Overview, Strategy, and Outlook

Allspring Money Market Funds

CONTRIBUTING AUTHORS

Jeffrey L. Weaver
Head of Global Liquidity Solutions
628-266-1214
jeff.weaver@allspringglobal.com

Laurie R. White
Managing Director and Senior Portfolio Manager, Taxable Money Funds
612-895-1858
laurie.r.white@allspringglobal.com

Michael C. Bird
Senior Portfolio Manager, Taxable Money Funds
612-351-0675
michael.c.bird@allspringglobal.com

James C. Randazzo
Senior Portfolio Manager, Municipal Money Markets
704-533-8784
jrandazzo@allspringglobal.com

Madeleine M. Gish
Senior Portfolio Manager, Taxable Money Funds
628-266-1054
madeleine.gish@allspringglobal.com

John R. Kelly
Senior Portfolio Manager, Taxable Money Funds
612-474-3075
kellyjr@allspringglobal.com

Daniel J. Tronstad
Senior Portfolio Manager, Taxable Money Funds
612-895-1827
daniel.j.tronstad@allspringglobal.com

Sector views

This month was short on good news for market participants and long on pushback from the Federal Reserve (Fed). On the macroeconomic front, data this month broadly came in stronger than—or at least in line with—expectations, largely removing the likelihood of a Federal Open Market Committee (FOMC) rate cut in March. The January FOMC minutes only reinforced the idea of patience. Several committee members expressed concern over cutting rates too early and thereby possible fueling inflationary pressures. Fedspeak this month highlighted those points. Most speakers said that while, yes, they expect to see rate cuts this year, they cautioned against expecting those moves imminently. For example, New York Fed President Williams said, "At some point, I think it will be appropriate to pull back on restrictive monetary policy, likely later this year, but it's really about reading the data and looking for consistent signs that inflation is not only coming down but is moving towards the 2% longer-run goal." The result of all this news is that markets experienced a dramatic repricing in federal funds futures and produced some volatility around short-term rates throughout the month.

U.S. government sector

With no FOMC meeting in February, the market was left to its own devices as it attempted to divine the path of interest rates for the upcoming year. Market observers may recall that the Fed pivoted at its December meeting, essentially declaring rates had peaked—the next move would be a cut, and possibly three cuts next year. The market heard the Fed so loudly and clearly that it promptly priced six cuts into the forward markets. Fed speakers pushed back softly in the inter-meeting period, and the FOMC did as well at its end-of-January meeting. But no matter how many times the Fed said "three," the market heard "six." It took stronger data—in the form of an early-February job market report, a mid-February Consumer Price Index (CPI)[1] reading, and rebounding purchasing manager surveys—to add some heft to the pushback from Fed speakers and open the minds of market participants to the possibility that three did in fact actually mean three. As the bonus day of February 2024 ended, the markets were finally looking for roughly three cuts this year.

The markets had two main justifications for firmly seeking lower rates—one data driven and one mandatory. The first reason to expect early-and-often Fed cuts was that inflation had genuinely fallen faster than the Fed and others expected. Overnight interest rates above 5% that were modestly restrictive a year earlier when core Personal Consumption Expenditure (PCE),[2] the Fed's preferred price gauge, was around 5% were significantly more so with core PCE around 3%. That meant the Fed could reduce rates and continue to be restrictive, slowing the economy and continuing to reduce inflation. The second reason was that with rates so high, a recession was surely coming. At the end of 2022, many thought a 2023 recession was a near certainty. But the U.S. economy is the big engine that could. U.S. gross domestic product grew at a 2.2% pace in the first quarter of 2023, and the following quarters rang in at 2.1%, 4.9%, and 3.2%, quite exceptional performance given the apparently restrictive level of interest rates. The 2024 recession could still be coming, but we'll have to see it to believe it at this point.

For now, the Fed and markets still believe inflation is falling (with the stronger January numbers more a blip in the disinflation path than a sign of a sea change), and rate cuts are coming sometime this year (but the recent data called that narrative into question). Economic releases in March will be closely watched to determine which path seems more likely.

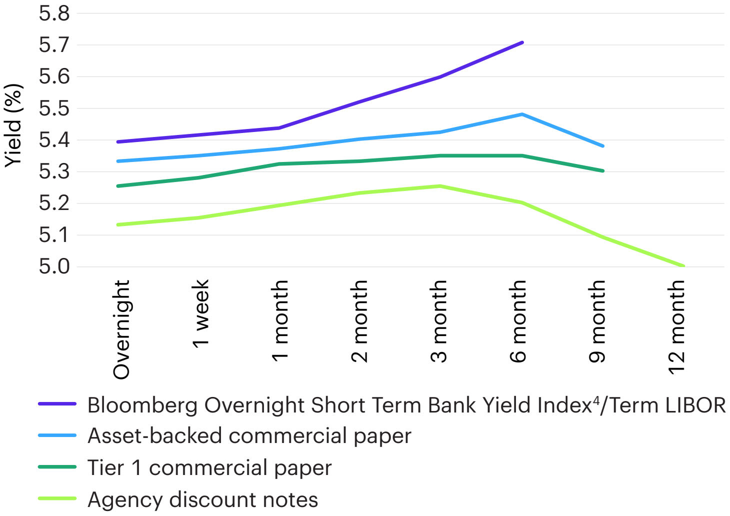
The government money markets were relatively quiet in February with Treasury bill (T-bill) supply growing by about $50 billion per week to fund tax refunds. That pendulum will swing beginning sometime in March; the Treasury will issue fewer T-bills for a few months as tax receipts swell its coffers and reduce its need to borrow. The volume in the Fed's reverse repo facility continued to decline but at a slower rate. It fell by about $1.64 trillion in the eight months ended January 31, 2024, but only declined by $113 billion in February to a total of $502 billion.

Prime sector

Overall commercial paper supply has increased this month as issuers replaced maturities established at year end. According to Fed data, monthly total commercial paper outstanding as of February 28 was up $12 billion to $1.277 trillion. The increase in commercial paper outstanding was broad-based; in the financial sector, banks were ramping up maturing positions that were largely established to meet year-end liquidity coverage ratios (LCRs), while nonfinancial sector increases could have been due to hedging against the possibility of FOMC rate cuts later this year. Recall LCR was created by the banking regulators to enhance the banking sector's ability to absorb financial shocks and monitor liquidity.

February's stronger economic data, increased investment supply, and a patient, economic data-driven Fedspeak combined to cause rates on term fixed-rate paper in the prime sector to increase slightly. As a proxy for commercial paper rates, six-month London Interbank Offered Rate (LIBOR)[3] ended the month at 5.72% (up 0.13% from the previous month) and six-month Secured Overnight Financing Rate (SOFR) yields ended higher by 0.10% to 5.27%. The implied federal fund futures rate at the September 2024 FOMC meeting is 4.75%, which is the result of expectations of multiple 25 basis points (bps; 100 bps equal 1.00%) decreases in federal funds. This rate discrepancy isn't a new phenomenon as the futures market was well behind the pace of tightening when rates were on the way up and recently well ahead of the pace of easing on the way down. Increased supply has also caused spreads on floating rate paper to widen this month along with increased fixed-term yields. At times, floaters can still be an attractive alternative to fixed-rate paper, especially as expectations of a slower pace of rate cuts take hold.

MONEY MARKET YIELD CURVES



Sources: Bloomberg Finance L.P. and Allspring Global Investments

We continue our strategy of taking advantage of opportunities to extend fixed-rate term purchases while maintaining an enhanced liquidity buffer to meet the liquidity needs of our shareholders and to dampen net asset value (NAV) volatility. We feel the risk/reward proposition favors extending weighted-average maturities (WAMs)[5] to capture above-target yields in a yield environment that is skewed toward the FOMC being done with this hiking cycle and preparing the market for future rate decreases.

Municipals

Yields in the municipal money market space were mixed during February as seasonal factors exerted downward pressure on rates overall. The Securities Industry and Financial Markets Association (SIFMA)[6] Index remained relatively range bound given recent volatility in cash flows. While the index began the month at 3.74%, persistently strong demand in the overnight and weekly sectors drove the benchmark down to 3.30% by the end of February. Further out on the curve, rates on one-year high-grades inched lower to 3.12%, down from 3.22% the previous month. While assets in municipal money market funds were mostly flat at $126 billion, according to CraneData, long-term municipal bond funds continued to be a source of demand given modest inflows.

During the month, we continued to remain conservative in terms of WAMs and liquidity. Accordingly, we continued to focus our purchases primarily in variable-rate demand notes (VRDNs)[7] and tender option bonds (TOBs)[8] with daily and weekly puts in our order to emphasize principal preservation. However, we did opportunistically add exposure to fixed-rate commercial paper and notes primarily in the three-month and six-month space. We also remained highly selective in investing beyond six-months, while carefully balancing relative value with the prospects of rate cuts later in 2024.

On the horizon

The next Fed meeting is scheduled for March 20. This meeting will give us a peek into what the Fed is thinking when it comes to the forward path of rates, both with the post-meeting press conference as well as insights to be gleaned from the release of a new version of the Summary of Economic Projections (SEP, or dot plot). The last dot plot, released at the conclusion of the December 13 meeting, showed the median expectation for three eases this year. If the latest round of Fedspeak is to be believed, a similar dot plot would not only be in the cards but, if it came to pass, would certainly help anchor market expectations that had largely been unmoored since the December meeting. February's retrenchment brings the markets and the Fed largely in line with each other for the first time in quite a while, and moderating economic numbers could help cement that relationship.

RATES FOR SAMPLE INVESTMENT INSTRUMENTS—CURRENT MONTH-END % (FEBRUARY 2024)

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	5.31	5.31	–	–	–	–	–
Fed reverse repo rate	5.30	–	–	–	–	–	–
U.S. Treasury bills	–	–	5.30	5.32	5.29	5.24	4.97
Agency discount notes	5.13	5.15	5.19	5.23	5.25	5.20	5.00
LIBOR	5.39	–	5.44	–	5.60	5.70	–
Asset-backed commercial paper	5.33	5.35	5.37	5.40	5.42	5.48	–
Dealer commercial paper	5.25	5.28	5.32	5.33	5.35	5.35	–
Municipals	3.69	3.30	3.05	3.05	3.06	3.07	3.12

Sources: Bloomberg L.P. and Allspring Global Investments

Past performance is no guarantee of future results.

Fund	7-day current yield
Heritage MMF*–Select	5.42
Money Market Fund**– Premier	5.42
Government MMF***– Select	5.24
Treasury Plus MMF***– Select	5.24
100% Treasury MMF***– Inst'l	5.19

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; for the Institutional Class of 100% Treasury Money Market Fund and Premier Class of the Money Market Fund would have been 5.35%, 5.21%, 5.21%, 5.16%, and 5.30%, 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 Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. You cannot invest directly in an index.

2. The Personal Consumption Expenditures (PCE) Price Index measures the prices paid by U.S. consumers for domestic goods and services, excluding the prices of food and energy. You cannot invest directly in an index.

3. 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.

4. The Bloomberg Overnight Short-Term Bank Yield (BSBYON) Index is a short-term interest rate benchmark created in 2021 and published by Bloomberg Finance L.P. You cannot invest directly in an index.

5. 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.

6. 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.

7. 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.

8. 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. 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. 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.*

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