credit 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 have sold off. Most recently was August–October 2023 when the Index was down 5.2% only to rally 8.7% November–December. For this reason, investors should consider leaning into a down market, not running away.

The August CPI report was a modest upside surprise rather than a material inflation shock.

- **Why it matters:** Headline CPI rose 0.3% month over month, slightly above expectations, while the year-over-year rate remained in line with consensus at 2.4%. The details were somewhat softer than the headline and consistent with recent trends, but the broader issue remains the persistence of inflation above the Fed's target. In our view, that persistence may be enough for the Fed to conclude that inflation is not progressing toward the target quickly enough, making a rate hike at next week's meeting likely and another move later this year possible. More important is what will follow after next week. While one or two 25-bps hikes may have limited economic impact, the current inflation backdrop does not appear severe enough to require a more aggressive tightening cycle. For now, investors should expect rate expectations to remain highly sensitive to each incoming inflation report, with next week's updated dot plot providing a clearer read on how policymakers see the path ahead.

Displays of the Week: September 14, 2026

Display 1: Returns by Municipal Credit Index (Percent)



As of September 11, 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

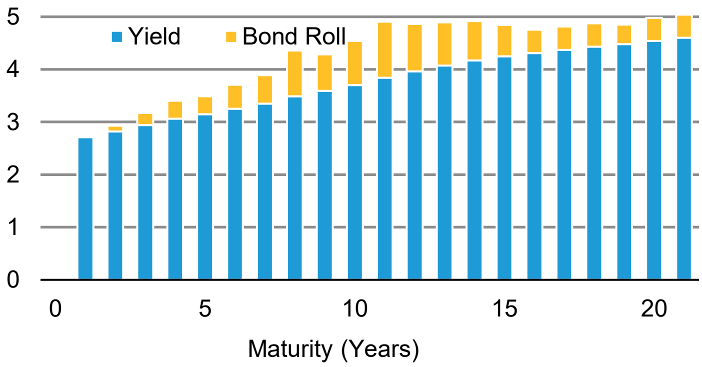
	Sept 11, 2026	Jun 30, 2026	Five-Year Average
Two-Year	7	–11	16
Five-Year	31	10	20
10-Year	78	32	41
15-Year	115	55	65
20-Year	135	86	77
30-Year	170	127	99

As of September 11, 2026. Tax rate used: 40.8%. Source: Municipal Market Data and AB

All munis haver materially cheapened relative to US Treasuries during the quarter.

Display 3: Yield Plus Roll

Percent

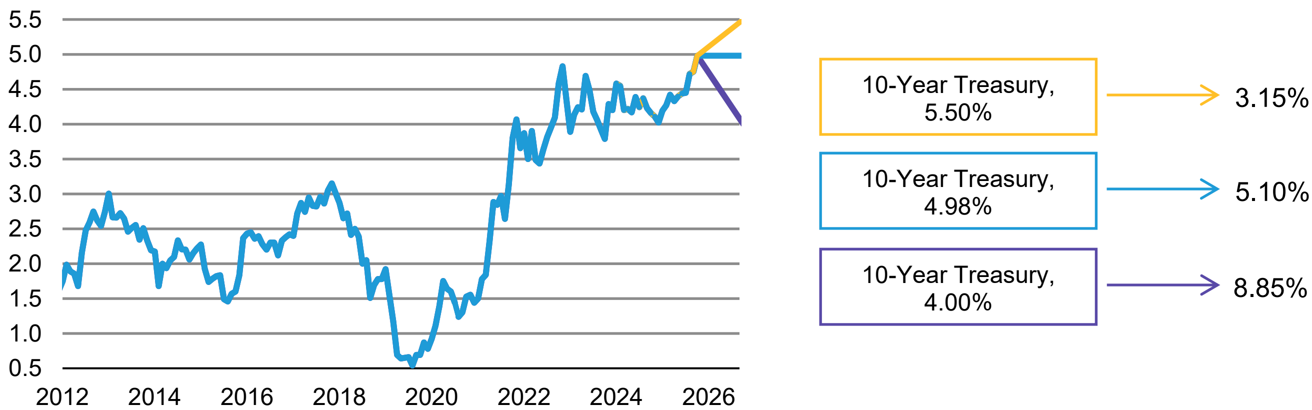


As of September 11, 2026. Source: Bloomberg and AB

Bond roll is maximized in the 11- to 14-year part of the yield 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 5.50%, remain the same or decline to 4.00% over the next 12 months.
As of September 11, 2026. Source: Bloomberg and AB

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