Allspring

Overview, Strategy, and Outlook

Allspring Money Market Funds

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Overview

Since our last commentary, we've had a Federal Open Market Committee (FOMC) meeting, the Federal Reserve Bank of Kansas City's Economic Policy Symposium at Jackson Hole, and a slew of economic data, so let's catch up. After a pause in June, the FOMC raised the target range for its federal funds rate by 25 basis points (bps; 100 bps equal 1.00%)—to 5.25% to 5.50%—at the conclusion of the July 26 meeting. The accompanying statement read much like the one from June, with minor tweaks: the economy was experiencing moderate (versus modest) economic growth and labor markets continued to exhibit strong job growth with low unemployment. At the press conference following the meeting, Federal Reserve (Fed) Chair Powell reiterated that inflation was well above the target rate, that rates were in restrictive territory but have not been there for long enough, and that further moves would be data-dependent. In determining the extent to which further firming might be appropriate, the committee would need to assess how the lagged effects of tighter credit conditions would weigh on economic activity, hiring, and inflation. The July meeting minutes, which were released mid-August, confirmed that members were still worried that inflation wasn't falling as much as expected, but the bottom line on the Fed remains—expect rates to be higher for longer.

Over the course of the past two months, economic releases were balanced between good and bad news, keeping rates markets uneasy due to the data-dependent nature of future policy adjustments. The employment cost index released after the July meeting showed some relief from the previous quarter, dropping to 1.00% from 1.20%. The payroll report in early August was similarly in check, showing gains of 187,000 versus expectations of over 200,000, but the unemployment rate ticked down to 3.5% from 3.6% and hourly earnings were up slightly. Mid-month, strong data pushed rates higher, with retail sales, price indexes, and new-home sales coming in higher than expected. But toward month-end, the JOLTS (Job Openings and Labor Turnover Survey) report showed fewer than expected jobs openings, and the ADP employment change came in lower than the survey, driving Treasury yields back down off their highs. The core Personal Consumption Expenditures (PCE) Price Index[1] came in as expected at an elevated 4.2%, once again leaving rates markets in search of the next data set for direction.

The bond market examined every word in Chair Powell's speech at the Jackson Hole symposium to glean any inkling if another rate hike should be expected and, if so, when. He said policy was "restrictive" and would remain so. He said the FOMC remained "attentive to signs that the economy may not be cooling as expected." He reiterated that the FOMC was committed to bringing down inflation, it would not change the target of 2%, and that "restoring price stability is essential." Finally, the FOMC would "proceed carefully" when deciding whether to hike or hold in the future. Many market pundits took this as likely the committee would skip tightening at the September 20 FOMC meeting, letting more time pass to see the effects of higher rates.

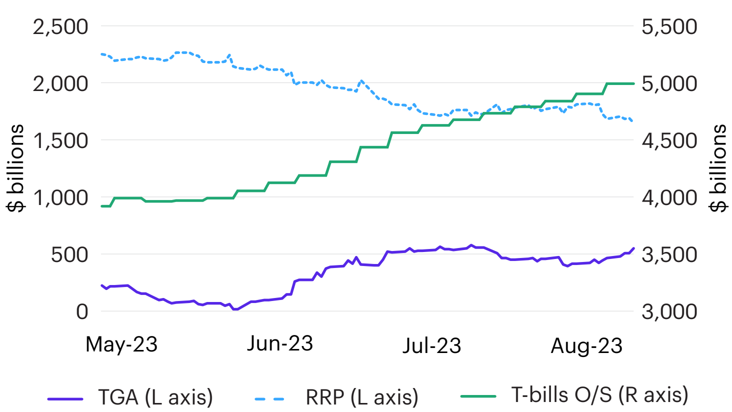
Sector views

U.S. government sector

In the government space, the stories of the summer have been the Treasury's drive to rebuild its cash balance (the Treasury General Account, or TGA) and how easy of a drive it has been. The TGA was dangerously low when the debt ceiling was resolved in early June, and investors were prepared for a nearly historic surge in Treasury bill (T-bill) issuance as the Treasury sought to restore a more comfortable cushion in the TGA. The open question was how smoothly the market could digest the large and rapid issuance at a time when the Fed's interest rate path was still unclear. Three months in, there hasn't been a hint of indigestion.

In that period, T-bills outstanding have grown $992 billion, from $4.0 trillion to $5.0 trillion, as shown in the chart below. The extra nearly $1 trillion of issuance hasn't all gone to TGA replenishment, though, as the U.S. operates at a deficit, especially in these summer months. The net result of all the government flows has been an increase in the TGA of $519 billion, to $542 billion on August 31—still short of the Treasury's comfort zone of about $650 billion, meaning elevated levels of issuance should continue into the fall.

T-BILL SURGE



Sources: Bloomberg L.P. and Allspring Global Investments

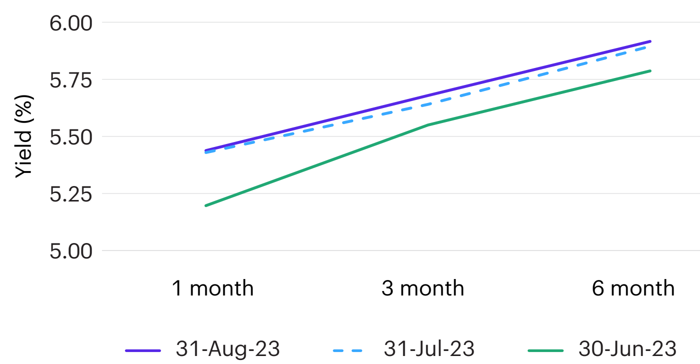
The T-bills were easily absorbed by the market because there's an abundance of cash in the system—a remnant of the Fed's efforts to boost the economy during the pandemic. As we've noted a few dozen times before, much of the extra cash is parked in the Fed's reverse repurchase (repo) program (RRP), and the owners of that cash have proven ready buyers of the extra T-bills. Over that same summer period, RRP usage fell by $603 billion, from $2.255 trillion to $1.652 trillion on August 31.

There are plenty of other moving parts in the money markets, not the least of which lately has been money sensibly moving from lower-yielding bank deposits to higher-yielding alternatives such as money market funds or T-bills themselves. That said, this summer's experience has shown that it's likely that so long as hundreds of billions of dollars reside in the RRP, extra T-bill supply will not be a problem for the market.

Prime sector

As the FOMC has made abundantly clear, it has reached the data dependency phase of the interest rate cycle. Activity in the short-term credit markets continues to be robust with issuers more willing to issue shorter-term debt today while waiting to reengage issuance out the curve as we get more clarity on the FOMC; U.S. investment-grade issuance (longer term) is down roughly $70 billion year to date. Short-term yields have been tracking expectations surrounding the FOMC as well. Yields in short-term credit markets tend to inch up as expectations for rates, at a minimum, would be higher for longer and tend to inch down when data suggests the FOMC may pause. The six-month London Interbank Offered Rate (LIBOR)[2] increased 2 bps this month, from 5.86% to 5.88%, and the yield curve spread between one-month LIBOR and six-month LIBOR remained wide at 44 bps, as uncertainty over another possible Fed move has caused investors to demand a premium over target rates, keeping this curve positive.

LIBOR YIELD CURVES AS OF 31-AUG-23

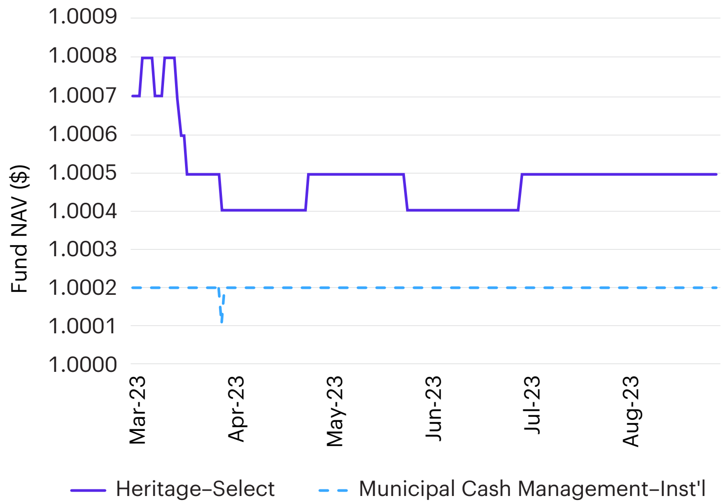


Sources: Bloomberg L.P. and Allspring Global Investments

Issuance of floating-rate securities continues to be strong and spreads are relatively stable as expectations surrounding the FOMC drive an attractive yield profile and protection if rates move higher. All eyes now focus on the Summary of Economic Projections in September to get a revised glimpse of FOMC members' policy forecasts.

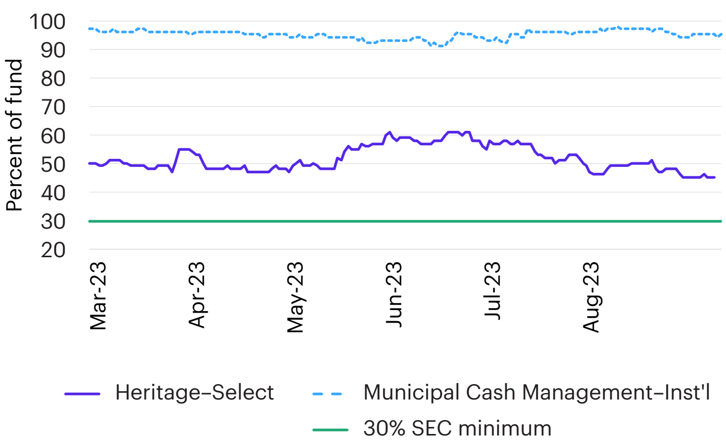
We continued to maintain excess liquidity and shorter weighted average maturities (WAMs)[3] than the stated regulatory requirements, enabling our portfolios to quickly capture FOMC rate increases in the fund yield. In addition, we have extended fixed-rate term purchases when the opportunity offers a favorable value proposition in relation to our expectations of the future course of interest rates. While our relatively short maturity profile should enable us to reap the benefits of further tightening, our 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.**

ALLSPRING 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[4] continued to exhibit the volatility we have experienced over the past several months, starting August at 3.49% and closing out the month at 4.06%. Consequently, the relative value of tax-exempt to taxable securities fluctuated throughout the month, which further influenced supply and demand. Further out on the curve, one-year high-grade notes backed up to the 3.57% area, up from 3.34% at the end of July. For the month, municipal money market funds brought in roughly $3.6 billion in assets, with the Crane Tax-Exempt Money Fund Index[5] closing out August at $122.4 billion.

We continued to adopt a conservative posture with respect to WAMs given the inverted yield curve in the municipal money market space. During the month, we focused our purchases primarily in variable-rate demand notes (VRDNs)[6] and tender option bonds (TOBs)[7] with daily and weekly put options in order to emphasize principal preservation and fund liquidity. Accordingly, our funds benefited from the elevated-level rates on overnight and weekly floating-rate securities during the month.

On the horizon

With the passing of the unofficial end of summer, it's back to work. For the Fed, that means the upcoming meeting on September 20 and the new dot plot. At this point, market participants have largely discounted the possibility of another hike at the September meeting, though November seems to be in play, as the futures markets are pricing in a terminal rate of 5.45% after the November meeting, suggesting one more hike in the federal funds target rate to a range of 5.50% to 5.75%. Unless there are blowout numbers in the inflation data reported one week prior to the meeting, it seems safe to assume September will be relatively uneventful from a Fed-watching perspective.

Congress also has a big job to do this month—namely to agree on a budget for the U.S. government for the next fiscal year, which begins October 1. Those who watch and opine on these matters are already murmuring "budget wars" and "shutdown." Unlike a debt ceiling episode—where the government bumps up against the statutory limit on the federal debt—a budget war or shutdown, while undoubtedly noisy, should have little to no impact on the bond market or money market funds. The Treasury and corporations will continue to issue short-term debt, the Fed will make its interest rate decisions, and investors will continue to use money market funds—in other words, business as usual. We will, of course, monitor developments and report back on them since spending decisions today will eventually affect the issuance of Treasury securities—thus influencing the supply part of the equation in our markets.

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

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	5.30	5.30	–	–	–	–	–
Fed reverse repo rate	5.30	–	– –	– –	– –	– –	– –
U.S. Treasury bills	–	– –	5.25	5.26	5.29	5.26	5.10
Agency discount notes	5.17	5.21	5.25	5.32	5.37	5.44	5.40
LIBOR	5.41	– –	5.44	– –	5.66	5.88	0.00
Asset-backed commercial paper	5.37	5.36	5.39	5.47	5.55	5.75	–
Dealer commercial paper	5.29	5.29	5.29	5.37	5.46	5.71	– –
Municipals	4.02	4.06	3.33	3.35	3.37	3.48	3.63

Sources: Bloomberg L.P. and Allspring Global Investments

Past performance is no guarantee of future results.

Fund	7-day current yield
Heritage MMF*–Select	5.44
Municipal Cash Management MMF*–Inst'l	4.32
Government MMF**–Select	5.26
Treasury Plus MMF**–Select	5.27
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 and for the Institutional Class of the Municipal Cash Management Money Market Fund and 100% Treasury Money Market Fund would have been 5.37%, 5.23%, 5.23%, 4.15%, and 5.17%, 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) 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.

2. 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.

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 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.

5. 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.

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.

* *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.

The views expressed and any forward-looking statements are as of August 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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