The Week in Muniland

November 2, 2026

Back in the Saddle

Key Takeaways

1. **Municipals once again posted strong absolute and relative performance.**
2. **The Federal Open Market Committee held its benchmark rate unchanged.**
3. **October's performance is another example of the resiliency of the market.**

The market posted its third consecutive week of positive performance as it benefitted from continued stabilization in the US Treasury market and a very light week of issuance. Two-, 10- and 30-year AAA yields fell 7, 13 and 4 basis points (bps), respectively. The Bloomberg Municipal Bond Index (the Index) returned 0.66% last week, bringing year-to-date returns to –0.48%.

- **Why it matters:** At the risk of sounding like a broken record, not only did the market generate positive returns it once again outperformed US Treasuries. After-tax spreads tightened across most tenors of the curve, with the belly leading the way from a relative performance perspective. The market saw $1.7 billion of inflows last week, which is the highest weekly total since early July and 1.7x the trailing 25-week average. Once again, the flow backdrop continued to show evidence of tax-loss harvesting with exchange-traded funds (ETFs) gaining $3.5 billion and open-end funds losing $1.8 billion. Year-to-date flows now total $79 billion, led primarily by ETFs, which have accounted for ~84% of the flows this year, largely due to the tax-trading dynamics seen in the market since September. This week's calendar looks light with only ~$7 billion expected to price.

The Federal Open Market Committee held its benchmark rate unchanged at 3.75%–4.00% last week, in line with consensus forecasts.

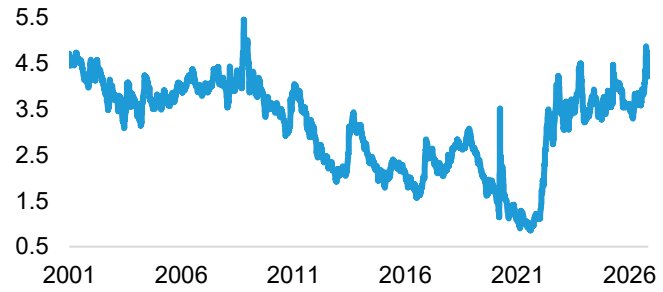
- **Why it matters:** The accompanying statement explained the decision, noting that accumulating more evidence will help the Fed determine the appropriate stance of policy. That said, the hold did not give us much new information about the path of interest rates. The statement's reference to "accumulating more evidence" reads as a signal that a December hike is the committee's expectation, which is in line with our forecast and the market pricing. However, the Fed will see two inflation reports and two payroll reports before then, so December still comes down to the data and financial conditions. A hike is more likely than not, but the bar to hike still seems higher than the bar to hold. We also learned about how the Warsh Fed will interact with the capital markets. While Warsh has been opposed to forward guidance because he believes it distorts the signal the Fed gets from markets, public comments from several officials ahead of the meeting—all suggesting a hold—dropped the market pricing of a hike from 90% to 15%, and indeed, the Fed held rates. This tells us that the Fed does not want to surprise the market and will step in to correct pricing it disagrees with. While it isn't formal guidance, it is a middle ground and implies that Warsh understands that there is value to giving the market some guidance rather than risking excessive volatility.

October was an extremely strong month for the market, with the Index returning a whopping 3.85%.

- **Why it matters:** This 3.85% return is the highest October return since at least 1980. It is also the highest monthly return for the Index in the last 35 months, with the strongest return in the last 36 coming in November of 2023, which notably followed a similar bout of volatility in the months prior. Yields fell across the curve in October, with two-, 10- and 30- year AAA yields falling a whopping 88, 71 and 32 bps, respectively. After-tax spreads also tightened materially across the curve as highlighted in *Display 2*. As we have constantly noted, when the market becomes as cheap as it did at the end of September, it tends to not stay that way for very long, and October is yet another example of that. Looking ahead, we expect technicals to be a tailwind for the market. November issuance is expected to slow to roughly $33 billion while about $27 billion returns to investors, leaving net supply near $6 billion, down from about $18 billion in late October. December looks even better, with about $40 billion of reinvestment outpacing roughly $36 billion of supply. Rates and tax-loss selling could bring short-lived weakness, but we expect technicals to keep supporting performance through year-end.

Displays of the Week: November 2, 2026

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



The Index yield is 117 bps above the 25-year average.

As of October 30, 2026. Source: Bloomberg and AllianceBernstein (AB)

Display 2: Municipal/Treasury After-Tax Spreads

Basis points

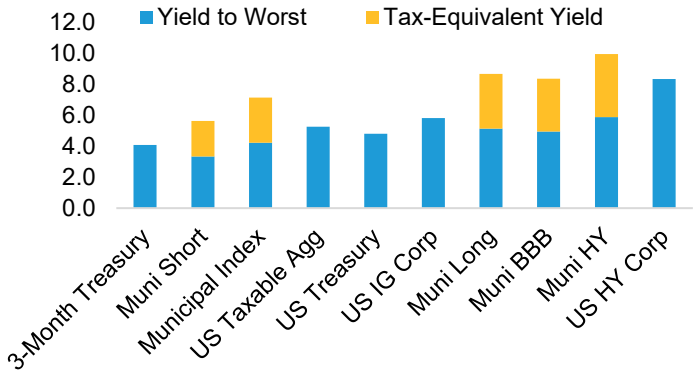
	Oct 30, 2026	Sept 30, 2026	Five-Year Average
Two-Year	–5	65	15
Five-Year	20	74	19
10-Year	48	97	40
15-Year	92	135	64
20-Year	127	151	78
30-Year	168	180	103

Short-maturity munis have become expensive, but long maturities remain cheap.

As of October 30, 2026. Tax rate used: 40.8%. Source: Municipal Market Data and AB

Display 3: Fixed-Income Index Yield-to-Worst Dashboard

(Percent)

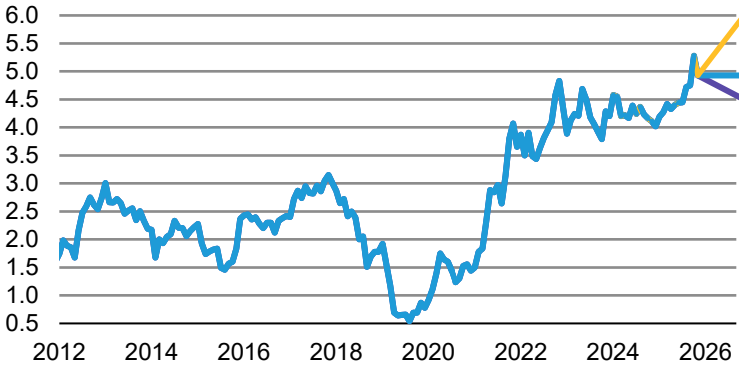


Munis offer significantly more yield relative to taxable bonds on a tax-equivalent basis.

HY: high yield; IG: investment-grade
As of October 30, 2026. Source: Bloomberg and AB

Display 4: Expected 12-Month Municipal Return Scenario Analysis

10-year US Treasury yield (percent)



10-Year Treasury, 6.00% → 0.29%

10-Year Treasury, 4.93% → 4.68%

10-Year Treasury, 4.50% → 6.44%

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 30, 2026. Source: Bloomberg and AB

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