Allspring

Overview, Strategy, and Outlook

Allspring Money Market Funds

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Sector views

Prime sector

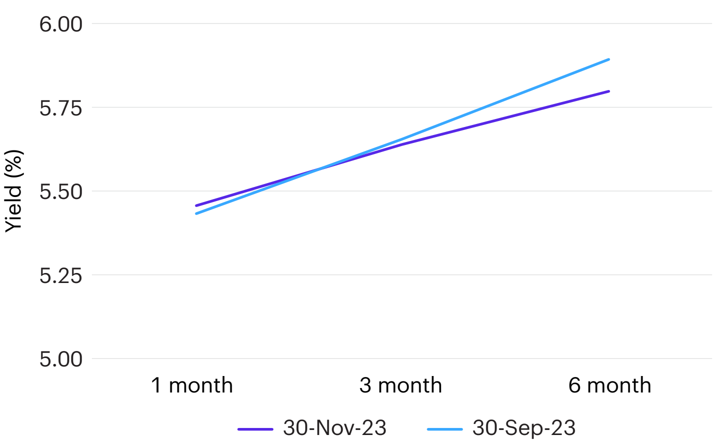
At the conclusion of its November 1 meeting, the Federal Open Market Committee (FOMC) left its target rate range unchanged as expected, in the range of 5.25% to 5.50%. With the last tightening having been at the July meeting, this extended pause, combined with dovish comments and favorable-trending inflation data, caused market participants to conclude that the Federal Reserve (Fed) is finished with this tightening cycle. This has driven yields down across the curve and spurred a rally in risk assets. But in addition to viewing this pause as permanent, the futures markets are now more squarely focused on when the Fed will begin to lower rates. The futures market has been aggressively pricing in rate cuts throughout this entire hiking cycle, only to be disappointed by stronger data and a patient FOMC. Will this time be different?

The robust rally in rates is a bit of a catch-22 for the FOMC because lower long-term rates might undo restrictive monetary conditions and restimulate economic activity and inflation, which then might force the Fed's hand into raising rates yet again. Remember, the FOMC's direction was that rates needed to be higher for longer in order to tame inflation. Higher long-term rates this fall were seen as having helped dampen economic activity and allowed the FOMC to pause—at least that was the rationale espoused by several Fed governors. Economic indicators this month are still strong, but at the same time they are either softer than expected or they show signs of moderating from previous readings. For instance, at the end of the month, core Personal Consumption Expenditures (PCE),[1] the favored inflation indicator, came in as expected (0.20% month over month and 3.5% year over year)—well below its peak of 5.57% in February 2022 but still well above the stated inflation target of 2.0%. Additionally, the six-month annualized rate of 2.5% showed much improvement compared to the previous six-month rate of 4.5%. As market participants pounced on any softer economic indicator this month as reason for an imminent ease, speakers from the FOMC would push back, saying not to expect one anytime soon.

So, is the Fed finished? Will it start easing soon? In a recent interview, Austan Goolsbee, the president of the Federal Reserve Bank of Chicago, was asked if it was possible that rates could be too high for too long. In a holiday-appropriate response, he likened the rate stance to cooking a turkey—you take it out of the oven before the temperature reaches the target level because residual heat will continue to cook it. As indicated by federal funds futures, we could see the turkey come out of the oven in the form of a reduction in target rates by as soon as the May 1 FOMC meeting, when futures currently expect an ease of 25 basis points (bps; 100 bps equal 1.00%) and show more than one percentage point of easing by the end of 2024. On the other hand, the futures market has gotten it wrong this entire cycle. Will the market get it wrong again and be disappointed by a patient FOMC? The Summary of Economic Projections to be published at the December 13 FOMC meeting will be closely watched as to gauge expectations from the members.

As expected, rates in the money market sector have rallied as well. Instead of pricing in several rate increases, yields for securities maturing in six months to one year are relatively flat, reflecting a possible holding pattern. The three-month London Interbank Offered Rate (LIBOR)[2] held steady at 5.64% this month but the six-month LIBOR is lower by 7 bps to 5.80%. Rates are higher than the current target Fed rate range, but the flatter curve indicates expectations that the FOMC is, at the very least, done with the hiking cycle at this point.

LIBOR YIELD CURVES AS OF 30-NOV-23



Sources: Bloomberg L.P. and Allspring Global Investments

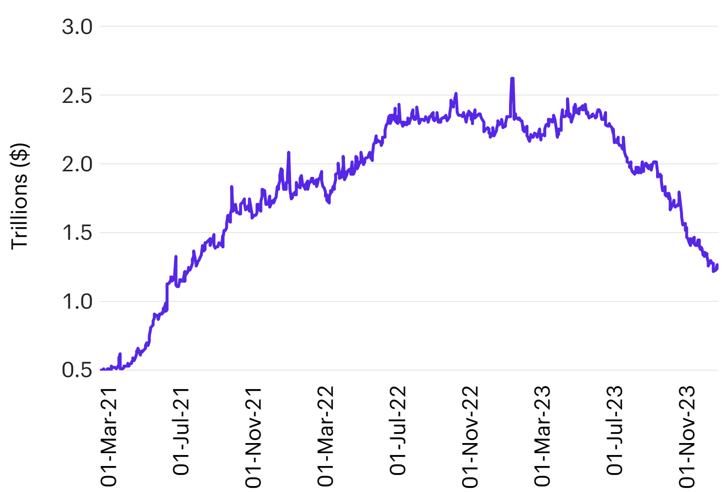
We have taken advantage of opportunities to extend fixed-rate term purchases while maintaining an enhanced liquidity buffer to meet the liquidity needs of our shareholders and dampen net asset value (NAV) volatility. We feel the risk/reward proposition favors extending weighted average maturities (WAMs)[3] to capture above-target yields in a yield environment that is skewed toward the FOMC being done with this hiking cycle. Maintaining enhanced liquidity in our funds affords us the flexibility to adjust our positioning quickly to respond to economic data and anticipate FOMC activity.

U.S. government sector

With rate hikes seemingly at an end, another more modest form of monetary tightening is stealthily continuing with the runoff of the Fed's balance sheet, commonly called quantitative tightening (QT). QT is essentially the reversal of the quantitative easing (QE) undertaken when rates were at zero and the Fed wanted to spur the economy further with few other tools available. By purchasing securities in QE, the Fed added to the asset side of its balance sheet, with the offsetting growth of its liabilities essentially representing newly created money. That new money can either reside in the banking system in the form of reserves or, if the banks don't want it for regulatory reasons (and they don't), outside the banks, where it will eventually land in the Fed's reverse repurchase agreement program (RRP). The relationship between the Fed's assets and the RRP is messy in the short term, as it's impacted by changes in the Treasury's cash balance, but over the long term, QE directs money to the RRP and QT draws it down.

In the chart below of the RRP balance, you can't pinpoint QE and QT inflections, but you can get a sense of the general trajectory. QE ended in March 2022, while QT began modestly a few months later in June, and more robustly in September. The RRP basically stopped growing that June and began to shrink slowly, but the decline was interrupted several times by, of all things, the debt ceiling—one consequence of which is a need for the Treasury to draw down its cash balance. This happened first in December 2022 and again in the spring of 2023. Once the debt ceiling was resolved and the Treasury was free to rebuild its cash balance, the RRP began to fall rapidly back to where it should have been had the Treasury been maintaining regular balances. The Fed's securities holdings peaked at $8.4 trillion in April 2022 and have fallen about $1.2 trillion to $7.2 trillion at the end of November. Over that same period, the RRP balance has declined by about $1.4 trillion.

FEDERAL RESERVE REVERSE REPURCHASE AGREEMENTS VOLUME



Sources: Federal Reserve and Bloomberg L.P.

From here, the RRP should decline as long as QT continues, but it may not make it all the way back to zero. The last round of QT, which was actually the first ever, ended with a bang in the fall of 2019 when the funding markets became unhinged for a few days because the Fed had shrunk its balance sheet too much. Because of that experience, it's reasonable to expect the Fed to tread carefully when it begins to see signs of funding pressure in the repo markets. This should be a topic of growing interest among market participants as 2024 unfolds.

Municipal sector

Yields in the municipal money market space dropped precipitously at the end of November as market sentiment turned decidedly bullish and market participants began to aggressively price in a pivot in monetary policy. Dovish economic news and comments from central bankers around the globe reignited the potential for rate cuts as early as the first quarter of 2024. According to Crane Data, assets in municipal money market funds remained in the $130 billion range during the month—close to recent highs. The Securities Industry and Financial Markets Association (SIFMA)[4] Index remained volatile on a week-to-week basis but eventually fell to 3.30% at month-end, down from 4.09% at the end of October. Further out on the curve, yields on one-year high-grade notes finished the month at 3.63%, down from 4.00% the previous month.

During the month, we continued to remain conservative in terms of weighted average maturities and liquidity. Accordingly, we continued to focus our purchases primarily in variable-rate demand notes (VRDNs)[5] and tender option bonds (TOBs)[6] with daily and weekly puts in order to emphasize principal preservation. However, we did opportunistically add exposure to fixed-rate commercial paper and notes primarily in the three-month and six-month space. We also remained highly selective in investing beyond six months while carefully balancing relative value with the prospects of rate cuts heading into 2024.

On the horizon

As we enter the final month of the year and the Fed faces its final meeting of 2023, it seems unlikely the Fed has one more hike in the cards in spite of September's dot plot. The rhetoric from the Fed governors that "count" has been increasingly benign since the hawkish message delivered after the September meeting, and softer data seems supportive of this stance. The fact the data remain elevated supports the case for continued vigilance, but the end of the fight to tame inflation seems to be near, and it seems to be happening without the economic damage predicted by a number of critics during this cycle. The Fed may have pulled off a so-called soft landing, if you will. In a change from earlier this year, the risk to rates seems to fall predominantly on the downside. But to put this into perspective, even if the Fed takes 100 bps off the table next year, that still leaves us where rates started this year—at a federal funds target rate of 4.25% to 4.50%. That is to say, lower but still elevated and still fairly good news for fans of money market funds.

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

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	5.31	5.31	–	–	–	–	–
Fed reverse repo rate	5.30	–	–	–	–	–	–
U.S. Treasury bills	–	–	5.29	5.30	5.31	5.31	5.10
Agency discount notes	5.25	5.27	5.30	5.31	5.32	5.30	–
LIBOR	5.42	–	5.46	–	5.64	5.80	–
Asset-backed commercial paper	5.33	5.35	5.39	5.53	5.63	5.80	–
Dealer commercial paper	5.30	5.30	5.30	5.36	5.45	5.58	–
Municipals	3.36	3.30	3.37	3.41	3.45	3.53	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	5.49
Municipal Cash Management MMF*–Inst'l	3.40
Government MMF**–Select	5.29
Treasury Plus MMF**–Select	5.29
100% Treasury MMF**–Inst'l	5.24

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 5.42%, 5.26%, 5.25%, 3.13%, and 5.22%, 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. 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.

**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 November 30, 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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