Allspring

Overview, Strategy, and Outlook

Allspring Money Market Funds

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Money market overview

The Federal Reserve (Fed) lowered overnight interest rates again on December 18, dropping the target range by 25 basis points (bps; 100 bps equal 1.00%) to 4.25–4.50%. While the move was another rate reduction, the message was decidedly one of caution and uncertainty, which places the Fed in an unusual position of not knowing what it might do next. This contrasts strongly with most of the post-financial-crisis period, which began with seven years stuck at zero, during which there were few questions on what the Fed might do to interest rates. More recently, the Fed spent most of the past three years resolutely fighting inflation, aggressively raising rates, and then patiently refraining from lowering them to be certain it had the upper hand. During that period, the Fed knew, and the markets knew the Fed knew, that rates would be restrictive even if the labor market, economy, and equity markets struggled.

We've now entered a period when economic data could move the Fed in any direction. The Summary of Economic Projections (SEP) that accompanied the recent meeting's statement showed a median projection of two more 25-bp rate cuts next year, down from four such moves projected in the last SEP following the September meeting. What we've witnessed over the past three months is data dependency in action. A soft patch of economic data in August and September seemed to strike fear in the Federal Open Market Committee (FOMC) members' hearts as they moved aggressively by lowering rates by 50 bps in September and now by a total of 100 bps over 92 days. But just as soon as they began to lower rates, the data rebounded. Pick your metric: Inflation stopped falling, the unemployment rate stopped rising, and the final look at third quarter gross domestic product (GDP) showed annualized growth of 3.1%. This has clearly not been a struggling economy. A few months ago, the Fed had a rational playbook of regular rate cuts over the next year to bring rates back to neutral. The economy's resilience has now called that—or at least any kind of rapid easing—into question.

Sector views

Prime sector

At the press conference following the FOMC's December interest rate cut, Fed Chair Powell indicated that policy is now entering a "new phase" where the FOMC will move more cautiously. This hawkish tone was reflected not only in the SEP adjustment to fewer cuts mentioned above but also in the forecast for median core Personal Consumption Expenditures (PCE)[1] inflation, which was revised up 30 bps to 2.5%, with Chair Powell hinting that this could reflect some participants' assumptions for trade and other policies from the incoming administration. Moreover, the dots of four participants implied no cuts were warranted at the December meeting, including one who dissented in favor of no cut (Cleveland Fed President Hammack). Consistent with this, Chair Powell at the press conference indicated that the FOMC decision was a closer call than prior cuts. Finally, the

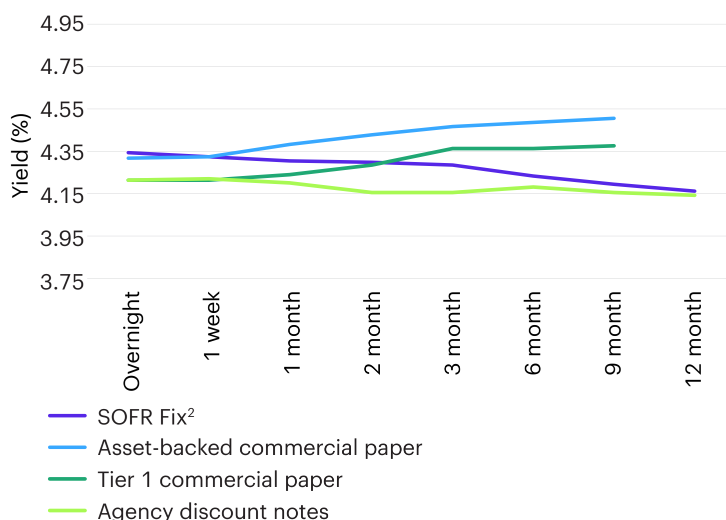
statement added a phrase about "the extent and timing" of additional adjustments—language that is consistent with the possibility that the FOMC holds rates steady at the next meeting in January. Chair Powell indicated four reasons for these hawkish turns: less concern about labor market weakness, risks to the inflation outlook, the fact that rates are now 100 bps closer to neutral than they were at the start of the cutting cycle, and higher uncertainty motivating a slower path back toward neutral.

In the economic forecasts released by the FOMC, the only notable revision occurred to the median core PCE inflation forecast, which was revised up 30 bps in 2026 to 2.5% and 20 bps in 2027 to 2.2%. This occurred even though the unemployment rate forecast was only nudged lower next year by 10 bps and is still projected above its natural rate. In September, most members saw risks to the unemployment rate weighted to the upside, but at the December meeting, most saw them as balanced. In contrast, back in September, most saw inflation risks as balanced, but now a large majority see them weighted to the upside.

In the press conference, Chair Powell was "very optimistic" on the economy, calling its recent performance "remarkable." He described policy as now "significantly less restrictive" than at the start of the easing cycle, though still "meaningfully restrictive." On the labor market, he said downside risks "appear to have diminished" though "it's clearly still cooling further." On the inflation outlook, he was perhaps less worried than the median SEP forecast: Goods inflation is where it was pre-pandemic, housing service inflation is now coming off, and market-based non-housing services are in "good shape."

As expectations of the pace of easing slowed, the money market rate curve steepened as issuers in the one-year area of the prime curve had to offer more yield to entice investors. In addition to more gradual FOMC easing, short-term impacts of year-end funding pressures have led issuers to pay a premium to attract investors. However, total commercial paper outstandings have decreased by $20 billion in December, mainly in the financial category as banks are adjusting liquidity requirements to avoid typical year-end funding pressures and to meet liquidity coverage ratio targets established by regulators.

MONEY MARKET YIELD CURVES



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

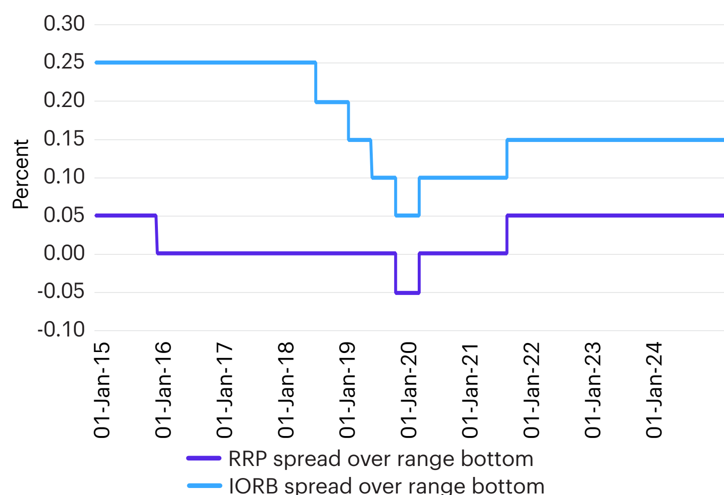
With the FOMC still in an easing cycle, even if the pace has slowed, we continue our strategy of opportunistically extending fixed-rate term purchases while maintaining an enhanced liquidity buffer to meet the liquidity needs of our shareholders. We feel the risk/reward proposition favors extending weighted average maturities[3] to capture above-target yields in an environment that is skewed toward the FOMC delivering future rate decreases.

U.S. government sector

It's fair to say the most important topic is the interest rate path the Fed may eventually follow, but as that is well covered above, it's worth discussing another move the Fed made at its December meeting. Apologies for getting in the weeds on this one, but the Fed made a technical adjustment to the rate on its reverse repurchase agreement program (RRP)—one of its two primary administered rates, with the other being its rate of interest on reserve balances (IORB), which is the rate the Fed pays banks on their reserves. The IORB rate has typically been set nearer to the top of the Fed's target range, while the RRP rate is near the bottom. The Fed intends the two rates to work together to keep the effective federal funds rate (EFFR), an index reflecting activity in the federal funds market, in the Fed's target range, with the IORB rate pulling market rates up in the range while the RRP rate provides a floor of sorts for market rates. For the record, at its recent meeting when it dropped the target range for the EFFR from 4.50–4.75% to 4.25–4.50%, it also cut the IORB rate from 4.65% to 4.40% and cut the RRP rate from 4.55% to 4.25%. So, everything went down by 25 bps except the RRP rate, which fell by 30 bps.

Market conditions over the past decade have varied widely—from markets flooded with cash after Fed quantitative easing (QE) programs boosted its balance sheet to those running lean on cash after quantitative tightening (QT) eventually shrank its balance sheet—and those different conditions have necessitated different placements of the rates on IORB and RRP. The two charts below display a history of the Fed's "technical adjustments" to the two administered rates, so labeled because they're not intended to represent changes in rates for monetary policy purposes. Together they show the Fed has typically acted to adjust the rates only when the EFFR has begun to approach one of the boundaries of its target range. When the EFFR consistently got within 5 bps of the top of the range, the Fed lowered IORB, and likewise, when it began approaching 5 bps from the bottom of the range, the Fed raised IORB. Another takeaway from the charts is that IORB changes have been the Fed's tool of choice when attempting to tweak the federal funds market, while it has often left the RRP alone.

FED TECHNICAL ADJUSTMENTS

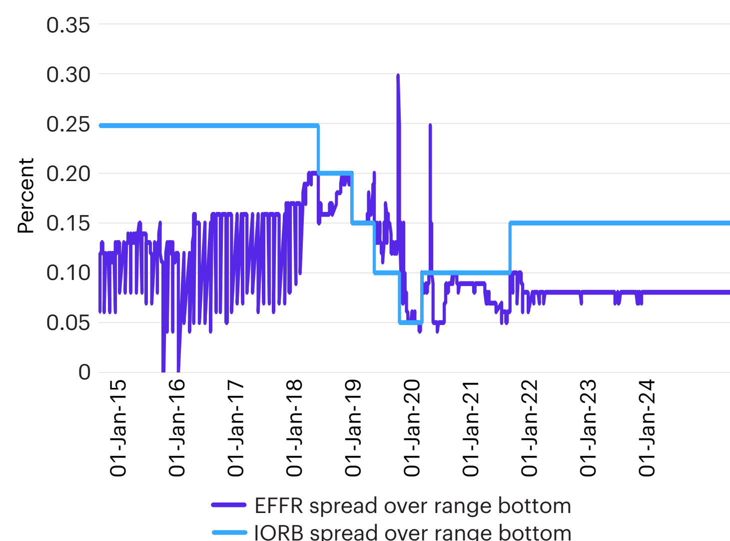


Sources: Federal Reserve Bank and Bloomberg Finance L.P.

One view based on those two observations would be that the recent tweak to the RRP rate was curious, as the EFFR has been locked in at 8 bps above the bottom of the Fed's range for the better part of three years, meaning it has not threatened either of the range boundaries, the usual trigger for adjustment. On the other hand, the RRP rate has spent a lot of time set at par with the bottom of the target range, and this move could be viewed as just bringing it home. It was 5 bps above that during the long years when interest rates were at zero, which was necessary because all of the QE-generated cash in the system was threatening to move rates below the bottom of the Fed's range. However, that ended at the momentous rate liftoff in December 2015, when the RRP was shifted down to the bottom of the range. Not coincidentally, it was again moved up 5 bps in the range in the post-pandemic period of zero interest rates, with the floor again threatened.

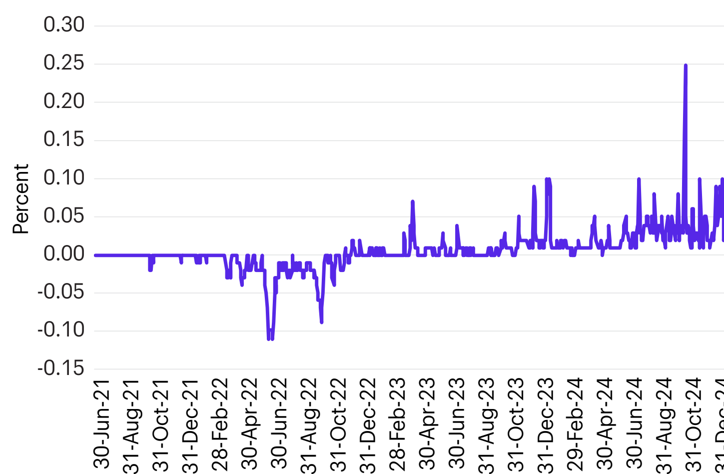
The wild card that likely drove this unusual move to bring the RRP rate home was a gradual move higher—relative to the range—of market repo rates. Fluctuations in the repo market are driven as much by the influence of banking regulations on bank and dealer behavior as they are by the amount of liquidity in the system, with the impact of regulations more pronounced near reporting dates such as quarter- and year-end. As the chart below shows, the Secured Overnight Financing Rate (SOFR)[4] has gradually moved higher in the range over the past two years, especially near statement dates. Not coincidentally, the Fed's current round of QT has been operating in the background over that period, gradually shrinking its balance sheet. This move by the Fed to lower RRP appears to be mostly a response to those higher repo rates. With the EFFR well behaved even after this last move, it's conceivable the Fed could lower RRP further if repo rates grow more unruly.

FED TECHNICAL ADJUSTMENTS



Sources: Federal Reserve Bank and Bloomberg Finance L.P.

SOFR/RRP SPREAD



Sources: Federal Reserve Bank and Bloomberg Finance L.P.

This whole thing is not a big deal for investors, who will now earn roughly 4.25% on their cash instead of 4.30%—both miles away from the 0.00% they earned for a big chunk of the past 15 years—but considering the scale of the notional amounts involved, it will help the bottom lines for both the Fed and the U.S. Treasury.

Municipal sector

Yields in the municipal money market space were mixed to close out 2024. The Securities Industry and Financial Markets Association (SIFMA) Index[5] continued to experience weekly volatility before closing out the month at 3.62%, up from 2.86% at the end of November. Year-end pressures resulted in elevated levels on variable-rate demand notes (VRDNs)[6] and tender option bonds (TOBs)[7] in the overnight and weekly sectors. However, yields on high-grade notes in the one-year area remained relatively unchanged at 3.07%. Municipal money market fund assets remained volatile and closed out the month at $141 billion, according to Crane Data.

Following the FOMC's much anticipated rate cut on December 18, the committee indicated that risks to its dual mandate were becoming more closely balanced and that any further policy moves would be data dependent. Accordingly, we have continued to prudently manage our weighted average maturity with this revised outlook. As we head into 2025, we will continue to focus on the potential macroeconomic and other policy impacts a second Trump administration may have on the broader markets and central bank monetary policy.

On the horizon

The Fed is famously poor at projecting the economy's future, which puts them right alongside everyone else. Among the many potential paths forward for interest rates, it's possible—and in fact perhaps even likely—that inflation remains unthreatening, moving glacially back to 2% eventually, allowing the Fed to continue to ease back on rates. If that's accompanied by a more rapid deterioration in the labor market, as feared last fall, more rapid cuts could be back on the table. But if postelection animal spirits juice an already solid economy, the Fed may find itself pausing for a meeting, then another, until it finds itself in an extended pause at 4.25%. We may soon be in a position similar to late 2019, when the Fed had executed a midcycle adjustment to bring rates down from a cycle peak of 2.25–2.50% to 1.50–1.75%. At that time, the Fed felt it had overtightened and was recalibrating rates. We didn't know then what direction the next move would be, and in a sense, we never got to find out, as the pandemic took the reins. Here, the market thinks the Fed probably has a bit more loosening to go to complete the recalibration, but we might soon find ourselves in that 2019 frame of mind, where we don't know if the economy will nudge the Fed to lower, raise, or stay on hold.

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

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	4.43	4.45	–	–	–	–	–
Fed reverse repo rate	4.25	–	–	–	–	–	–
U.S. Treasury bills	–	–	4.21	4.24	4.25	4.21	4.13
Agency discount notes	4.23	4.24	4.22	4.17	4.17	4.20	4.16
SOFR	4.37	–	4.33	–	4.31	4.25	–
Asset-backed commercial paper	4.34	4.35	4.41	4.46	4.50	4.52	–
Dealer commercial paper	4.23	4.23	4.26	4.31	4.39	4.39	–
Municipals	3.92	3.62	2.92	2.93	2.94	2.98	3.07

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

Fund	7-day current yield
Money Market Fund*–Premier	4.51
Government MMF**–Select	4.42
Treasury Plus MMF**–Select	4.39
100% Treasury MMF**–Inst	4.34

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 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 4.39%, 4.36%, 4.32%, and 4.40%, 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 Personal Consumption Expenditures (PCE) Index is the primary measure of consumer spending on goods and services in the U.S. economy. It accounts for about two-thirds of domestic final spending and is part of the personal income report issued by the Bureau of Economic Analysis of the Department of Commerce. You cannot invest directly in an index.

2. SOFR Fix data is provided by Bloomberg Finance L.P. and Allspring. The forward-looking measurements of the Fed's SOFR are based on market expectations implied from leading derivatives markets.

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. 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.

5. 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.

6. 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.

7. 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.

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