

An Inflection Point

SVB FALLOUT | 21 MARCH 2023



GEORGE BORY, CFA

Chief Investment Strategist
Fixed Income

Fallout from volatility across the banking sector following the collapse of Silicon Valley Bank (SVB) and subsequent policy responses from regulators in the U.S. and Europe likely mark **an inflection point in policymakers' current tightening cycle**. However, regulators' inflation-fighting credentials are still very much at risk, with core inflation in the U.S. running at approximately 5.5%, well above the Federal Reserve's (Fed's) 2.0% target. The duality of fighting deflation and inflation at the same time with the same tools leaves Fed officials in a real bind. They're likely to hike rates one more time this week but may need to pause thereafter. Also, policymakers on both sides of the Atlantic may attempt to lean heavily on forward guidance and balance sheet management going forward to help stabilize markets.

Risk of a recession has risen considerably over the past two weeks as losses in the banking system are likely to lead to tighter credit

conditions going forward. This situation coupled with already-tight monetary policy suggests heavy sledding in the real economy. Credit investors repriced credit markets in a violent, but fairly orderly, manner with spreads about 35% wider in 10 days. However, current levels of credit spreads suggest an economic backdrop of sluggish, uninspired growth—but not a recession.

Looking ahead, bond yields should consolidate around current levels but trend lower over time as growth falls and inflation moderates. Credit spreads could come under more pressure, with more segmentation across the market as weak credits are exposed and strong credits thrive. Given the relatively high starting point of yields, returns could be attractive. We've positioned for this outcome and believe our commitment to active management and diversified risk management should help mitigate investment volatility throughout this period. Allspring's active investment process in fixed income rests on making diversified investment decisions across rates; curves; ratings; sectors; and, most importantly, securities.



Global Liquidity Solutions



JEFF WEAVER, CFA
Senior Portfolio Manager
Head of Global Liquidity Solutions

The Fed can simultaneously fight inflation and manage liquidity in the banking system. However, it cannot buffer against capital shortfalls. Additional rate hike(s) should help the Fed preserve its inflation-fighting credentials, while underwriting liquidity provisions (in conjunction with the Treasury and Federal Deposit Insurance Corp.) should help stabilize the banking system.

Allspring's forward-looking view

Despite the market turmoil caused by SVB's failure, we expected the Federal Open Market Committee (FOMC) to raise interest rates by 25 basis points (bps; 100 bps equal 1.00%) on Wednesday, March 22, in an attempt to preserve its inflation-fighting credentials. However, the FOMC may lean heavily on forward guidance and the possibility of more flexible balance sheet management to help restore stability in the financial system.

It's surprising how quickly perceptions can change. In the days before federal regulators shut down SVB on March 10, 2023, investors debated whether data releases during the month of February were concerning enough to merit a 50-bp increase in the federal funds rate. In the 10-day span (as of this writing) since SVB failed and subsequent concerns around First Republic Bank and Credit Suisse bubbled to the surface, rate-hike expectations for the Fed's March 21/22 meeting have been pared back significantly.

Economists frequently say that the Fed tightens policy until something breaks—and after March 10, something broke. The Fed will be sensitive to the instability that has ensued in markets since and will want to observe how the new interest rate environment, which works with long and variable lags, continues to affect the real economy.

Positioning for the future

Liquidity and short-duration portfolios are well positioned for the current market environment, in our view. Beginning last fall, the team held the view that corporate credit spreads did not properly compensate investors for the risk of a slowdown as the Fed continued full tilt on its tightening cycle. Alongside that, the 2-year Treasury yield exceeded 4%—a level not seen since 2007—making Treasuries a viable alternative investment. Portfolios began increasing exposure to Treasuries at the expense of corporate bonds in late 2022. In times of heightened volatility, portfolio managers maintain a steadfast focus on two primary investment objectives: preservation of principal and ample liquidity in portfolios.

The primary market is the most plentiful source of offered side liquidity but has been shuttered due to a recent surge in market volatility, making price discovery in yield-advantaged sectors more challenging. As the primary market reopens, which could happen as early as this week, portfolios will look to take advantage of opportunities. Investors are likely to demand significant compensation for lending money even to the highest-quality issuers. Many companies whose fundamental credit metrics are unblemished by the crisis of confidence in domestic regional banks will be forced to pay elevated interest rates. This is a credit-pickers' market, which favors a disciplined approach to a bottom-up security selection process, such as the process Allspring follows.



Municipal Fixed Income



NICK VENDITTI, CFA
Senior Portfolio Manager
Head of Municipals

We believe municipal debt will likely outperform other asset classes, such as bonds, equities, and even cash, over the next six to nine months. A combination of healthy fundamentals and very strong technicals should support this segment of the bond market during these turbulent times.

Allspring's forward-looking view

At Allspring, we believe munis offer both absolute and relative value. On an absolute basis, yields are much higher today compared with the past decade. When yields go up, the value of the tax exemption of municipal bonds goes up, too. On a relative basis, munis are not in the crosshairs of today's volatility. That is reserved for regional banks; federal debt; and, increasingly, equities. As a result, the price volatility of munis is less than other parts of the market.

Muni fundamentals are in good shape, but munis aren't immune to cyclical trends. If the economy slows down, muni credit spreads will widen. However, muni revenue streams (i.e., taxes) tend to hold up better than the cyclical earnings of companies, at least initially. You know this if you own a house. When your house appreciates, your local assessor is quick on the draw to send you a new and improved tax bill. But when it declines in value, the assessor is much slower to send you a lower tax bill. As an added benefit, the water and sewer systems across America are significantly less affected by geopolitical conflicts, failing

regional banks, and supply-chain issues than a typical industrial company is.

Positioning for the future

As previously stated, we're constructive on the outlook for munis. As disciplined risk managers, it's important to make sure we scale our positions prudently. Currently, interest rate volatility is very high. As a result, "duration" as a risk is relatively cheap. To capture this, we're increasing the duration of our portfolios. That said, the yield curve is inverted, so bonds with a maturity of 20 years offer a better risk/reward than bonds 20 years and longer. This allows us to slowly step into duration without overpaying for curve exposure.

On the credit side, many municipalities across America are still basking in the glow of the \$5 trillion stimulus check written by the federal government during COVID-19. Much of that money was paid directly to states and municipalities. Looking forward, we expect the benefits of the stimulus to wane, but fundamentals should remain healthy for the foreseeable future. Indeed, even more challenged credits, such as those of Illinois, were upgraded by the rating agencies following the stimulus transfer payments. As a result, many opportunities remain for investors to take credit risk up and down the ratings spectrum. However, we're shifting our credit purchases to those A-rated or higher as higher quality likely pays off in the near term.



Plus Fixed Income



JANET RILLING, CFA
Senior Portfolio Manager
Head of Plus Fixed Income

Taxable-bond investors should benefit from the recent upsurge in volatility as it acts to slow growth and temper inflation. An up-in-quality bias should perform well in this environment as higher-quality cash flows are likely to be more stable and more predictable. Looking farther out, the opportunity to add credit risk will likely emerge, but not quite yet.

Allspring's forward-looking view

We see the events that have transpired since the fall of SVB as indications that the cumulative impact of the historically fast monetary policy tightening over the past year is beginning to affect the real economy and tighten financial conditions. Tighter financial conditions should act as a drag on the economy and help bring down inflation. This is something we've been expecting for the past few months. We believe this indicates that recessionary risks, which were already higher than average coming into 2023, have increased in recent weeks. Valuations have changed substantially since SVB collapsed: Government bond yields have fallen, yield curves have steepened, and credit spreads have widened. At current levels, both the yield curve and credit spreads suggest slow, sluggish growth over the coming quarters—but not quite a recession. As a result, we maintain a defensive bias in our portfolios.

Positioning for the future

Over the past few quarters, we've been positioning our portfolios for a period of high volatility and economic uncertainty. We allowed our exposure to duration to moderate between neutral and modestly long relative to our benchmarks, we positioned for a steeper yield curve, and we brought our exposure to credit down. In credit, we reduced our exposure to U.S. investment-grade and high yield credit (which in some portfolios is at all-time lows) and moved up in quality in the existing allocation. We recycled risk into FX-hedged global government bonds to earn income while avoiding credit risk and building liquidity and optionality into portfolios. We also added to high-quality agency mortgage-backed securities as valuations improved and we closed out our long-standing underweight to that sector.

We're comfortable with our existing allocation at this time given the intense volatility in the market and the fluidity of market developments. However, we remain vigilant in our consideration of relative value and will adjust portfolios accordingly.



For more information

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.

allspringglobal.com

Contact details

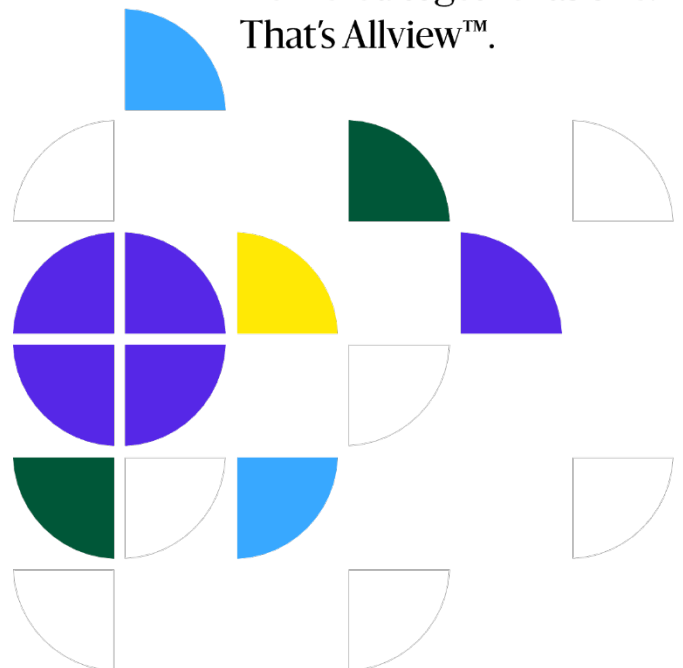
FOR U.S. INVESTORS ONLY

- To reach our U.S.-based investment professionals, contact your existing client relations director, or contact us at AllspringInstitutional@allspringglobal.com.
- To reach our U.S.-based intermediary sales professionals, contact your dedicated regional director, or call us at **1-888-877-9275**.
- To reach our U.S.-based retirement professionals, contact Nathaniel Miles, head of Retirement at Allspring Global Investments, at nathaniel.s.miles@allspringglobal.com.
- 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.

FOR NON-U.S. INVESTORS ONLY

- To reach our non-U.S.-based investment professionals, contact us at AllspringInternational@allspringglobal.com.

Unique viewpoints.
Delivered together as one.
That's Allview™.





CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.

This information is a marketing communication, unless stated otherwise, for professional, institutional or qualified clients/investors (as defined by the local regulation in the respective jurisdiction). Not for retail use.

THIS MATERIAL DOES NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY JURISDICTION OR TO ANY PERSON WHERE IT WOULD BE UNAUTHORISED OR UNLAWFUL TO DO SO.

Past performance is not a guarantee or reliable indicator of future results. Any past performance, forecast, projection, simulation or target is indicative and not guaranteed. All investments contain risk. The value, price or income of investments or financial instruments can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Your capital may be at risk. Allspring Global Investments™ (Allspring) is the trade name for the asset management companies of Allspring Global Investments Holdings, LLC (Allspring Holdings), a holding company indirectly owned by certain private funds of GTCR LLC and Reverence Capital Partners, L.P. Unless otherwise stated, Allspring is the source of all data (which is current or as of the date stated); content is provided for informational purposes only with no representation regarding its adequacy, accuracy or completeness and should not be relied upon; views, opinions, assumptions or estimates are not necessarily that of Allspring Holdings, Allspring or their affiliates and are subject to change without notice; and this communication does not contain investment advice, an investment recommendation or investment research, as defined under local regulation of the respective jurisdiction.

Distribution in the United States: Allspring companies include, but are not limited to, Allspring Global Investments, LLC, and Allspring Funds Management, LLC. Certain products managed by Allspring entities are distributed by Allspring Funds Distributor, LLC (a limited-purpose broker-dealer and Member FINRA/SIPC). Associated with Allspring is Galliard Capital Management, LLC (an investment advisor that is not part of the Allspring trade name/GIPS company).

Distribution in the United Kingdom (UK), European Economic Area (EEA) and Switzerland: Allspring companies include, but are not limited to, Allspring Global Investments (UK) Ltd. (Allspring UK), an investment management company authorised and regulated by the UK Financial Conduct Authority (FCA), and Allspring Global Investments Luxembourg S.A. (Allspring Luxembourg), authorised and regulated by the Commission de Surveillance du Secteur Financier. Allspring Luxembourg has branches in Frankfurt, Paris and Milan and is allowed to provide services on a cross-border basis in the EEA. This material has been approved for distribution in the UK by Allspring UK for the purposes of Section 21 of the Financial Services and Markets Act 2000 (FSMA). Allspring UK does not provide services to retail clients, the FSMA rules for retail clients will not apply and the United Kingdom Financial Services Compensation Scheme is not available. Unless otherwise stated, information does not contain investment advice, an investment recommendation or investment research as defined under FCA regulations or the Markets in Financial Instruments Directive (Directive 2014/65/EU (MiFID II)) and therefore does not comply with the requirements of such services. For professional investors only. Recipients who do not wish to be treated as professional should notify their Allspring contact immediately.

Distribution in the United Arab Emirates (excluding Dubai International Financial Centre and Abu Dhabi Global Market): Allspring companies include, but are not limited to, Allspring Global Investments (UK) Ltd. (Allspring UK), an investment management company authorised and regulated by the UK Financial Conduct Authority; Allspring Global Investments Luxembourg S.A. (Allspring Luxembourg), authorised and regulated by the Commission de Surveillance du Secteur Financier; and Allspring Global Investments, LLC. This material is intended for professional clients (defined by DFSA). This material and the information contained herein do not (intend to) constitute a public offer in the United Arab Emirates (UAE) and should not be construed as such. The material is offered to a limited number of exempt investors in the UAE who fall under one of the following categories of non-natural qualified investors: 1. an investor that is able to manage its investments on its own, namely the federal government, local governments, government entities and authorities or companies wholly owned by any such entities; international entities and organisations; or a person licensed to carry out a commercial activity in the UAE, provided that investment is one of the objects of such person, or 2. an investor who is represented by an investment manager licensed by the Securities and Commodities Authority (SCA), each a non-natural qualified investor. The materials have not been approved by or licensed or registered with the UAE Central Bank, the SCA, the DFSA, the Financial Services Regulatory Authority or any other relevant licensing authorities or governmental agencies in the UAE (the authorities). The authorities assume no liability for any investment that the named addressee makes as a non-natural qualified investor.

Distribution in Australia: Allspring Global Investments (UK) Ltd. (Allspring UK) is exempt from the requirements to hold an Australian financial services licence under the Corporations Act 2001 in respect of the financial services it provides to wholesale clients in Australia. Allspring UK is regulated and supervised by the Financial Conduct Authority under the laws of the United Kingdom, which differ from Australian laws. Allspring Global Investments, LLC (Allspring Investments), is exempt from the requirements to hold an Australian financial services licence under the Corporations Act 2001 in respect of the financial services it provides to wholesale clients in Australia. Allspring Investments is regulated by the United States Securities and Exchange Commission under US laws, which differ from Australian laws.

Distribution in Brunei: Allspring does not have a banking license under the Banking Order 2006, or a capital market services license under the Securities Markets Order 2013 to provide investment advice to clients in, or to undertake investment business in, Brunei. By requesting financial services from Allspring, you agree, represent and warrant that you are engaging our services wholly outside Brunei and subject to the laws of the contract governing the terms of our engagement. This document does not constitute an offer or an advertisement within the meaning of the Securities Markets Order 2013 and shall not be distributed or circulated to any person in Brunei.

Distribution in New Zealand: this information does not constitute an offer of financial products for issue requiring disclosure to an investor under Part 3 of the Financial Markets Conduct Act 2013 (N.Z.) (the Financial Markets Conduct Act (N.Z.)) or an offer of any other financial services requiring disclosure under the Financial Markets Conduct Act (N.Z.). Allspring is not offering or selling any financial products or financial services to any persons in New Zealand other than from offshore and other than to a person who is an "investment business" within the meaning of clause 37 of Schedule 1 of the Financial Markets Conduct Act (N.Z.), or meets the investment activity criteria specified in clause 38 of Schedule 1 of the Financial Markets Conduct Act (N.Z.), or is "large" within the meaning of clause 39 of Schedule 1 of the Financial Markets Conduct Act (N.Z.), or is a government agency within the meaning of clause 40 of Schedule 1 of the Financial Markets Conduct Act (N.Z.).

Distribution in Singapore: this advertisement has not been reviewed by the Monetary Authority of Singapore. This material and the information contained herein are for general information only. Nothing in this material is to be construed as an offer, solicitation or recommendation to buy or sell or subscribe for any security, unit in a fund or any other financial product or instrument or to enter into any transaction or to participate in any particular trading or investment strategy. This material does not constitute a prospectus, information memorandum, offering document or any other document required to be approved by, registered with or lodged with the Monetary Authority of Singapore. This material and the information contained herein do not constitute investment advice nor take into account the specific investment objectives, financial situation or particular needs of any person. Please seek advice from your professional advisor(s) before making any financial or investment decisions. This material and the information contained herein are directed only at, and intended only for, institutional investors and accredited investors (both as defined under the Securities and Futures Act 2001 of Singapore) and other classes of investors for which Allspring Global Investments (Singapore) Pte. Ltd. (Allspring Singapore), a capital markets services licence holder for fund management regulated by the Monetary Authority of Singapore, is licensed to serve. This material and the information contained herein are not intended for, and should be disregarded by, any retail investor.



Distribution in Hong Kong: this document is distributed in Hong Kong by Allspring Global Investments (Hong Kong) Ltd., which is a Hong Kong-incorporated company licensed and regulated by the Securities and Futures Commission to carry on Types 1 and 4 regulated activities, as defined in the Securities and Futures Ordinance (Cap. 571 The Laws of Hong Kong; the SFO), subject to the following conditions: it shall not hold client assets and it shall provide services only to professional investors (the terms "hold", "client assets" and "professional investors" are as defined in the SFO and its subsidiary legislation). There may be information relating to funds that are not authorised for retail distribution and are available only to qualified professional investors. This document is not intended for, and should not be relied on by, any person other than professional investors (as defined in the SFO or the Securities and Futures (Professional Investor) Rules (Cap. 571D of The Laws of Hong Kong)). Neither the issue of this document nor the information contained in it has been approved or reviewed by any regulatory authority in Hong Kong.

Distribution in South Korea: this document is distributed in the Republic of Korea by Allspring Global Investments, LLC, which is registered with the Financial Services Commission pursuant to the Financial Investment Services and Capital Markets Act (the Act) to conduct investment advisory and discretionary investment business with qualified professional investors (as defined in the Act). This document is not intended for, and should not be relied on by, any person other than qualified professional investors.

Distribution in Japan: This information is a marketing communication, unless stated otherwise, for "qualified institutional investors", as defined in Article 10 of the Cabinet Office Ordinance on Definitions under Article 2 of the Financial Instruments and Exchange Act of Japan. Not for retail use. This material and the information contained herein does not constitute and is not intended to constitute investment advice or an offer of securities and accordingly should not be construed as such. Any products or services referenced in this material may not be licensed or registered in all jurisdictions, and, unless otherwise indicated, no regulator or government authority has reviewed this material or the merits of the products and services referenced herein. This material and the information contained herein have been made available in accordance with the restrictions and/or limitations implemented by any applicable laws and regulations. This material is directed at and intended for "qualified institutional investors", as defined in Article 10 of the Cabinet Office Ordinance on Definitions under Article 2 of the Financial Instruments and Exchange Act of Japan. This material is provided on a confidential basis for informational purposes only and may not be reproduced in any form. Allspring does not provide tax, legal or accounting advice, and this material does not take an investor's personal investment objectives or financial situation into account. Before acting on any information in this material, prospective investors should inform themselves of and observe all applicable laws, rules and regulations of any relevant jurisdictions and obtain independent advice if required. This material is for the use of the named addressee only and should not be given, forwarded or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

Distribution in China: this material may not be provided, sold, distributed or delivered, or provided or sold or distributed or delivered to any person for forwarding or resale or redelivery, in any such case directly or indirectly, in the People's Republic of China (the PRC, excluding Hong Kong, Macau and Taiwan) in contravention of any applicable laws. This material does not constitute an offer to sell or the solicitation of an offer to buy anything referred to in the material, expressly or implied, in the PRC (excluding Hong Kong, Macau and Taiwan) to any person to whom it is unlawful to make the offer or solicitation in the PRC.

Distribution in Taiwan: any investment management and advisory services will be provided by Allspring, which does not hold the required licences under the law of the Republic of China (Taiwan). The provision of any investment management and advisory services has not been and will not be approved by the Financial Supervisory Commission of Taiwan. Any transaction will be consummated outside of Taiwan. The clients within the territory of Taiwan may be required to comply with certain qualification requirements and restrictions as set forth in the relevant laws and regulations of the jurisdiction where Allspring is registered.

Distribution in Indonesia: investment management and advisory services will be provided to Indonesian clients from an Allspring office located outside the territory of Indonesia. No services are provided in the territory of Indonesia. Allspring is not licensed under Indonesian laws or supervised by the Otoritas Jasa Keuangan.

Distribution in Thailand: this material, when distributed in Thailand, is intended only for institutional investors, as defined in the Notification of the Office of the Securities and Exchange Commission No. KorNor. 43/2549 Re: Investment management not considered as private fund management dated 27 December 2006 (as may be amended). It is solely for the use of such investors and shall not be distributed, forwarded, passed on or disseminated to any other person.

Distribution in Canada: Allspring Global Investments, LLC (Allspring Investments), is not registered as an investment advisor in any of the Canadian provinces, is only authorised to provide investment advisory services in Canada pursuant to an exemption available to foreign investment advisors under Canada's National Instrument 31-103 (NI 31-103) and can provide such services only to permitted clients as defined under NI 31-103. Allspring Investments is registered as an investment advisor with the United States Securities and Exchange Commission. Its head office is located at 1415 Vantage Park Drive, 3rd Floor, Charlotte, NC 28203 and, thus, substantially all of its assets are situated outside of Canada. As a result, there may be difficulty enforcing legal rights against Allspring because of the above, and investors are directed to Blakes Vancouver Services, Inc., Allspring Investments' agent for service of process, in the event of any disputes at the following address, phone number and email address: Blakes Vancouver Services, Inc., 595 Burrard Street, Suite 2600, Three Bentall Centre, Vancouver, BC V7X 1L3; tel: +604-631-3300; e-mail lisa.marchese@blakes.com.

Distribution in the Bahamas: The information provided herein is intended solely for the designated recipient thereof. It is not an offer to the public. The information contained herein is for general informational purposes and is not deemed an offer to the public. Advice of local counsel in connection with information contained herein is recommended.

Distribution in Brazil: The information provided herein is intended solely for the designated recipient thereof. It is not an offer to the public. The information contained herein is for general informational purposes and is not deemed an offer to the public. Advice of local counsel in connection with information contained herein is recommended.

Distribution in the Cayman Islands: Allspring is not regulated in the Cayman Islands and is not licensed or otherwise authorized to carry on business, including securities investment business, in or from the Cayman Islands.

Distribution in Chile: Allspring may not offer or provide any of the products or services in Chile. Allspring is not regulated by the Chilean authorities and participation in any product or service is an offshore investment activity that is not subject to any Chilean supervision and is not guaranteed by any regulatory or governmental agency in Chile.

Distribution in Mexico: The information provided herein is intended solely for the designated recipient thereof. It is not an offer to the public. The information contained herein is for general informational purposes and is not deemed an offer to the public. Advice of local counsel in connection with information contained herein is recommended.

Distribution in Peru: Allspring and the services offered are subject to the laws and jurisdiction of the United States and are not regulated or supervised by any Peruvian entity or government authority.