WEEKLY
MARKET
COMMENTARY

THE WEEK IN MUNILAND
JUNE 26, 2018

SUMMER SUPPLY SWOON

+ Strong investor demand for income was apparent in California's sale of $1.7 billion of Golden State Tobacco bonds; maturities were oversubscribed six times to 11 times, resulting in yields being lowered as much as 30 b.p. from preliminary price talk on the 2047 maturity. Once the bonds were freed to trade, prices rose further, and yields fell as much as another 44 b.p.
+ Municipal bond prices should be supported by light new-issue supply over the next two weeks, as well as reinvestment from heavy July 1 maturity and coupon payments.
+ This week's new-issue calendar is expected to reach approximately $5.5 billion, which is below the prior week's $7 billion. The largest deal on the calendar is a $1.5 billion competitive Los Angeles Tax and Revenue Anticipation Note.

MORE GOOD NEWS FOR STATES

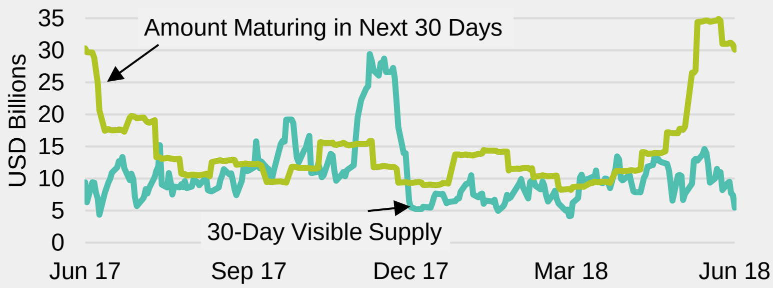
+ The US Supreme Court ruled last week that states can begin collecting sales taxes from online retailers. The ability to collect these taxes will have a positive impact on state and local municipality financial conditions and allow for greater flexibility in closing budget gaps.
+ State fiscal conditions continue to improve for the majority of states, according to the National Association of State Budget Officers. For example, overall revenue growth for fiscal year 2018 grew nearly 5% on average for all states, the largest increase since 2015.
+ Further supporting improving municipality financial conditions, Moody's Investors Service reported that during the first quarter, it upgraded 116 issuers totaling $13.6 billion in debt, versus 94 downgrades totaling $5.7 billion. This is the first period since the fourth quarter of 2016 when the total debt impacted by upgrades outpaced that of downgrades.

POSITIONING FOR TODAY'S MARKET

+ **Yield-Curve Risk:** Concentrate the maturity structure of portfolios. The difference between short- and long-term municipal bond yields is still narrow by historical standards.
+ **Credit Risk:** Modest overweight. Investor demand for income remains strong, and economic growth is positive for most mid-grade and high-yield municipal issuers. The US Supreme Court ruling should provide continued financial support for municipal credit.

Displays of the Week: June 26, 2018

Display 1: Municipal 30-Day Visible Supply vs. Total Amount Maturing in Next 30 Days



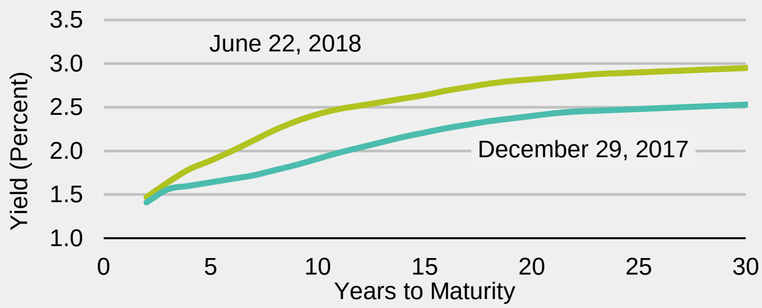
In the next 30 days, total issuance is expected to remain light, while maturities and redemption volume are likely to remain high.

As of June 22, 2018

Historical analysis does not guarantee future results.

Source: Bloomberg and AllianceBernstein (AB)

Display 2: AAA Municipal Yields



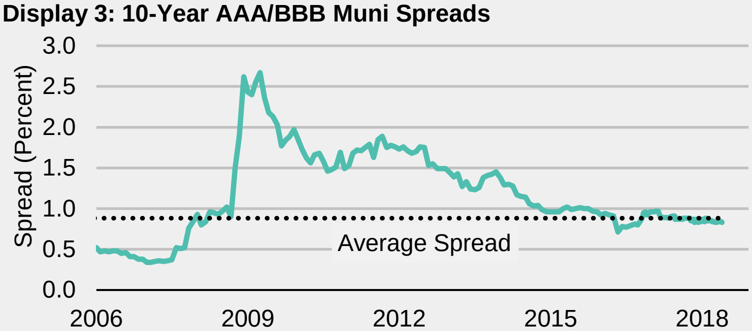
Since the beginning of 2018, municipal yields have risen across the maturity spectrum. Longer-maturity municipals have underperformed short- and intermediate-maturity municipals.

As of June 22, 2018

Historical analysis does not guarantee future results.

Source: Municipal Market Data and AB

Display 3: 10-Year AAA/BBB Muni Spreads



Assuming economic growth continues, the extra income available for mid-grade and high-yield bonds relative to high-grades is attractive. Investors can pick up 0.83% in additional yield for investing in BBB-rated municipals.

As of June 22, 2018

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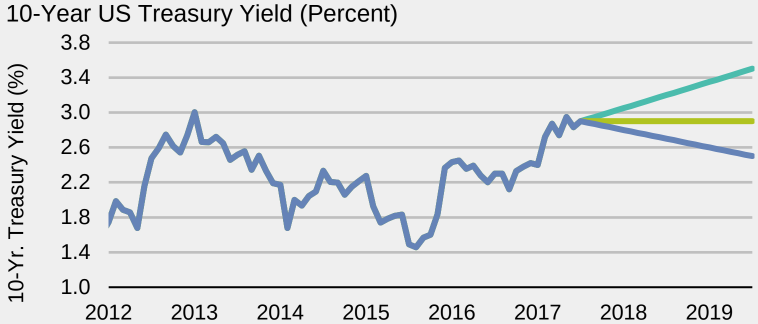
Source: Municipal Market Data and AB

Display 4: Expected 12-Month Municipal Returns Scenario Analysis

10-Year US Treasury Yield (Percent)



10-Year Treasury 3.50% → **1.41%**

10-Year Treasury 2.90% → **3.11%**

10-Year Treasury 2.50% → **4.24%**

As of June 22, 2018

Historical analysis does not guarantee future results.

Reflects expected return of a 5.29-year-duration intermediate municipal portfolio under three scenarios: 10-year Treasury yields rise to 3.50% over the next 12 months, 10-year Treasury yields remain the same and 10-year Treasury yields decline to 2.50% over the next 12 months.

Source: Bloomberg and AB

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.

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