ALLIANCEBERNSTEIN®

Weekly Market Commentary

The Week in Muniland

March 10, 2025

Fasten Your Seatbelts

Key Takeaways

1. **Yields rose last week as the market grappled with a significant number of policy-related headlines.**

2. **The US economy added 151K jobs in February, roughly in line with expectations and recent averages.**

3. **Investors should take advantage of the steep municipal yield curve.**

The market rally took a bit of a breather last week, with yields rising across the curve. As expected, volatility remained a theme as the fixed-income markets attempted to digest the barrage of policy-related headlines. For the week, two-, 10- and 30-year AAA municipal yields rose 2, 10 and 12 basis points (bps), respectively. The Bloomberg Municipal Bond Index (Index) returned -0.52% last week and has returned 0.97% year to date.

- **Why it matters:** In addition to the broader volatility in the fixed-income markets, the muni market did modestly underperform on a relative basis, with after-tax spreads widening (albeit modestly) over the week. As we mentioned last week, this is not entirely unexpected, as March historically has been a challenging month for the municipal market. While supply has been heavy, demand for municipals has helped offset some of that issuance. Investors added $872 million to the market last week, marking the seventh consecutive positive week, according to Lipper. As has been a theme all year, inflows were relatively concentrated in longer duration and high-yield funds. Year to date, HY fund flows total $4.1 billion (44% of overall municipal fund flows this year), while HY funds compromise roughly 26% of municipal fund assets. Credit has outperformed this year, with the Bloomberg Municipal High Yield Index returning 1.57% compared to the investment-grade index (Index) return of 0.97%.

The US economy added 151K jobs in February, roughly in line with expectations and recent averages.

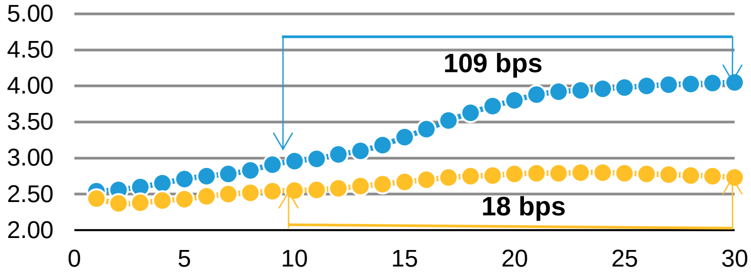
- **Why it matters:** Under the hood, the unemployment rate ticked up (marginally) to 4.1%, and wages are up 4.0% over the last 12 months—but both are well within recent ranges. As such, we do not think there is anything in this report that changes the fundamental picture or creates any near-term policy ramifications. The labor market has seemingly settled into equilibrium, and this data supports that. Over the last year, the labor market has added, on average, 162K jobs. It bottomed out last summer (when the Fed began cutting rates), but then rebounded higher toward year-end—but there has been a significant amount of monthly volatility. After ending 2024 stronger, the labor market in 1Q this year has been softer. Given the volatility in the data—particularly around year-end—it is best to focus on the medium term. Through that lens, the trend is sideways. The same is true for the unemployment rate, which has been between 3.9% and 4.2% for more than a year.

The municipal yield curve remains steep, providing an attractive opportunity for investors.

- **Why it matters:** As we have mentioned previously, the year 2024 saw a massive steepening of the yield curve, and investors who implemented a barbell maturity structure were certainly rewarded. The muni curve has continued to gain even more curvature this year, with both the 2s30s and 10s30s curves widening 41 and 25 bps, respectively. The muni curve is nearly six times as steep as the UST curve, after tax (*Display 1*). As the slope of the curve increases, it improves the roll return for longer maturity bonds. In addition, longer maturity ratios are most attractive relative to short and intermediate maturities. Continued support from strong investor demand should provide an additional tailwind to longer-dated bonds.

Displays of the Week: March 10, 2025

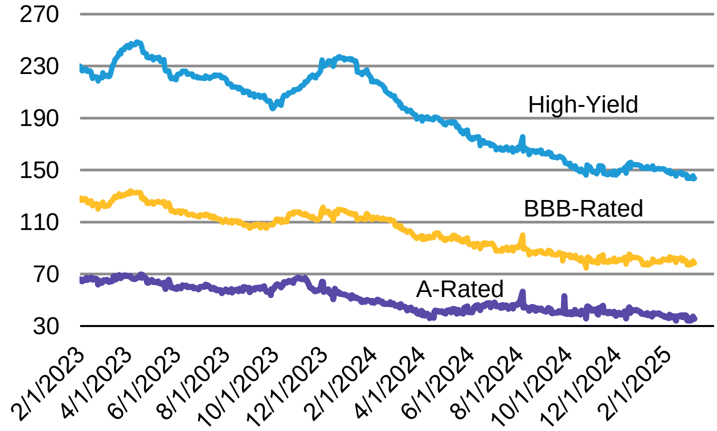
Display 1: Municipal Yield Curve vs. US Treasury Curve After Tax* (Percent)



Tax rate used: 40.8%
As of March 7, 2025. Source: Municipal Market Data and AB

While the shape of the muni yield curve is normalizing, a barbell maturity structure remains advantageous given the steepness at the long end of the curve.

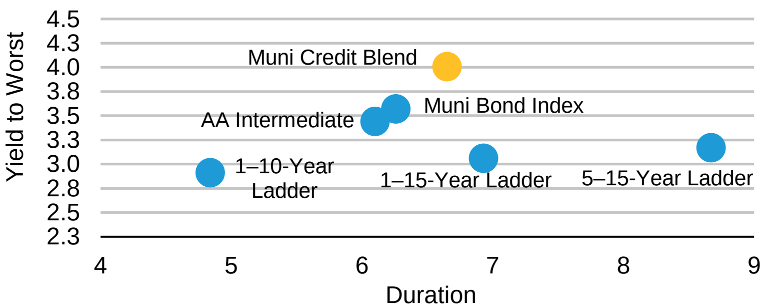
Display 2: Municipal Credit Spreads (Basis Points)



As of March 7, 2025
Source: Bloomberg and AB

While credit spreads tightened significantly in 2024, credit offers a compelling income pickup versus higher-quality bonds.

Display 3: Portfolio Construction for Today (Percent)

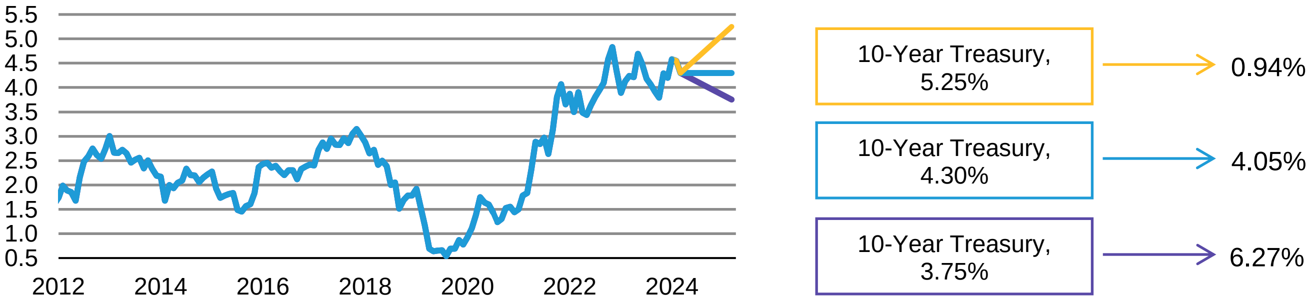


Muni credit blend is a blend of Bloomberg muni indices: 60% high-grade, 30% A/BBB and 10% high-yield.
As of March 7, 2025. Source: Bloomberg and AB

A thoughtful blend of high-grade and credit bonds along with a barbell maturity structure can add nearly 100 bps in yield to a portfolio.

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 5.25%, remain the same or decline to 3.75% over the next 12 months.
As of March 7, 2025. 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 I Not a bank deposit I Not insured by any federal government agency I No bank guarantee I May lose value

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