Allspring

Overview, Strategy, and Outlook

Allspring Money Market Funds

CONTRIBUTING AUTHORS

Jeffrey L. Weaver
Head of Global Liquidity Solutions
628-266-1214
jeff.weaver@allspring-global.com

Laurie R. White
Managing Director and Senior Portfolio Manager, Taxable Money Funds
612-895-1858
laurie.r.white@allspring-global.com

Michael C. Bird
Senior Portfolio Manager, Taxable Money Funds
612-351-0675
michael.c.bird@allspring-global.com

James C. Randazzo
Senior Portfolio Manager, Municipal Money Markets
704-533-8784
jrandazzo@allspring-global.com

Madeleine M. Gish
Senior Portfolio Manager, Taxable Money Funds
628-266-1054
madeleine.gish@allspring-global.com

John R. Kelly
Senior Portfolio Manager, Taxable Money Funds
612-474-3075
kellyjr@allspring-global.com

Daniel J. Tronstad
Senior Portfolio Manager, Taxable Money Funds
612-895-1827
daniel.j.tronstad@allspring-global.com

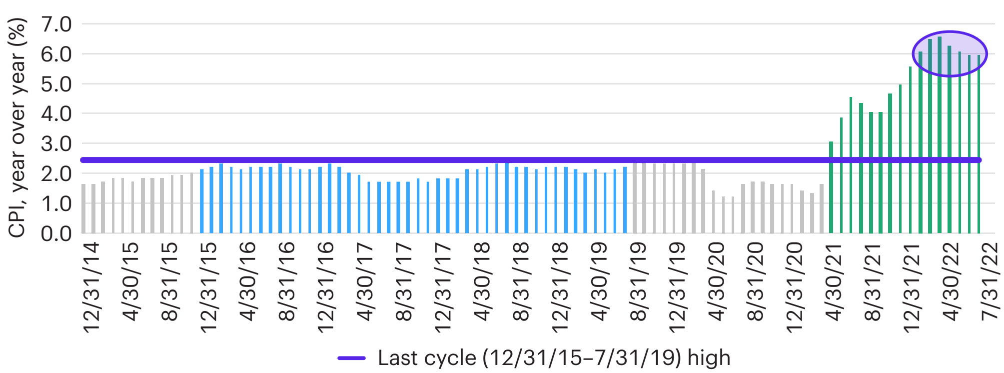
The trees vs. the forest

A persistent theme for more than the past two months is the relentless optimism of market participants. As we note in our commentary below, market participants in the short end of the yield curve tend to seize on every bit of good economic news from week to week and set a strengthening tone to the market. For example, a couple-of-tenths decrease in the Consumer Price Index (CPI)[1] is viewed as inflation abating, or slower, but not negative, growth in jobs shows labor market pressures easing. Then, a couple of days later, reality will settle back in and the markets will sell off. And to top it all off, as evidenced by the shape of the federal funds futures market, good times are perceived as just around the corner—in this case, sometime after the first of the year, probably early spring.

What this concentration on the weekly, monthly, or periodic changes in economic data fails to show is the overall big picture—in other words, what the forest looks like, not just the trees.

Consider the core CPI in the chart below.

CORE CPI

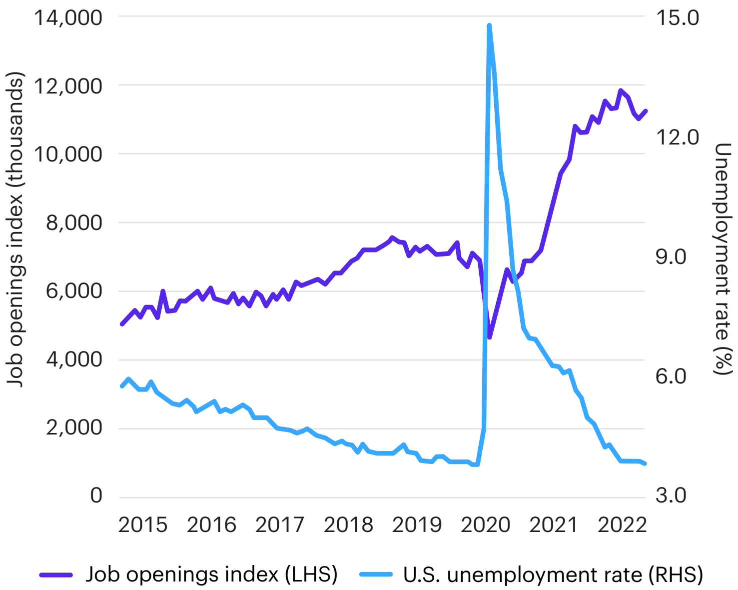


Sources: Bloomberg L.P. and Allspring Global Investments

When we last visited this chart in early February (January MMF Commentary), we had recorded 9 months of inflation rates in excess of the 2015–2019 tightening cycle high, as denoted by the blue bars, of 2.4%. Since the end of 2021, there have been 7 more months of equivalent or higher prints, as noted by the oval in the chart above. And, while the first 12 months of inflation data were measured from pandemic-induced lows, the last 4 months of high inflation prints have been on top of last year's already elevated prices. It may well be that inflation has peaked based on the chart, but the last 2 months have been basically flat. Before the Federal Reserve (Fed) will pause tightening, let alone start easing, any peak will first need to be confirmed and, second, show a meaningful retrenchment toward the Fed's target rate of 2.0%. Taking a step back shows us that there is still a lot of wood to chop—about 390 basis points' (bps; 100 bps equal 1.00%) worth—before the Fed can declare victory in its inflation battle.

In addition to data about inflation and the strength of the economy, both the Fed and market participants have increasingly focused on the labor markets as a source of price pressure. Over the past year or more, conditions in the labor market have been tight, and though the pace of job increases has moderated recently, with markets expecting this to take a little pressure off the Fed's aggressive tightening path, the job markets are still out of balance.

JOB OPENINGS INDEX AND U.S. UNEMPLOYMENT RATE



Source: Bloomberg L.P.

When we visited this chart in February, the unemployment rate at the end of December stood at 3.7% and the number of unfilled job openings was at 11.4 million. Since then, the unemployment rate has fallen to 3.5%, which matches the pre-pandemic low; however, unfilled jobs have declined by only 200,000, falling to 11.2 million and still well in excess of levels prior to the pandemic. In his January 26 post-meeting press conference, Fed Chair Powell had noted:

"Most Federal Open Market Committee (FOMC) participants agree that labor market conditions are consistent with maximum employment in the sense of the highest level of employment that is consistent with price stability. And that is my personal view."

In the seven intervening months, these metrics have not improved much and remain a potential inflationary source for the Fed.

Prime sector

Our recap of the past two months begins with the July FOMC meeting, which delivered another 75-bp increase to the Fed's target rate range, raising the federal funds rate to 2.25% to 2.50%. Comments after the July meeting were interpreted as rather dovish even though Chair Powell firmly stated inflation is too high and further tightening is appropriate. Instead, market participants focused on the phrases "at some point the pace of further increases might slow down" and "the full effects of tightening are not felt yet" as indications that the FOMC is closer to the end of the tightening cycle. In addition, the FOMC was attempting to ease back from providing forward guidance by stressing the path of future rates was very data dependent. Even though in the past the FOMC stated that the Summary of Economic Projections (SEP) was not intended to be used as a forecast but merely a guide at a point in time, at this meeting Chair Powell called out the SEP as the best point of reference for the direction of policy rates. It appears as the FOMC gets closer to the neutral policy rate range that it is attempting to remove itself from being in a position of providing guidance to the market on rate moves and avoiding the possibility of having to choose between the need to adjust rates and providing the necessary guidance to do so. After the meeting, the federal funds futures market reflected further tightening in 2022 but then a fairly quick pivot to an easing of rates in 2023. Pundits who were accustomed to having this guidance were lamenting now the lack of good forward guidance.

Now that the FOMC clearly wants to be data dependent on making policy decisions, it leaves every economic data point up to market interpretations. Consider, for example, a recession: After consecutive negative gross domestic product (GDP) prints, should the market use the normal definition of recession of two consecutive quarters of negative GDP growth as a sign for the FOMC to slow? And, with inflation running way above trend, will the FOMC sacrifice growth to slow inflation? These are the questions that the FOMC and market participants have been struggling with.

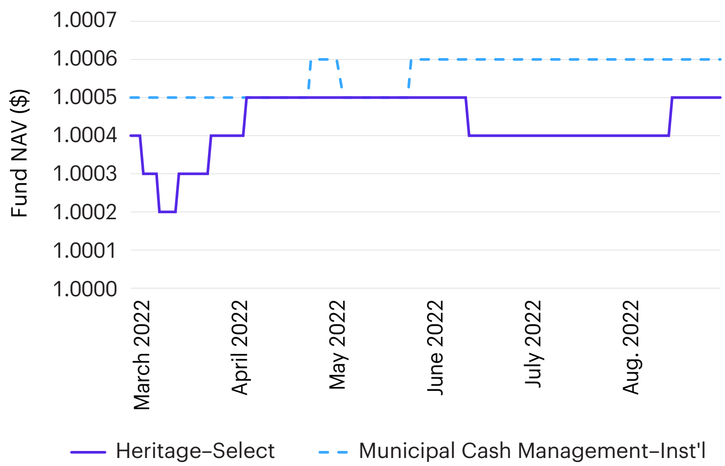
In late August, the Kansas City Fed's economic summit held in Jackson Hole, Wyoming, was the perfect opportunity for Chair Powell to push back on any thoughts that the Fed wasn't firmly focused on reining in inflation. And push he did. In a speech noted for its brevity, he reinforced the idea that they would indeed tighten until inflation broke—even at the expense of the labor market.

Regional Fed presidents reinforced this view following the summit. From the New York Fed, John Williams said that they probably need to advance above the 3.5% target funds rate to achieve their goal of subduing inflation. Richmond's Barkin said "We're committed to returning inflation to our 2.0% target and we'll do what it takes to get there," while Atlanta's Bostic said their duty to curb inflation is unshakable. To counter market expectations of a quick easing of rates, Williams said it is "going to take some time before I would expect to see an adjustment of rates downward." And Cleveland's Mester asserted, "My current view is that it will be necessary to move rates up to somewhat above 4.0% by early next year and hold them there." At the time of this writing, interest rate probabilities expressed by the federal funds futures market show the "rates on hold" time is only for about *three months*.

So much for a sleepy summer.

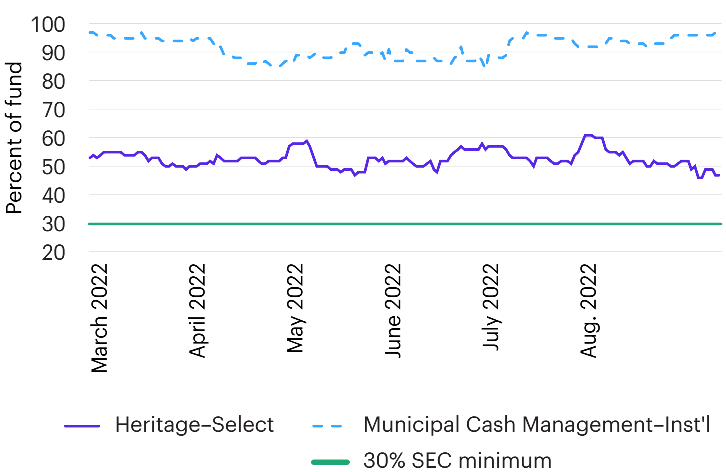
So what have we been up to? Given the backdrop of an FOMC still in the process of raising rates, we tended to conservatively structure our portfolios in favor of keeping excess liquidity over the stated regulatory requirements, running shorter weighted average maturities, and selectively adding fixed-rate securities if the opportunity offered a favorable risk/reward proposition. This has allowed our portfolios to capture the Fed's rate increases fairly quickly, while the enhanced levels of liquidity allow our portfolios to meet the liquidity needs of our investors and help dampen net asset value (NAV) volatility.

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.**

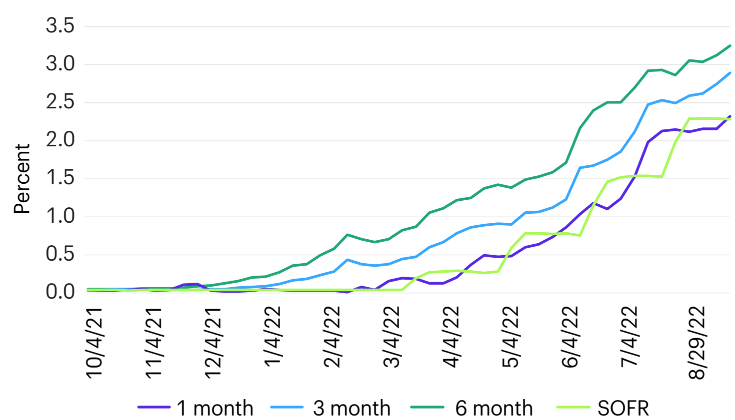
U.S. government sector

While market observers continue to be on the lookout for peak hawkishness, it remains elusive. The Fed rightly seems to feel its credibility is on the line—credibility hard-won over decades—and it dare not blink until inflation has soundly turned. The market had already come to expect the Fed to move rates into restrictive territory fairly quickly, with the next step there of 50 bps or 75 bps expected in September, but the latest hawkish twist came at the aforementioned annual central banker gathering in Jackson Hole, where Chair Powell clarified that not only would rates be moving higher, they would be staying high for an extended time. A market looking for mid-2023 rate cuts needed to rethink—a common occurrence in 2022.

Aside from rate path developments, which have been unambiguously positive, investors have suffered through a supply drought for much of the year. But it finally rained in August: Treasury-bill (T-bill) supply, which fell by almost $600 billion from February through July, rebounded by over $200 billion by the end of August, giving the market a more balanced tone for the first time this year. Supply issues should be more modest over the next few months, with some retrenchment accompanying the September tax receipts, then a steadier course after.

The chart below paints the picture of the interest rate journey over the past year in the form of T-bill and reverse repurchase yields. A year ago at Jackson Hole, the Fed signaled its continued belief that inflation was transitory and rates would remain near zero until 2023. Fast forward a year, and overnight rates look to be above 3.0% in the next meeting or two, "transitory" is a distant memory, and the Fed's battle is to conquer inflation before higher rates become embedded in consumer expectations.

SECURED OVERNIGHT FINANCING RATE (SOFR) AND T-BILL AUCTION YIELDS



Sources: Bloomberg L.P. and Allspring Global Investments

Municipal sector

The municipal money market yield curve widened dramatically during August as rates on overnight and weekly variable-rate demand notes (VRDNs)[2] and tender option bonds (TOBs)[3] gyrated throughout the month and longer-term fixed-rate paper gapped higher. The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index[4] rose to a multi-year high of 1.83% on August 10, up from 1.33% at the end of July. This dramatic increase in short-term rates resulted in a temporary yield-curve inversion in the municipal space; however, this rare occurrence eventually corrected as the market headed into month-end.

Yields on fixed-rate, tax-exempt paper in the short end of the maturity spectrum began to gap higher in response to the curve inversion. Ultimately, yields on high-grade one-year notes closed out the month at roughly 2.43%, up from 1.57% at the end of July. The sudden increase in tax-exempt rates boosted the relative attractiveness of the sector and, accordingly, municipal money market funds were the recipients of roughly $4 billion in inflows during the month, according to Crane Data. This resulted in a surge in demand for daily and weekly VRDNs. This second-half rebound in demand led the SIFMA Index to close out the month at 1.50%.

During the month, we continued to focus our purchases primarily in VRDNs and TOBs with daily and weekly put options in our order to emphasize principal preservation and fund liquidity, and we continued to adopt a conservative posture with respect to weighted average maturities. Accordingly, we remained highly selective in our fixed-rate purchases further out on the curve and opportunistically added term trades to capture the higher rates. However, with lingering questions surrounding the pace of tightening by the FOMC and terminal federal funds rate, we feel it is prudent to remain relatively short for the near future.

On the horizon

The next FOMC meeting is scheduled for September 21. The only question at this point is will the Fed tighten by 50 bps or 75 bps? Right now, the market is pricing in about a 70% chance of a 75-bp move, but the last set of data points between now and the meeting will tell the tale. Of particular note, on September 13, the government will release August CPI numbers, and the Producer Price Index[5] will come on September 14. The degree to which these numbers have eased slightly will help determine whether the Fed moves 50 bps or 75 bps, so keep an eye on those data.

RATES FOR SAMPLE INVESTMENT INSTRUMENTS — CURRENT MONTH-END % (AUGUST 2022)

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	2.30	2.30	–	–	–	–	–
Fed reverse repo rate	2.30	–	–	–	–	–	–
U.S. Treasury bills	–	–	2.28	2.57	2.85	3.23	3.34
Agency discount notes	2.15	2.18	2.35	2.64	2.92	3.27	0.00
LIBOR	2.32	2.43	2.55	2.83	3.10	3.66	4.22
Asset-backed commercial paper	2.30	2.31	2.53	2.83	3.12	3.78	–
Dealer commercial paper	2.32	2.26	2.23	2.62	2.91	3.30	–
Municipals	1.10	1.50	1.80	1.88	1.91	1.97	2.43

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

FUND	7-day current yield
Heritage MMF*–Select	2.40
Municipal Cash Management MMF*–Inst'l	1.52
Government MMF**–Select	2.09
Treasury Plus MMF**–Select	2.04
100% Treasury MMF**–Inst'l	1.96

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, 2022, 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 2.33%, 1.95%, 2.00%, 1.40%, and 1.93%, 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.

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 Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. You cannot invest directly in an index.

2. 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.

3. 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.

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 Producer Price Index (PPI) measures the average change over time in the prices domestic producers receive for their output. It is a measure of inflation at the wholesale level that is compiled from thousands of indexes measuring producer prices by industry and product category. The index is published monthly by the U.S. Bureau of Labor Statistics (BLS). The PPI is different from the Consumer Price Index (CPI), which measures change in the price of goods and services paid by consumers. You cannot invest directly in an index.

**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, 2022, 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.

Allspring Global Investments™ is the trade name for the asset management firms of Allspring Global Investments Holdings, LLC, a holding company indirectly owned by certain private funds of GTCR LLC and Reverence Capital Partners, L.P. These firms 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 broker-dealer and Member FINRA/SIPC).