Allspring

Overview, Strategy, and Outlook

Allspring Money Market Funds

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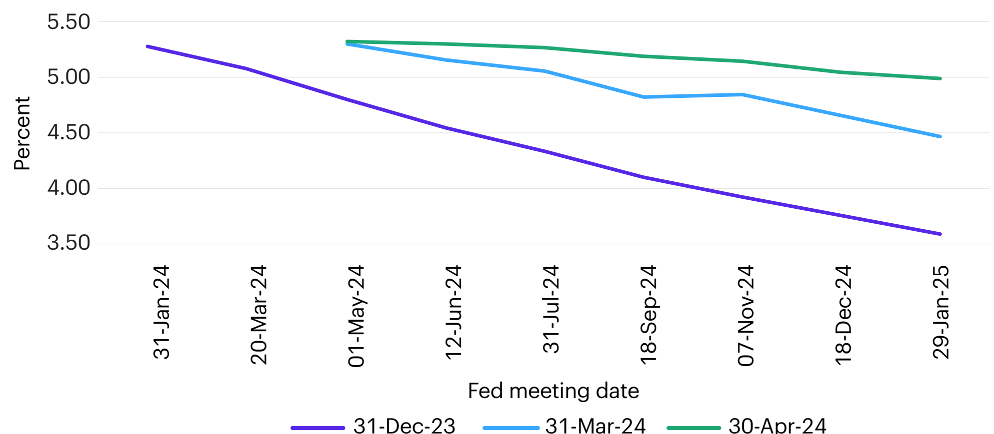
Sector views

If Federal Reserve (Fed) watchers could assign a theme to this year's first trimester, it would likely be "disappointment." Reports so far this year have shown inflation remains stubbornly higher than the Fed or consumers would like, labor markets have proven resilient and stronger than the Fed would like, and the economy continues to demonstrate stronger-than-expected growth in spite of the Fed's tighter monetary policy. And while April's economic data was a mixed bag, as first quarter gross domestic product was softer than expected and core Personal Consumption Expenditures (PCE)[1] were stronger than expected, the news could not be interpreted as "good enough" for the Fed to consider cutting rates at the next meeting in May. This latest in a string of economic data points showing the Fed's fight may have stalled has put the Federal Open Market Committee (FOMC) in a tricky situation with how to communicate its patient, economic-driven agenda in determining the future path of monetary policy. Communications from Fed officials during April largely pivoted from the optimism exhibited earlier in the year that rate cuts were on the horizon to earnestly pushing that horizon further out in the year and basing any moves on greater and sustained progress in the fight against inflation.

Market participants heeded the Fed's messaging. As shown in the chart below, at year-end, Fed watchers expected a plethora of rate cuts—six to be exact—by the end of 2024 (the violet line). By the end of March, these expectations had been tempered to 2.5 by the end of the year (3 by the end of January), as represented by the light blue line. By the end of April, however, with no "bad" economic news on the horizon, expectations have withered even further as the green line prices in only one rate cut by the end of the year, and that's not mostly priced in until the Fed's December meeting. Indeed, some market participants have become so discouraged by the lack of progress on the inflation front that there's been some talk about the Fed's next move being a **hike** while others have begun wondering if the Fed will have reason to ease at all in 2024.

FUTURES-IMPLIED FEDERAL FUNDS RATE



Sources: Bloomberg Finance L.P. and Allspring Global Investments

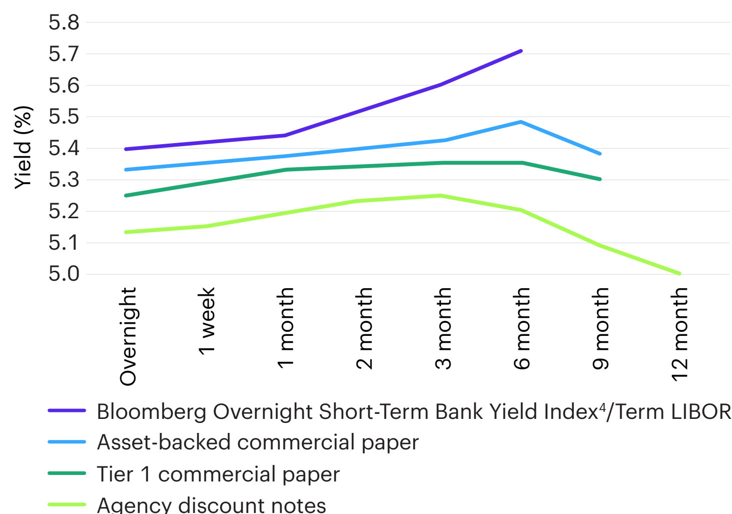
Prime sector

Overall commercial paper supply has increased this month with issuers adjusting liquidity positions as the timing of Federal Open Market Committee (FOMC) rate cut expectations continues to get pushed out. It is possible that issuers had been delaying funding since, as recently as mid-March, federal funds futures were pricing in multiple rate cuts this year. According to Fed data, monthly total commercial paper outstandings as of April 24 were $1.310 trillion, up $54 billion from the end of March, more than double the amount issued in March and $14 billion more than was issued during the entire first quarter. The increase in commercial paper outstanding was broad based as volatility in Treasury yields and delayed expectations for rate cuts may have caused issuers to increase short-term fundings before further communication is released after the May 1 FOMC meeting.

For investors in prime securities, the repricing of the anticipated timing of the Fed's interest rate cuts was good news, as issuers increased the rates they were offering on term fixed-rate paper. As a proxy for commercial paper rates, six-month London Interbank Offered Rate (LIBOR)[2] ended the month at 5.74%, up 0.09% from March, and six-month Secured Overnight Financing Rate (SOFR)[3] yields are higher by 0.09%, rising to 5.31%. As a point of reference, the implied federal fund futures rate at the November 2024 FOMC meeting is now above 5.00%, meaning a full move of 25 basis points (bps; 100 bps equal 1.00%) is not currently being priced in. All three proxy rates reflecting the higher-for-longer adage is unusual since the futures market was well behind the pace of tightening on the way up in rates and just recently way ahead of the path of expected easing on the way down.

Increased supply has also caused spreads on floating-rate paper to widen this month along with the increase in fixed-rate term yields. Floaters can still be an attractive alternative to fixed-rate paper, especially as expectations of a slower pace of rate cuts takes hold. The uncertainty in FOMC rate expectations has caused a dramatic backup in Treasury yields as well. Two-year note yields have increased almost 75 bps year to date while month-to-date yields are higher by roughly 40 bps (0.40%).

MONEY MARKET YIELD CURVES



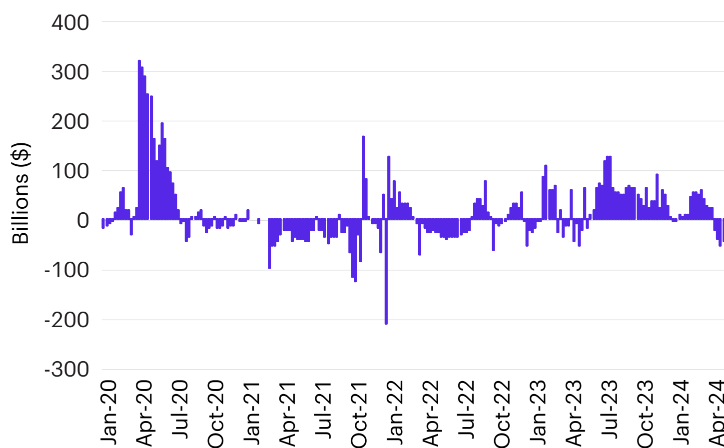
Sources: Bloomberg Finance L.P. and Allspring Global Investments

We continue our strategy of taking advantage of opportunities to extend fixed-rate term purchases while maintaining an enhanced liquidity buffer to meet the liquidity needs of our shareholders and to dampen net asset value volatility. We feel the risk/reward proposition favors extending weighted average maturities (WAMs)[5] to capture above-target yields in a yield environment that is skewed toward the FOMC being done with this hiking cycle and preparing the market for future rate decreases.

U.S. government sector

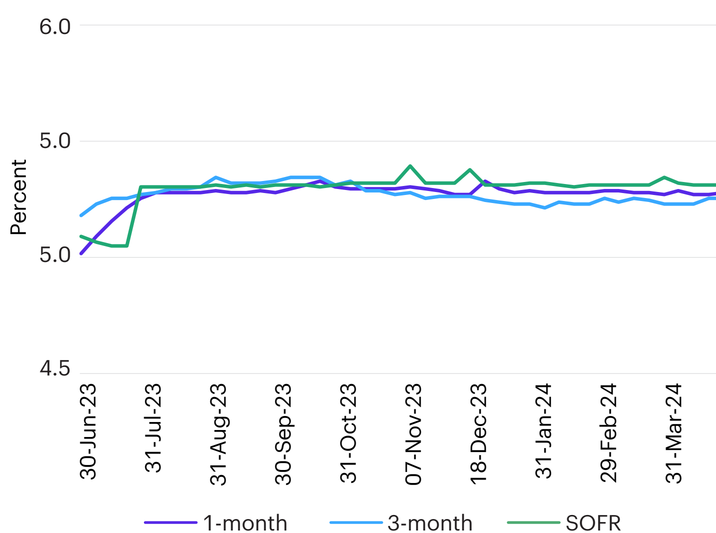
Treasury bill (T-bill) supply is in its regular seasonal paydown period as mid-April tax receipts reduce the Treasury's borrowing needs until the summer heat arrives. While this is how it's traditionally supposed to look—with greater supply in the first quarter to fund tax refunds followed by supply reductions in the second quarter as tax receipts flow in and then steadier supply increases for the balance of the year to fund deficits—2024 will be the first year in the past five to be typical in that sense. The chart on the following page of weekly net changes in T-bill supply tells the story of how abnormal things have been.

WEEKLY NET NEW T-BILL ISSUANCE



Source: U.S. Treasury

SOFR AND T-BILL AUCTION STOPS



Sources: Bloomberg Finance L.P. and Allspring Global Investments

In the spring of 2020, seasonality was thrown out along with every other bit of normalcy as the Treasury raised money to fund pandemic rescue efforts. By the spring of 2021, it was clear the Treasury had overfunded itself rather dramatically, and it commenced a year-long paydown to bring its cash balance back in line. 2022 was shaping up to be more typical, but tax receipts were so robust in the spring that T-bill paydowns continued into the fall. With the pandemic having largely moved into history, normal seasonality would have returned in 2023 if it weren't for the latest debt-ceiling episode, which scrambled issuance throughout the spring as the Treasury maneuvered to do business with the lowest possible cash balance. Rebuilding that balance kept supply elevated for the rest of the year, which brings us back to 2024 and what may just be, finally, a typical year.

Market reaction to the supply contraction has so far been muted. A market with fewer T-bills generally results in higher prices and lower yields, as they've become more dear, and this is usually most pronounced in securities with shorter maturities. At least initially, the lack of a reaction in those short T-bills, as shown in the chart on the right, demonstrates the circularity in the money markets. In this case, Treasury reduced supply by $40–50 billion each week in April, but the reason it reduced supply was because it had received cash from taxpayers. Some of those taxpayers had invested in T-bills, either directly or indirectly (through money market funds, for instance), and since they paid their taxes with that money, they no longer needed to buy T-bills. Supply fell and demand fell and the market moved on.

Municipal sector

Municipal money market yields shifted higher during April as tax-season technical factors dampened overall demand for tax-exempt securities. The Securities Industry and Financial Markets Association (SIFMA)[6] Index began the month at 3.64% before gapping higher to 4.35% on April 17 as the markets anticipated last-minute tax-deadline payments. The index then closed out the month by drifting lower to 3.77% as tax-pressure selling subsided. Further out on the curve, yields on high-grade tax-exempt paper backed up roughly 40 bps for maturities ranging anywhere from one month to one year; yields on one-year high grades finished the month at roughly 3.71%, up from 3.31%.

During the month, we continued to adopt a conservative posture with respect to weighted average maturities given the inverted yield curve in the municipal money market space. However, we did opportunistically take advantage of the backup in levels on fixed-rate paper by increasing exposures in the one-month and three-month space. We continue to remain very selective on longer fixed-rate investments as municipals have remained rich on a relative basis to taxable securities and the future path of Fed monetary policy has shifted toward a more hawkish bent.

On the horizon

By the time this goes to press, the May FOMC meeting will be in the books and the committee's decision on rates announced. For the record, we are not expecting anything material to come out of this meeting (other than a commitment to maintaining rates higher for longer), but instead we are waiting for the conclusion of the June FOMC meeting—and especially the release of the revised Summary of Economic Projections (SEP, or dot plot). This will probably give us some good insight into what the various Fed officials are thinking about the path of the economy going forward and how they see the rate picture playing out over the next year—good reading and highly anticipated! In the meantime, we will, of course, keep an eye on the economic releases between now and then in order to glean some insight on what might be coming down the pike.

RATES FOR SAMPLE INVESTMENT INSTRUMENTS—CURRENT MONTH-END % (APRIL 2024)

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	–	–	5.30	5.32	5.32	5.32	5.24
Agency discount notes	5.13	5.15	5.19	5.23	5.25	5.20	5.00
LIBOR	5.42	–	5.43	–	5.59	5.74	–
Asset-backed commercial paper	5.33	5.35	5.37	5.40	5.42	5.48	–
Dealer commercial paper	5.25	5.28	5.32	5.33	5.35	5.35	–
Municipals	3.83	3.77	3.60	3.61	3.62	3.65	3.71

Fund	7-day current yield
Heritage MMF*–Select	5.36
Money Market Fund**– Premier	5.36
Government MMF***– Select	5.23
Treasury Plus MMF***– Select	5.18
100% Treasury MMF***– Inst'l	5.14

Source: Allspring Funds

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

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; the Institutional Class of the 100% Treasury Money Market Fund; and the Premier Class of the Money Market Fund would have been 5.29%, 5.20%, 5.18%, 5.14%, and 5.25%, 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. The Secured Overnight Financing Rate (SOFR) is an interest rate published daily by the Federal Reserve Bank of New York based on Treasury repurchase aggreement transactions measuring the cost of overnight cash borrowing.

4. The Bloomberg Overnight Short-Term Bank Yield (BSBYON) Index is a short-term interest rate benchmark created in 2021 and published by Bloomberg Finance L.P. You cannot invest directly in an index.

5. 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.

6. 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.

**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. An investment in the fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor is not required to reimburse the fund for losses, and you should not expect that the sponsor will provide financial support to the fund at any time, including during periods of market stress.*

***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. An investment in the fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor is not required to reimburse the fund for losses, and you should not expect that the sponsor will provide financial support to the fund at any time, including during periods of market stress.*

****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 a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor is not required to reimburse the fund for losses, and you should not expect that the sponsor will provide financial support to the fund at any time, including during periods of market stress.*

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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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