



THE WEEK IN MUNILAND

MAY 24, 2021

FEELS LIKE SUMMERTIME

- + Summer seems to be hitting the muni market early this year, as the week was fairly quiet with muni yields flat to down 3 basis points (b.p.). As a result, the Bloomberg Barclays Municipal Index was up 0.08%.
 - **Why it matters:** The muni market once again experienced positive inflows totaling \$725 million, increasing year-to-date record inflows to \$46.6 billion. As investors search for yield and protection against rising interest rates, BBB-rated and high-yield indices continued their outperformance this week, returning +0.24% and +0.22%, respectively, while the AAA-rated index returned +0.01%. For the year, the AAA index is down 0.22%, while the BBB and high-yield indices are up 2.93% and 4.39%, respectively. Positive performance should continue through the summer, as the typical summer reinvestment period is upon us. Muni investors have grown accustomed to significant reinvestment demand during the months of June, July and August. This year, it is estimated that over \$120 billion in cash will become available through bond maturities, current bond refundings and coupon payments. This large bump in cash creates a favorable technical environment for investors, which will more than outweigh expected new issuance during this time frame.

- + The Fed provided some indication regarding tapering of quantitative easing in the minutes from its April meeting: "A number of participants suggested that if the economy continued to make rapid progress toward the Committee's goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases."
 - **Why it matters:** The Fed's message is consistent with our expectations. They had not yet started to discuss a plan to taper as of the April meeting, but if the economy continues to make rapid progress they would expect to do so "at some point in upcoming meetings." However, given the disappointing payrolls report, it seems likely that no serious discussion of tapering is likely until at least the June meeting. Stay tuned.

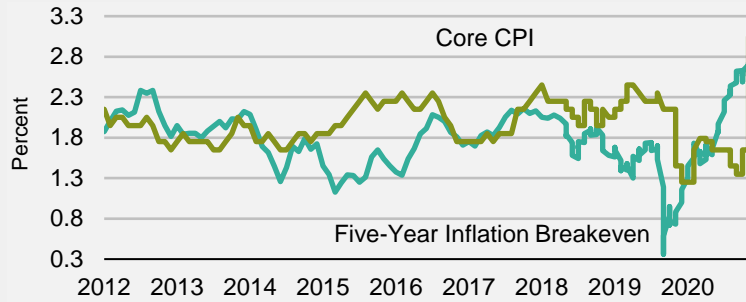
- + The trend of positive news regarding municipal credit quality continues. Moody's Investors Service released its first-quarter 2020 rating changes, which revealed that 71% of rating changes were upgrades.
 - **Why it matters:** Municipal bond investors need to realize that credit risk is not their biggest risk today. Their biggest risk is rising interest rates. One way to protect is by investing in mid-grade and even high-yield bonds. We continue to recommend a mix of high-grade, midgrade and, where appropriate, high-yield bonds for a core muni allocation in today's environment. In an environment where municipal yields rise by 30 b.p., a 10-year AAA-rated bond could be down as much as 1.0%, whereas a 10-year BBB-rated bond could be up as much as 0.75%.

Positioning for Today's Market

- + **Inflation Protection:** Own to guard against rising inflation breakevens as the economy reopens (*Display 1*).
- + **Interest-Rate Risk:** Target slightly shorter duration versus the appropriate benchmark.
- + **Credit Risk:** Take advantage of wider credit spreads in today's market (*Display 2*).
- + **Taxable Bonds:** Own US Treasuries, given expensive AAA muni/US Treasury ratios (*Display 3*).

Displays of the Week: May 24, 2021

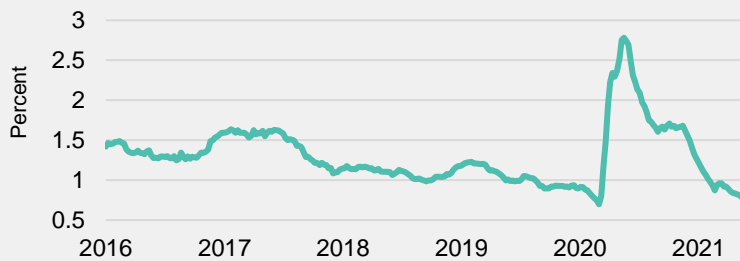
Display 1: Core CPI vs. Five-Year Inflation Breakeven



Break-even inflation rates fell in March 2020, given coronavirus fears, but have risen since. The market now expects inflation to be 2.62% for the next five years.

Core CPI through April 30, 2021; five-year inflation breakeven through May 21, 2021
Source: Federal Reserve Bank of St. Louis and AllianceBernstein (AB)

Display 2: BBB Municipal Credit Spreads



BBB credit spreads remain slightly wider than pre-COVID-19 levels.

Through May 21, 2021
Source: Bloomberg Barclays and AB

Display 3: AAA Muni/US Treasury Ratios

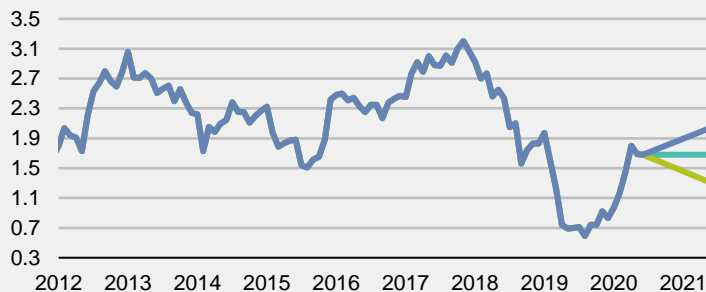
	February 16, 2021	May 21, 2021	5-Yr. Average
2 Year	64%	83%	95%
5 Year	39%	60%	86%
7 Year	43%	57%	85%
10 Year	55%	62%	94%
20 Year	61%	62%	106%
30 Year	65%	67%	100%

Ratios have rebounded from their all-time lows, though they remain below long-term averages.

As of May 21, 2021
Source: Municipal Market Data and AB

Display 4: Expected 12-Month Municipal Returns Scenario Analysis

10-Year US Treasury Yield (Percent)



10-Year Treasury, 2.00% \geq 0.50%

10-Year Treasury, 1.63% \geq 1.55%

10-Year Treasury, 1.25% \geq 2.65%

Past performance and historical analysis do not guarantee future results.

Display reflects expected returns of a 5.4-year-duration intermediate municipal portfolio under three scenarios: 10-year US Treasury yields rise to 2.00%, remain the same or decline to 1.25% over the next 12 months.

Through May 21, 2021
Source: Bloomberg Barclays 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.

Investment and Insurance Products: Not FDIC insured | Not a bank deposit | Not insured by any federal government agency | No bank guarantee | May lose value

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