

The Week in Muniland

October 5, 2026

Munis Bounce After September Rout

Key Takeaways

1. **Munis rebound following brutal September.**
2. **Munis remain “oversold” with attractive yields and relative value.**
3. **September’s employment report was weaker than expected.**

The muni market rebounded last week following the 10th worst monthly performance since January 1, 1980. Two and 10-year AAA yields each fell 8 basis points (bps), while 30-year yields rose 2bps. The Bloomberg Municipal Bond Index (the Index) returned 0.45% last week, bringing year-to-date returns to –3.20%.

- **Why it matters:** The muni market has seemingly made it through a perfect storm of events. Not only has the muni market been dealing with macro forces impacting global fixed income in general, but it was also absorbing record September new issue supply and record levels of bids wanted. The bid wanted volume was due in large part to investors looking to take losses to offset meaningful gains in equities. September realized \$52 billion in new issue supply, which was the highest September supply ever. Bid wanted daily volume was also hitting daily records reaching over \$7 billion last week. Once this much supply, both primary and secondary, hits the market, yields start to rise and prices fall. This technical sell-off is what investors should look to take advantage of since technical dislocations do not typically last long. Munis found relief beginning September 29, and through October 2, the muni index rallied 1.7%. This is the reason we’ve been recommending investors participate in the recent sell-off, because when the eventual rebound occurs the rebound can be sharp.

The muni market remains in the “oversold” zone even after the recent rally.

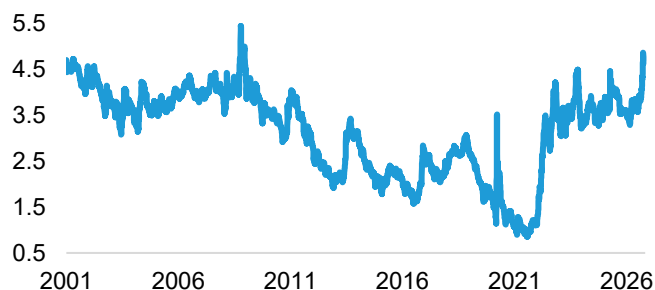
- **Why it matters:** Even with the recent market rally, munis remain relatively cheap with both high tax-exempt and tax-equivalent yields. This rally doesn’t mean we are out of the woods in terms of volatility, but we believe there is light at the end of the tunnel. This coming week, new issue supply will be elevated as deals that were shelved are being brought to market, but supply will likely abate as we approach November. Also, with higher yields, bond refundings may slow reducing overall supply and, given the amount of tax losses that have already been taken, bid wanted volume may also abate. Investors should continue to participate in the muni market for the same reasons we discussed over the past few weeks. The Index yield of 4.63% is among the highest it’s been over the past 25 years (*Display 1*), which equates to a taxable equivalent yield of 7.82%. Compared to taxable indices, we believe munis are obscenely attractive (*Display 3*). Munis also remain cheap relative to US Treasuries (*Display 2*). Technical dislocations do not last forever and, when they subside, the rally could be significant. The end of last week provided a glimpse of the light at the end of the tunnel. For these reasons, we suggest investors consider leaning into a down market, not running away.

September’s employment report was weaker than expected.

- **Why it matters:** The US economy added 29,000 jobs, prior months were revised down by 60,000, and wage growth missed forecasts. However, labor force participation rose 0.2 percentage points, and the household survey showed a 406,000 increase in employment. The unemployment rate edged up to 4.2% from 4.1%, largely because more people entered the labor force. Payroll growth has averaged roughly 50,000 per month over both the past three and 12 months—modest historically, but sufficient to keep the labor market broadly balanced. Tepid hiring and limited wage pressure suggest the economy is not overheating or adding to inflation. Accordingly, the Fed has room for only gradual, limited tightening. One additional rate increase in December is expected, followed by a prolonged pause, rather than the more aggressive hiking cycle currently reflected in market pricing. The market is now pricing in 7 basis points (bps) of hikes at the October 28 Federal Open Market Committee meeting, implying a 28% probability of a 25-bps increase. The market is currently pricing in 25 bps of hikes for FY 2026, while the October 2027 terminal rate is 4.66% (down 20 bps).

Displays of the Week: October 5, 2026

Display 1: Bloomberg Municipal Index Yield to Worst (Percent)



The Index yield is 150 bps above the 25-year average.

As of October 2, 2026. Source: Bloomberg and AllianceBernstein (AB)

Display 2: Municipal/Treasury After-Tax Spreads

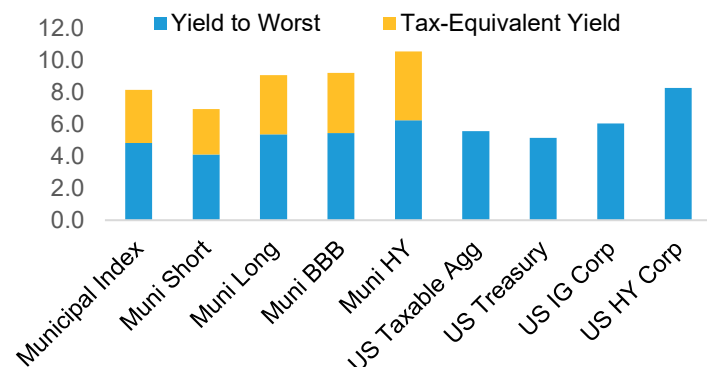
Basis points

	Oct 2, 2026	Sept 29, 2026	Five-Year Average
Two-Year	51	74	15
Five-Year	55	84	19
10-Year	87	114	40
15-Year	119	147	64
20-Year	141	164	78
30-Year	174	189	103

As of October 2, 2026. Tax rate used: 40.8%. Source: Municipal Market Data and AB

Munis rallied mid-week, but remain extremely cheap relative to US Treasuries.

Display 3: Fixed Income Index Yield to Worst Dashboard (Percent)



Munis offer significantly more yield relative to taxable bonds on a tax equivalent basis.

As of October 2, 2026. Source: Bloomberg and AB

Display 4: Expected 12-Month Municipal Returns Scenario Analysis

10-year US Treasury yield (percent)



10-Year Treasury, 6.00% → 2.70%

10-Year Treasury, 5.29% → 5.40%

10-Year Treasury, 4.50% → 8.40%

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 6.00%, remain the same or decline to 4.50% over the next 12 months.

As of October 2, 2026. Source: Bloomberg and AB

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