Allspring

Overview, Strategy, and Outlook

Allspring Money Market Funds

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Money market overview

As widely expected—and most certainly by us—the Federal Reserve (Fed) held rates steady at its last meeting ending May 1. In its statement, the Fed noted that, while the environment still warranted higher rates for a bit longer, "the risks to achieving its employment and inflation goals have moved toward better balance over the past year. The economic outlook is uncertain, and the [Federal Open Market] Committee (FOMC) remains highly attentive to inflation." This modestly positive assessment—and change from the previous meeting statement—had the effect of moving the futures markets' bets on when the first cut would occur up from December to the November meeting on the day after the meeting. The volatility in trading these contracts continued throughout the month as economic news first seemed to support higher for longer and then turned positive for the Fed as we ended the month. But when the dust finally settled, the predictions were unchanged and markets were back to anticipating the Fed would cut rates in December.

Sector views

U.S. government sector

When FOMC meetings conclude, the focus is understandably on interest rates. But the meeting that ended on May 1 also included a decision on the Fed's balance sheet policy, the first adjustment to its approach since it established the current runoff parameters in July 2022.

Before we get to the most recent decision, a trip down memory lane is worthwhile. The Fed's very large balance sheet is a product of multiple rounds of quantitative easing (QE) over many years, beginning with the Global Financial Crisis in 2008. When overnight interest rates were set at zero but the Fed still desired to spur the economy, it purchased treasury and mortgage-backed securities (MBS), adding them to its balance sheet and effectively creating bank reserves in the process. When the need for continued accommodation passed, the Fed stopped adding net new securities to its balance sheet, but it did reinvest the proceeds of maturing treasuries and MBS, basically keeping its total assets in a steady state. Then, when interest rates eventually rose from zero and the need for extra accommodation passed, the Fed unwound some of those purchases by allowing some of its maturities to roll off without reinvestment, shrinking its total assets. This had the effect of removing bank reserves from the system without raising rates. This has become known as quantitative tightening (QT).

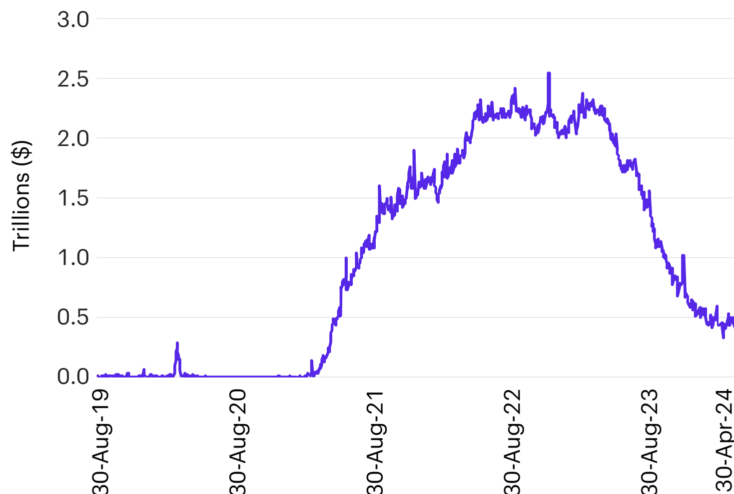
The first QE/QT cycle, addressing the 2008 financial crisis and the malaise that followed, took more than a decade to unfold, and the Fed had just about arrived at its ideal balance sheet size in early 2020 when the pandemic's initial panic phase kicked off the next cycle. As the economic contraction and accompanying interest rate cuts, followed by the expansion and rate hikes, have all taken place at warp speed, so too the Fed balance sheet cycle looks set to wrap up much faster than the previous episode.

Since July 2022, the Fed has operated QT by allowing up to $60 billion of its treasury securities to mature without reinvestment each month, while maturities in excess of $60 billion are reinvested. The analogous monthly cap for MBS has been $35 billion. All through the rapid rate hiking cycle and the extended pause that has followed, the Fed balance sheet runoff has proceeded like clockwork in the background. In a signal that QT is nearing its end, the FOMC decided on May 1 to reduce the treasury roll-off cap to $25 billion per month and to adjust the MBS reinvestment approach such that necessary reinvestments would be put into treasury securities rather than new MBS. Over time, this latter step should shift the composition of its balance sheet toward treasuries. The effect of the smaller treasury roll-off cap should be to slow the decline in the overall size of the balance sheet.

When the last cycle ended, the Fed had unwittingly shrunk the balance sheet too much and only discovered this when the overnight repurchase market went temporarily haywire in September 2019, with Secured Overnight Financing Rate (SOFR)[1] registering 5.25% at a time when the Fed's target range was 2.00% to 2.25%. The Fed quickly smoothed that episode over with a burst of market operations, building the balance sheet back up over the ensuing months, coincidentally leading right into the pandemic. But some reputational damage had already been done. To avoid a repeat performance, the Fed is attempting to slow the runoff first so it has time to monitor market indicators for any signs of stress.

One of the most important of those indicators will be the size of the Fed's reverse repurchase agreement (RRP) facility, where excess cash with no other home in the market is parked. RRP balances serve as a repurchase market buffer, as any material rise in market rates above the RRP rate (currently 5.30%) would presumably be met by redeployment out of the RRP. Notably, as shown in the chart to the upper right, the RRP balance in September 2019 was near zero, while the daily average in May was about $460 billion. Balances fell precipitously throughout 2023, but the decline has slowed this year. There are many factors affecting RRP balances, including changes in the Treasury's cash balance and the perceived attractiveness of investment alternatives such as treasury bills. Over time, a shrinking Fed balance sheet usually leads to a smaller RRP. With the Fed's runoff set to slow, the RRP balance decline may slow as well, with the Fed watching carefully to determine when the balance sheet has shrunk enough.

FEDERAL RESERVE RRP VOLUME



Sources: Federal Reserve and Bloomberg Finance L.P.

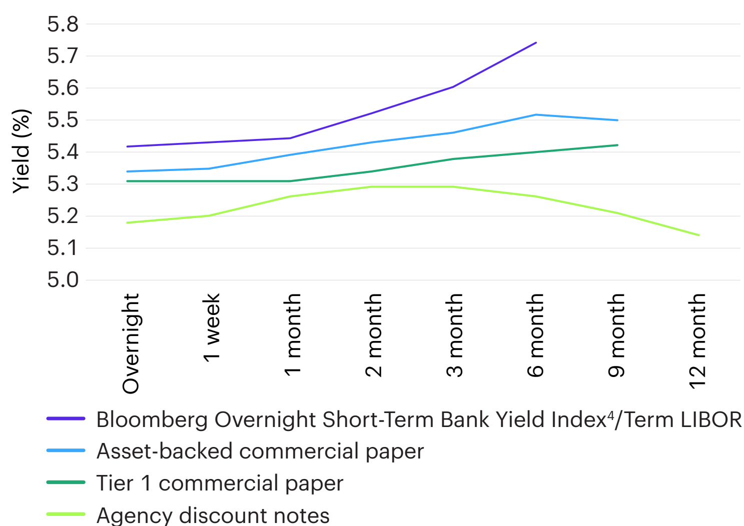
Prime sector

In the markets for corporate obligations, overall commercial paper supply increased again this month, with issuers adjusting liquidity positions as mixed economic data and Fed speak have created uncertainty around the timing of changes to policy rates. This has caused increased volatility in both equity and U.S. treasury markets. The S&P 500 Index[2] is up roughly 3% month to date but traded in a 240 basis-point (bp; 100 bps equal 1.00%) range, while the two-year Treasury note traded in a 25-bp range this month. This uncertainty can also be observed in the high-grade corporate market as deal flow in May was greater than expectations at $133 billion but less than that of May 2023 at $148 billion. Questions surrounding the FOMC future rate path and corresponding volatility have allowed issuers in short-dated credit products to be more active. According to Fed data, monthly total commercial paper outstanding as of May 29 was $1.28 trillion, up $24 billion from the end of March and April. The increase in commercial paper outstanding was broad based as volatility has impacted all sectors.

For investors in prime securities, repricing of the anticipated timing of the Fed's interest rate cuts was good news, as issuers continue to keep yields offered on term fixed-rate paper elevated. As a proxy for commercial paper rates, six-month London Interbank Offered Rate (LIBOR)[3] ended the month at 5.74%, unchanged from April and up 0.09% from March. Six-month SOFR yields are also unchanged from April at 5.31% and higher by 0.09% from March. As a point of reference, the implied federal funds futures rate at the November 2024 FOMC meeting is still above 5.00%, meaning a full move of 25 bps is not currently being priced in. That all three proxy rates reflect the higher for longer adage is unusual. As we have noted many times, the futures market was well behind the pace of tightening while rates rose; as of recently, it's well ahead of the path of expected easing when rates eventually go down.

Spreads on floating-rate paper tightened slightly this month as floater demand increased. This structure can be an attractive alternative to fixed-rate paper, especially as expectations of a slower pace of rate cuts take hold. Fixed-rate paper yields continue to trade in a narrow range at attractive levels. Prime funds offer an attractive yield and low price volatility as the FOMC continues to be patient in assessing its dual mandate and the future path of its policy rate.

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 volatility. We feel the risk/reward proposition favors extending weighted average maturities[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.

Municipal sector

Volatility returned to the municipal money market space during May as financial markets continued to struggle to ascertain the path of monetary policy given recent economic data. The Securities Industry and Financial Markets Association (SIFMA)[6] Index began the month at 3.65% before eventually closing out at 3.36%. Further out on the curve, yields on high-grade tax-exempt paper dropped roughly 15 bps to 20 bps in the one-month to three-month area-averaging roughly 3.45%. Yields on highly rated one-year securities finished the month at roughly 3.50%, down from 3.71% in April. Municipal money market assets finished the month at $135.6 billion, up almost $4.5 billion, according to Crane Data.

During the month we continued to target fixed-rate paper by increasing exposures in the one-month and three-month space. However, we have maintained a conservative posture with respect to weighted-average maturities given the inverted yield curve in the municipal money market space. Finally, we continue to remain very selective on longer fixed-rate investments as municipals are still rich on a relative basis to taxable securities.

On the horizon

As we close the books on May, we are still in the same camp as last month—waiting on the new Summary of Economic Projections the Fed will publish after the June 12 meeting. If economic news continues to be favorable for the Fed, we could see expectations for the potential first cut in rates to move to November; if the news is ***really*** good, it could be September. Like the Fed, we'll have to wait and see what the numbers say.

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

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	5.33	5.33	–	–	–	–	–
Fed reverse repo rate	5.30	–	–	–	–	–	–
U.S. Treasury bills	–	–	5.28	5.30	5.31	5.29	5.21
Agency discount notes	5.18	5.20	5.26	5.29	5.29	5.26	5.14
LIBOR	5.42	–	5.44	–	5.60	5.74	–
Asset-backed commercial paper	5.34	5.35	5.39	5.43	5.46	5.52	–
Dealer commercial paper	5.31	5.31	5.31	5.34	5.38	5.40	–
Municipals	4.05	3.36	3.43	3.44	3.45	3.47	3.50

Sources: Bloomberg Finance L.P. and Allspring Global Investments
Past performance is no guarantee of future results.

Fund	7-day current yield
Heritage MMF*–Select	5.34
Money Market Fund**– Premier	5.35
Government MMF***– Select	5.24
Treasury Plus MMF***– Select	5.23
100% Treasury MMF***– Inst'l	5.17

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, 2025 (or through May 31, 2026 for Government Money Markey Fund Select Class), 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; the Institutional Class of the 100% Treasury Money Market Fund; and the Premier Class of the Money Market Fund would have been 5.26%, 5.21%, 5.19%, 5.14%, and 5.24%, 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 Secured Overnight Financing Rate (SOFR) is an interest rate published daily by the Federal Reserve Bank of New York based on Treasury repurchase agreement transactions measuring the cost of overnight cash borrowing.

2. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value-weighted index with each stock's weight in the index proportionate to its market value. 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.

**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. An investment in the fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor is not required to reimburse the fund for losses, and you should not expect that the sponsor will provide financial support to the fund at any time, including during periods of market stress.*

***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. An investment in the fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor is not required to reimburse the fund for losses, and you should not expect that the sponsor will provide financial support to the fund at any time, including during periods of market stress.*

****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 a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor is not required to reimburse the fund for losses, and you should not expect that the sponsor will provide financial support to the fund at any time, including during periods of market stress.*

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.

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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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