

The Week in Muniland

September 21, 2026

Fed Hikes, Curve Flattens

Key Takeaways

1. The muni yield curve flattened following the Fed rate hike.
2. Lean into recent volatility, as muni bonds have cheapened significantly.
3. Take advantage of tax losses when the math makes sense.

The muni market found some stability this week following the Fed raising its target rate. The muni yield curve flattened, with two- and 10-year AAA yields up 19 and 5 basis points (bps), respectively, while the 30-year yield was flat. The Bloomberg Municipal Bond Index (the Index) returned -0.31% last week, bringing year-to-date returns to -1.86% .

- **Why it matters:** We believe munis are cheap, both on an absolute and relative basis. They may get cheaper, but that's not a certainty, which is why we've been recommending that investors consider dollar-cost averaging into munis. Why do we view munis as cheap? To start, the price of the Index is below par at \$98.17, while its yield has risen to 4.37%, translating to a taxable-equivalent yield (TEY) of 7.38%. The last time the Index yield was this high was back in August 2001. The Muni High Yield Index has a TEY of 9.98% versus 7.73% of the Corporate High Yield Index! Even the 10-year AAA muni yield is at a near 10-year high (*Display 1*). Munis have become significantly more attractive relative to US Treasuries (*Display 2*), while the long end of the yield curve, specifically the 10- to 14-year range, offers meaningful roll potential of nearly 100 bps (*Display 3*). We've seen prior periods when munis sold off. Most recently was August–October 2023 when the Index was down 5.2%, only to rally 8.7% in November–December. For these reasons, we suggest investors consider leaning into a down market, not running away.

The Federal Open Market Committee (FOMC) raised its target rate by 25 bps to range of 3.75%–4.00%, as had been widely expected.

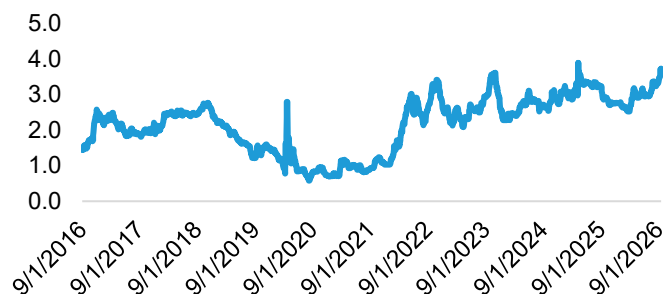
- **Why it matters:** In addition, the decision to hike was unanimous. Looking at the dot plot, the dots make clear that the committee views this as an adjustment, not the start of a prolonged hiking cycle. To that point, no FOMC member expects more than 75 bps of hikes in total, and all members see the neutral rate settling between 3% and 4%. Chair Kevin Warsh's own language backs this up, stating that its move is meant to "support a timelier return to the committee's 2% goal." That is an adjustment, not a shift in regime. Our expectation is for one more hike, likely in December, before underlying inflation slows enough for the Fed to go back on hold. But the path depends on the next few months of data: persistent oil-driven price pressure could push the Fed to hike more than expected, while a faster cooling in prices could mean last week's move was the last one needed. We see those risks as roughly balanced. Warsh also stressed that it's the medium-term trend in inflation, not any single month's print, that will guide the committee from here—though the market may take that with some skepticism given how much weight the August CPI data appeared to carry in today's decision.

While recent volatility certainly creates opportunities for tax-loss harvesting, a bond trading at a loss isn't automatically a bond worth selling.

- **Why it matters:** We recommend investors utilize a calculated framework when realizing losses. For example, consider the tax benefit—the tax lot capital loss multiplied by a specific investor's tax rate. A higher benefit makes a security more attractive to sell, all else equal. In addition, investors should consider the replacement opportunity, with the goal being to increase the portfolio's expected return by harvesting a tax loss and reinvesting in a bond with a higher expected return. The bigger the increase, the more attractive it is to sell. Finally, what about transaction costs? A bond's size, credit rating and duration all affect what it costs to sell, and that cost can rise during volatile markets. Taken together, these factors—not the headline loss—are what should drive the decision, in our view.

Displays of the Week: September 21, 2026

Display 1: 10-Year AAA Municipal Yield (Percent)



The municipal 10-year AAA yield is the second highest in the past decade.

As of September 18, 2026. Source: Municipal Market Data Corp. and AllianceBernstein (AB)

Display 2: Municipal/Treasury After-Tax Spreads

Basis points

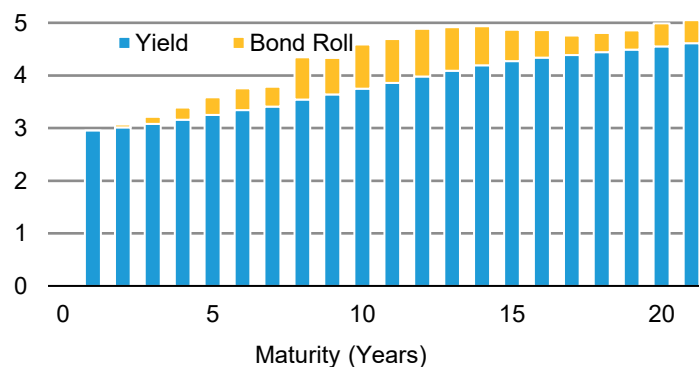
	Sept 18, 2026	Jun 30, 2026	Five-Year Average
Two-Year	18	-11	16
Five-Year	36	10	20
10-Year	81	32	41
15-Year	117	55	65
20-Year	137	86	77
30-Year	171	127	99

As of September 18, 2026. Tax rate used: 40.8%. Source: Municipal Market Data and AB

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

Display 3: Yield Plus Roll

Percent

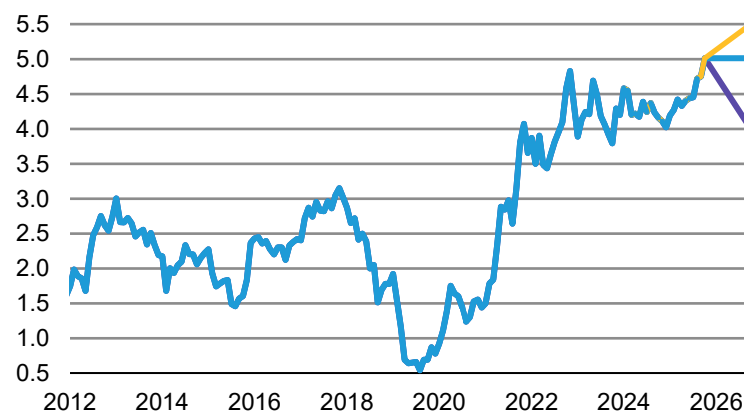


Bond roll is maximized in the 10- to 14-year part of the yield curve.

As of September 18, 2026. Source: Bloomberg and AB

Display 4: Expected 12-Month Municipal Returns Scenario Analysis

10-year US Treasury yield (percent)



10-Year Treasury, 5.50% → 3.35%

10-Year Treasury, 5.01% → 5.20%

10-Year Treasury, 4.00% → 9.10%

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 18, 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 | Not a bank deposit | Not insured by any federal government agency | No bank guarantee | May lose value

The [A/B] logo and AllianceBernstein® are registered trademarks used by permission of the owner, AllianceBernstein L.P.

© 2026 AllianceBernstein L.P.
SMA-1003978-2026-09-18