Allspring

Overview, Strategy, and Outlook

Allspring Money Market Funds

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Sector views

At the conclusion of this month's meeting, the Federal Open Market Committee (FOMC) left its target rate range unchanged at 5.25–5.50%. The corresponding statement continues to point toward the FOMC as being data dependent on future rate increases. The statement reiterated the FOMC's assessment of economic activity as having "continued to expand at a solid pace" and noted that "job gains slowed in recent months but remain strong," the "unemployment rate remains low," and "inflation remains elevated." In addition, the statement maintained the position that "[t]he U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks." The statement justified this pause to "monitor additional information and its implications for monetary policy." So with the FOMC closely monitoring data as it comes in, the holding-rates-higher-for-longer narrative continues to make economic sense.

Market participants expected the FOMC to leave its target rate on hold at this meeting and thus were focused instead on the release of the quarterly Summary of Economic Projections (SEP or dot plot) to help decipher members' expectations for the forward path of rates. While the FOMC held its target rate steady at this meeting, the SEP for 2023 showed a median forecast with an additional 25-basis-point (bp; 100 bps equal 1.00%) increase bringing the target rate at year-end to 5.625%, implying a range of 5.50–5.75%. Surprisingly, the median rate forecast for 2024 was increased by 50 bps to 5.125%. This "hawkish" change on rates reinforced the narrative of higher for longer in order to combat persistently high inflation. The economic projections in general reflect somewhat stronger growth, slightly lower unemployment, and elevated core inflation. While the median forecasts for core inflation were revised lower—to 3.7% in 2023, 2.6% in 2024, and 2.3% in 2025—they are all still above target.

We'll discuss the short-term markets below, but the longer-term Treasury market focused on the SEP pricing in an additional rate increase in 2023 and, more importantly, started to embrace the "higher for longer" theme that we, in the front end of the curve, have been preaching for quite some time. Economic data continues to be largely supportive of this view and Fed speak has been consistent in being data dependent. On the heels of the meeting, 10-year Treasury yields closed out the month almost 20 bps higher in the 4.60% area, with most economists expecting it to move higher still.

U.S. government sector

The government money markets have settled into a civilized, orderly state based on a few key pillars: first, an expectation that short-term rates governed by the Federal Reserve (Fed) will be at the current level, or maybe a touch higher, for a good amount of time stretching well into next year; second, a steady, plentiful stream of Treasury bill (T-bill) supply that may span nearly a year, from late May this year through the first quarter of 2024; and third, a still-generous quantity of excess demand in the system, best represented by the roughly $1.5 trillion in the Fed's reverse repurchase program (RRP).

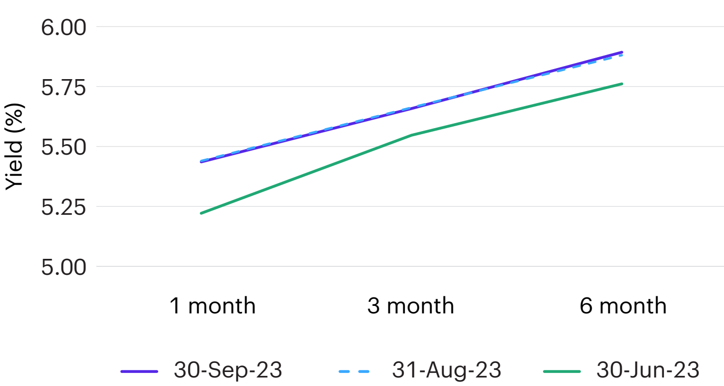
This contrasts starkly with the prior year, when the Fed was in motion, with both the pace and final destination of rate changes unknown; T-bill supply gyrated wildly, largely due to debt ceiling constraints; and investors reacted to the uncertainty by parking cash in the RRP, which reached an all-time high above $2.5 trillion at the end of 2022.

Over the summer, as investors became more comfortable with a careful Fed nearing the end of its hiking cycle, they steadily bought the new T-bill supply as it came, earning yields not far from the overnight RRP rate. This brought the RRP balance down by nearly $1 trillion in the nine months since the all-time high. Given the expected durability of the pillars currently driving market behavior, it will not be a surprise to see RRP cash continue to be deployed in the T-bill market in the same orderly fashion through the end of the year. If expectations of Fed activity become unanchored again, or when T-bill supply fades in the spring tax season, the money markets may shed their calm veneer and resume their messy search for the proper levels.

Prime sector

In this environment of higher rates for a longer time, the front end of the rates curve continues to be an attractive asset class, offering lofty yields as well as reduced duration risk. As shown in the chart below, prime money market yields have remained elevated as the markets focus on the "higher for longer" messaging: The London Interbank Offered Rate (LIBOR)[1] yield curve was little changed from August month-end: while the 3-month printed at 5.66%, the 1-month yield sagged 1 bp to 5.43%, and the 6-month yield reset 2 bps higher at 5.90%.

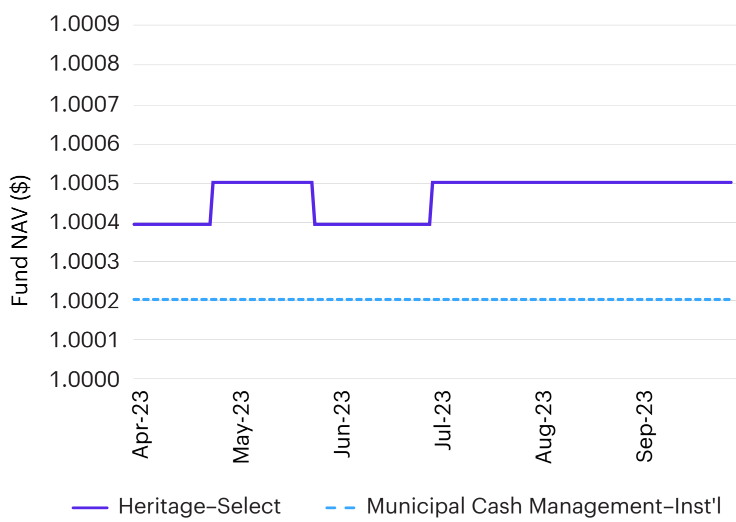
LIBOR YIELD CURVES AS OF 30-SEP-23



Sources: Bloomberg L.P. and Allspring Global Investments

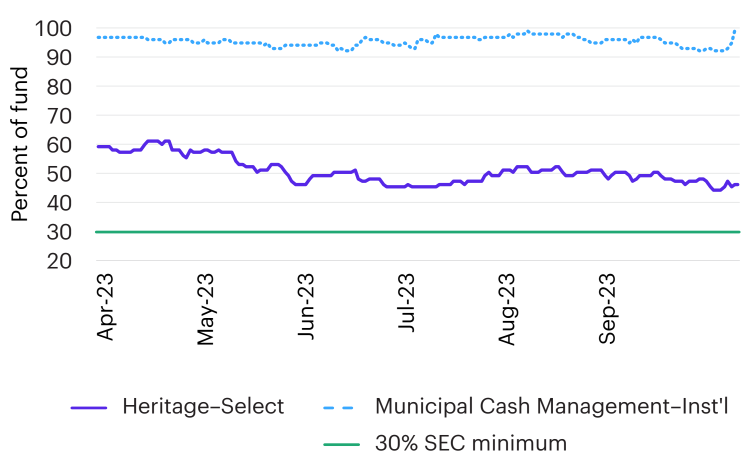
An interesting development this month was a very large commercial paper issuance or financing campaign by a large highly rated tech corporation. Most issuance in the 2a-7 prime space tends to be financials-sector-related, whether in the form of deposits or commercial paper issued directly by banks and finance companies or in the form of securities issued by funding programs sponsored by those entities, such as asset-backed commercial paper. This corporate program was brought to market with an authorized total program size of $46 billion; by month-end, outstandings had reached $26 billion. This was big news from a corporate issuer and a relative novelty in our space. Even with this size, however, and being primary issuance (i.e., not being written to roll a maturity), the pricing was somewhat on the rich side at just at or slightly above the term Secured Overnight Financing Rate (SOFR).

ALLSPRING FLOATING NET ASSET VALUE (FNAV) MONEY MARKET FUND NAVS



Source: Allspring Funds. **Past performance is no guarantee of future results.**

ALLSPRING FNAV MONEY MARKET FUNDS WEEKLY LIQUID ASSETS



Source: Allspring Funds. **Past performance is no guarantee of future results.**

Municipal sector

Yields in the municipal money market space rose and the Securities Industry and Financial Markets Association (SIFMA) Index[2] continued to exhibit volatility during the month of September. True to form, the SIFMA Index continued to bounce around each week—beginning the month at 4.06% before falling to 2.97% during mid-month. The index would rapidly adjust higher, resetting at 4.31% on September 20 before closing out the month at 3.98%. Further out the curve, high-grade paper in the one-year space rose to 3.79%, up from 3.63%. Supply and demand in the short end continued to fluctuate as assets in municipal money market funds finished the month at $123.3 billion, according to Crane Data.

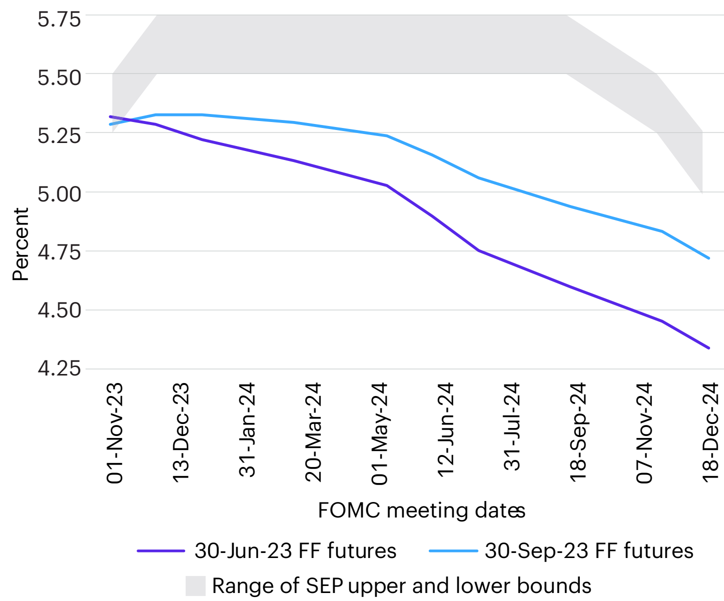
We continued to adopt a conservative posture overall with respect to weighted average maturities (WAMs)[3] given the inverted yield curve in the municipal money market space. Accordingly, during the month we continued to focus our purchases primarily in variable-rate demand notes (VRDNs)[4] and tender option bonds (TOBs)[5] with daily and weekly puts in order to emphasize principal preservation and fund liquidity. However, we did opportunistically extend our portfolios with fixed-rate purchases targeted in the three-month and six-month space as rates backed up toward the end of the month.

On the horizon

Shortly before the midnight expiration of the fiscal-year 2023 budget, President Biden signed a continuing resolution on September 30 to avoid a government shutdown. This was the result of a bipartisan resolution Speaker McCarthy advanced in the House over the weekend and would fund the government through November 17, presumably giving lawmakers on both sides of the aisle time to agree on the terms of a new budget. It's not entirely clear that this will proceed smoothly, though. First, the continuing resolution did not contain the spending cuts some Republicans wanted, nor did it contain the aid to Ukraine that Democrats and the Biden administration wanted, so the fights over the budget terms have merely been postponed. And second, with 90 Republicans (and 1 Democrat) opposing the continuing resolution, it's entirely possible Rep. McCarthy's position as speaker—which took 4 days and 15 rounds of balloting to confirm in the first place—could be in peril.

On a positive note, at least for us, the continuing resolution resolved data availability issues that would have resulted from a shutdown in the lead up to the Fed's October 31–November 1 meeting. Had a shutdown occurred, many of the statistics the Fed relies on to formulate interest rate policy (such as measures of inflation or the strength of the labor markets) could have been delayed—and depending on the length of the shutdown, those statistics may not have been published until after its meeting. This matters since there are only two more Fed meetings scheduled for the rest of the year, and at one of the next two, the Fed's SEP points toward expectations of another 25-bp hike, bringing the target range to 5.50% to 5.75%. So while the continuing resolution helps avoid a data vacuum for the November meeting, if an agreement is not reached by November 17 and there is a shutdown, the December 13 meeting could be impacted.

FUTURES-IMPLIED PATH OF FEDERAL FUNDS RATE FOLLOWING ECONOMIC RELEASES VS. SEP PATH



Sources: Federal Reserve Board, Bloomberg L.P., and Allspring Global Investments

As we noted in our last commentary, the Fed's hawkish tone after the September meeting emphasized its intent to maintain rates at higher levels for a longer period of time. To that end, it forecast a target range at the end of 2024 of 5.00% to 5.25%—a full 50 bps lower than its target rate at the end of 2023 but also 50 bps higher than forecasts from the June SEP. Is the market a believer now? Well, sort of. The shaded area in the chart above shows the expected 2023–2024 SEP's upper and lower bounds. Because the Fed only forecasts a year-end number, we've assumed it will need to make two cuts toward the end of the year in order to attain its forecast levels. The purple line shows the expected path of federal funds (FF) according to the futures markets after the SEP issued in June and the light blue line shows the new futures-implied path following this September's SEP. The market seems to have bought into the "higher for longer" idea, though it still isn't convinced that the "higher" level will be one the Fed is expecting! As we've discussed several times over the past year, this has been a common theme with Treasury market participants. Their expectations have virtually always diverged from the Fed's and have charted a course consistently lower than the Fed's. As the Fed winds up this tightening cycle, it should be interesting to see if this trend continues.

RATES FOR SAMPLE INVESTMENT INSTRUMENTS—CURRENT MONTH-END % (SEPTEMBER 2023)

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	5.30	5.30	–	–	–	–	–
Fed reverse repo rate	5.30	–	–	–	–	–	–
U.S. Treasury bills	–	–	5.29	5.35	5.37	5.43	5.46
Agency discount notes	5.20	5.22	5.29	5.36	5.39	5.45	5.44
LIBOR	5.43	–	5.43	–	5.66	5.90	0.00
Asset-backed commercial paper	5.34	5.35	5.39	5.47	5.57	5.80	–
Dealer commercial paper	5.30	5.32	5.35	5.47	5.58	5.71	–
Municipals	4.63	3.98	3.58	3.60	3.62	3.68	3.79

Sources: Bloomberg L.P. and Allspring Global Investments

Past performance is no guarantee of future results.

Fund	7-day current yield
Heritage MMF*–Select	5.46
Municipal Cash Management MMF*–Inst'l	4.30
Government MMF**–Select	5.27
Treasury Plus MMF**–Select	5.28
100% Treasury MMF**–Inst'l	5.21

Source: Allspring Funds

Figures quoted represent past performance, which is no guarantee of future results, and do not reflect taxes that a shareholder may pay on an investment in a fund. *Yields will fluctuate. Current performance may be lower or higher than the performance data quoted and assumes the reinvestment of dividends and capital gains. Current month-end performance is available at the funds' website, allspringglobal.com.*

Money market funds are sold without a front-end sales charge or contingent deferred sales charge. Other fees and expenses apply to an investment in the fund and are described in the fund's current prospectus.

The manager has contractually committed to certain fee waivers and/or expense reimbursement through May 31, 2024, to cap the funds' total annual fund operating expenses after fee waivers. Brokerage commissions, stamp duty fees, interest, taxes, acquired fund fees and expenses (if any), and extraordinary expenses are excluded from the expense cap. The manager and/or its affiliates may also voluntarily waive all or a portion of any fees to which they are entitled and/or reimburse certain expenses as they may determine from time to time. Without these reductions, the seven-day current yield for the Select Class of the Heritage Money Market Fund, Government Money Market Fund, and Treasury Plus Money Market Fund and for the Institutional Class of the Municipal Cash Management Money Market Fund and 100% Treasury Money Market Fund would have been 5.39%, 5.24%, 5.24%, 4.10%, and 5.19%, respectively. Prior to or after the commitment expiration date, the cap may be increased or the commitment to maintain the cap may be terminated only with the approval of the Board of Trustees. The expense ratio paid by an investor is the net expense ratio (the total annual fund operating expenses after fee waivers) as stated in the prospectus.

To learn more

We want to help clients build for successful outcomes, defend portfolios against uncertainty, and create long-term financial well-being. To learn more, investment professionals can contact us.

Contact information:

- For retail clients, contact your financial advisor.
- To reach our intermediary sales professionals, contact your dedicated regional director, or call us at **1-866-701-2575**.
- To reach our institutional investment professionals, contact your existing client relations director, or contact us at **AllspringInstitutional@allspringglobal.com**.
- To reach our retirement professionals, contact your dedicated defined contribution investment only specialist, or call us at **1-800-368-1370**.
- To discuss sustainable investing solutions, contact **Henrietta Pacquement**, head of Sustainability, and **Jamie Newton**, deputy head of Sustainability, at **henrietta.pacquement@allspringglobal.com** and **jamie.newton@allspringglobal.com**.

1. The London Interbank Offered Rate (LIBOR) is a benchmark interest rate at which major global banks lend to one another in the international interbank market for short-term loans. It serves as a globally accepted key benchmark rate that indicates borrowing costs between banks.

2. The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index is a seven-day high-grade market index composed of tax-exempt variable-rate demand obligations with certain characteristics. The index is calculated and published by Bloomberg. The index is overseen by SIFMA's Municipal Swap Index Committee. You cannot invest directly in an index.

3. Weighted average maturity (WAM): An average of the effective maturities of all securities held in the portfolio, weighted by each security's percentage of total investments. The maturity of a portfolio security is the period remaining until the date on which the principal amount is unconditionally required to be paid, or in the case of a security called for redemption, the date on which the redemption payment is unconditionally required to be made. WAM calculations allow for the maturities of certain securities with demand features or periodic interest rate resets to be shortened. WAM is a way to measure a fund's sensitivity to potential interest rate changes. WAM is subject to change and may have changed since the date specified.

4. Variable-rate demand notes (VRDNs) are debt securities commonly held within the Allspring Money Market Funds. Like all bonds, VRDN values fluctuate in response to the financial condition of individual issuers, general market and economic conditions, and changes in interest rates. Changes in market conditions and government policies may lead to periods of heightened volatility in the bond market and reduced liquidity for certain bonds. In general, when interest rates rise, bond values fall and investors may lose principal value. Interest rate changes can be sudden and unpredictable. In addition to credit and interest rate risk, VRDNs are subject to municipal securities risk.

5. A tender option bond (TOB) is a type of VRDN where a long-term bond is placed into a trust. Floating-rate securities are created from the trust.

**For floating NAV money market funds: You could lose money by investing in the fund. Because the share price of the fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.*

For retail money market funds: You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. The fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

***For government money market funds: You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.*

For the municipal money market funds, a portion of the fund's income may be subject to federal, state, and/or local income taxes or the alternative minimum tax. Any capital gains distributions may be taxable. For the government money market funds, the U.S. government guarantee applies to certain underlying securities and not to shares of the fund.

The views expressed and any forward-looking statements are as of September 30, 2023, and are those of the fund managers and the Money Market team at Allspring Global Investments, LLC, subadvisor to the Allspring Money Market Funds, and Allspring Funds Management, LLC. Discussions of individual securities or the markets generally are not intended as individual recommendations. Future events or results may vary significantly from those expressed in any forward-looking statements. The views expressed are subject to change at any time in response to changing circumstances in the market. Allspring Global Investments disclaims any obligation to publicly update or revise any views expressed or forward-looking statements.

Carefully consider a fund's investment objectives, risks, charges, and expenses before investing. For a current prospectus and, if available, a summary prospectus, containing this and other information, visit allspringglobal.com. Read it carefully before investing.

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