Allspring

Overview, Strategy, and Outlook

Allspring Money Market Funds

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Let's make a deal (ca. 2023)

As debt ceiling resolutions go, the deal announced over the Memorial Day weekend in May didn't feel like it was coming at the last minute. Maybe the 10th hour, but certainly not the 11th. In spite of all the drama and the hoopla surrounding the possibility of the U.S. defaulting on its debt, with folks this time around putting odds on a default and describing various doomsday scenarios, the last few days of the month seemed almost anticlimactic. The markets are now embracing the idea that the debt ceiling will be raised, with Treasuries rallying and volatility decreasing. On the Friday before the weekend, Speaker McCarthy opined that any deal would not fully satisfy either party, and based on early reads, it seems he is correct—by and large the Fiscal Responsibility Act does not give conservatives the large fiscal reforms they want, and liberals are not getting a "clean" debt ceiling resolution. What it is, though, is a bipartisan, negotiated agreement that has a little something for everyone and may represent a step in the right direction to getting our fiscal overspending in order. While it still must pass Congress and go to President Biden for his signature as of this writing, and there does remain a slight chance it may not pass, the markets are heaving a sigh of relief from having safely navigated this episode.

Sector views

U.S. government sector

With the debt ceiling well on the way to being resolved, we'll first take a look back before looking to what's next. The market expected to have to deal with this in the fall, as most projections expected the usual mid-April flood of tax receipts to be sufficient to carry the Treasury through the summer. By the end of April, it became clear that tax receipts had disappointed, and it was possible the Treasury would not have the cash sufficient to reach its next tax inflow date in mid-June. Thus, early June became the area of concern. As that concern grew, Treasury bills (T-bills) maturing between June 1 and June 13 fell more and more out of favor, with the disfavor reaching a crescendo in the last full week of May when they briefly traded at yields near 7%, compared with prevailing rates around 5%. After the announcement of the deal, spirits were high enough to have brought the yields on the securities of concern back down to 5.2% by the end of the month.

The debt ceiling is an accident of history (Congress was trying to simplify debt issuance, not create a tool to limit it), and it's a shame it has evolved as it has. But it's here, and as it provides a lever to wield power, it's only natural that politicians will use it. You have to be realistic about it. That said, there were some silver linings this time around. First, there were grownups in the room after all. Biden, a centrist and deal-maker from way back, wanting to make a deal was no surprise, but McCarthy wrangling a seemingly fractious caucus to do the same was. Second, it was over quickly! As mentioned earlier, this was poised to be an issue through most of 2023, and it really is a miserable time for investors, dealing with limited T-bill supply as the Treasury is up against the limit and avoiding potentially at-risk T-bills. It's over quickly because tax receipts disappointed, and one significant reason they disappointed is the tax filing date for certain areas affected by natural disasters, including most of California, was moved from April to October this year. It's not a stretch to say that California's winter rains are responsible for the debt ceiling being resolved in May rather than the end of summer.

Looking ahead, the most obvious impact of the resolution will be that the Treasury needs to rebuild its cash balance—the Treasury General Account (TGA)—quickly. It had fallen to $37 billion near the end of May, which is like your petty cash jar being down to single dollar bills and quarters. As part of its most recent refunding announcement, the Treasury had projected TGA balances of $550 billion and $600 billion on June 30 and September 30, respectively, which gives you an idea of the kind of balance the Treasury would prefer to run with. So at a minimum, the Treasury would need to raise $500 billion just to rebuild its cash. However, given the federal deficit (ultimately the cause of the whole problem), the Treasury will need to raise even more to fund the government's operations, which explains why numerous observers of federal funding expect to see the T-bill supply rise by as much as $1 trillion over the balance of the year.

One trillion dollars is admittedly a lot, and there might be concerns about how easily the Treasury could issue that debt if there were not a ready pot of $2.2 trillion sitting in the Federal Reserve's (Fed's) reverse repurchase (repo) program (RRP) every day, waiting for an opportunity for investment. Money in the RRP currently earns 5.05% and is returned daily, and the Treasury would typically have to pay a little bit better than that to entice investors to commit their money for a longer term. How much more remains to be seen. It is complicated, however, by the fact that the Fed just can't seem to get firmly on hold, no matter how much it wants to. With the prospect of potential rate hikes still on the horizon, the RRP looks even more attractive, meaning T-bill yields might have to increase more to entice the money out of the RRP. This closing act in the latest debt ceiling drama should begin quickly in early June as the Treasury will want to boost the TGA as soon as the debt ceiling bill has become law.

Prime sector

As we sit on the cusp of the debt ceiling resolution, market participants can turn their attention back to the activities we've been focusing on for the past year—the Fed and specifically what it will do. The Federal Open Market Committee (FOMC) raised its target rate range by 25 basis points (bps; 100 bps equal 1.00%) to 5.00% to 5.25% at the conclusion of its May 3 meeting. The corresponding statement continued to point toward the FOMC being data dependent on future rate increases.

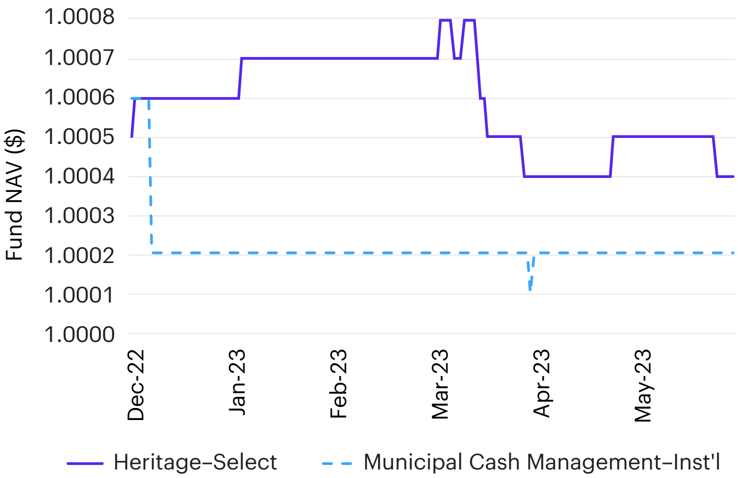
The statement removed the phrase "the committee anticipates that some additional policy firming may be appropriate," instead stating it would consider the totality of data in "determining the extent to which additional policy firming may be appropriate" with the goal to bring inflation back to its 2% target.

Fed-speak during the month was largely mixed as well, reinforcing the data dependency of the committee. The May FOMC meeting minutes were released during the last week of the month and noted that "participants generally agreed" that the extent to which further monetary policy tightening was appropriate "had become less certain" and "many" participants agreed that the FOMC should "retain optionality" on its policy decisions beyond May. While "some" participants noted that additional policy tightening would likely be needed given the slow progress on returning inflation to the FOMC's target, "several" participants noted that "if the economy evolved along the lines of their current outlooks, further policy firming after this meeting may not be necessary." In judging the extent to which additional policy firming could be appropriate, participants cited the effects of cumulative policy tightening, which they judged was "beginning to have its intended effect"; the effect of tighter credit conditions, which they judged "was very uncertain"; and "additional factors," which included progress toward the FOMC's inflation target, the pace of economic growth, and labor market strength. Bottom line is the FOMC is data dependent and the holding-rates-higher-for-longer narrative continues to make economic sense.

Rates markets have been focused on the issues surrounding the debt ceiling, economic data, and Fed-speak for direction. As of this writing, with the generally positive position of the debt ceiling, economic data continues to be largely supportive of continued rate increases and Fed-speak has been balanced, though Fed Chair Powell has been more dovish. One consequence of the debt ceiling debate has been that risk appetite diminished, causing credit spreads to marginally widen and yields to rise. For example, the six-month London Interbank Offered Rate (LIBOR)[1] moved higher by roughly 20 bps to 5.62%. Once the debt ceiling is behind us, the market will refocus on data and the path of the FOMC.

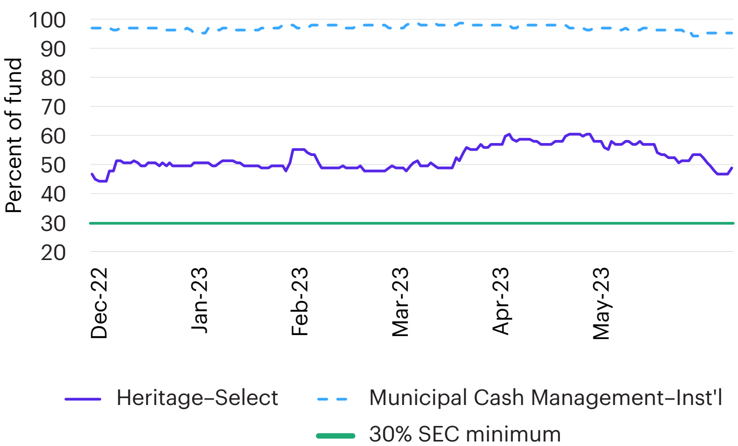
Our conservative approach to portfolio management—favoring excess liquidity and shorter weighted average maturities than the stated regulatory requirements—historically has enabled our portfolios to quickly capture the FOMC rate increase in the fund yield. In addition, we extend fixed-rate term purchases when the opportunity offers a favorable value proposition. Our short maturities should enable us to continue to reap the benefits of further tightening. In addition to capturing higher yields, the enhanced liquidity buffer in our portfolios enables us to meet the liquidity needs of our shareholders and helps dampen net asset value (NAV) volatility in the face of higher yields and wider spreads.

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



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

FNAV MONEY MARKET FUNDS WEEKLY LIQUID ASSETS



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

Municipal sector

The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index[2] continued to exhibit volatility, beginning the month at 3.45% and falling to 2.93% at mid-month. Rates in the short end would eventually rise going into month-end, with the SIFMA Index closing out at 3.56%, while overnight rates peaked at roughly 4.00%. For the month, municipal money market funds attracted roughly $5 billion in inflows, with the Crane Tax-Exempt Money Fund Index[3] topping out at $118 billion. Further out on the curve, yields on high-grade paper in the one-year space rose slightly to 3.34%, up from 3.14% at the end of April.

During the month, we continued to adopt a conservative posture with respect to weighted average maturities[4] given the inverted yield curve in the municipal money market space. We continued to focus our purchases primarily in variable-rate demand notes (VRDNs)[5] and tender option bonds (TOBs)[6] with daily and weekly put options in order to emphasize principal preservation and fund liquidity. Accordingly, our funds benefited from the elevated rates on overnight and weekly floating-rate securities during the month.

On the horizon

Next up is the FOMC meeting a scant two weeks from now. The Fed seems to think that, at 5%, rates are high enough and it would like to stop there, but the economy keeps chugging along, with core inflation off its highs but not exactly collapsing. Economic data has been mixed, Fed-speak has been mixed, and the futures markets closed the month with about a one-in-three chance of a June hike. It's so close that it may come down to the last two key economic data points before decision day, the latest payroll report, and then the Consumer Price Index[7] the day the Fed meeting starts. Whichever way the June meeting goes, the economy's strength and inflation's stubbornness look to keep the Fed on edge through the summer.

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

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	5.05	5.05	–	–	–	–	–
Fed reverse repo rate	5.05	–	–	–	–	–	–
U.S. Treasury bills	–	–	5.04	5.12	5.22	5.21	4.91
Agency discount notes	4.75	5.06	5.06	5.17	5.25	5.31	4.85
LIBOR	5.06	–	5.16	–	5.50	5.65	5.73
Asset-backed commercial paper	5.08	5.10	5.22	5.36	5.46	5.66	–
Dealer commercial paper	4.79	4.90	5.07	5.24	5.33	5.43	–
Municipals	3.98	3.56	3.14	3.16	3.18	3.26	3.34

Sources: Bloomberg L.P. and Allspring Global Investments

Past performance is no guarantee of future results.

Fund	7-day current yield
Heritage MMF*–Select	5.22
Municipal Cash Management MMF*–Inst'l	3.49
Government MMF**–Select	5.04
Treasury Plus MMF**–Select	5.03
100% Treasury MMF**–Inst'l	4.83

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, 2023, 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 5.15%, 4.97%, 4.99%, 3.34%, and 4.80%, 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.

* *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.

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.

For more information, please contact:

- Institutional Sales Desk: **1-888-253-6584**
- Website: **allspringglobal.com**

If you're an institutional investor, when you visit the website, click on your location and select your role on the welcome screen as "Institutional Cash Investor."

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. The Crane Tax-Exempt Money Fund Index is a simple average of municipal or tax-exempt money market funds tracked by Crane Data (currently 185 funds). This index is published in the Crane Money Fund Intelligence newsletter, MFI XLS and MFI Daily products. Crane Data has been publishing information and indexes on money market funds since 2006. Visit www.cranedata.com for more information. You cannot invest directly in an index.

4. 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.

5. 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.

6. 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.

7. The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living. The CPI is one of the most frequently used statistics for identifying periods of inflation or deflation. You cannot invest directly in an index.

The views expressed and any forward-looking statements are as of May 31, 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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