Allspring

Overview, Strategy, and Outlook

Allspring Money Market Funds

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Money market overview

The Federal Open Market Committee (FOMC) met this month and, as expected, left its target rate unchanged at 5.25–5.50%. As we have been writing about for several months, market volatility in short-term rates has been directly correlated to expectations and timing of future policy rate moves. Market participants have been poring over economic data and listening to Federal Reserve (Fed) speakers in order to make policy rate assessments and, in most cases, overestimating the policy rate moves, creating additional volatility. This month the FOMC meeting also included the release of a new quarterly Summary of Economic Projections (SEP or dot plot) highlighting the FOMC committee members' assessment of economic data and their individual expectations for the future path of rates. The median policy rate forecast showed only one rate cut in 2024, down from two cuts shown in the March SEP release. In addition, the current survey projected four cuts in 2025 and four more in 2026, both up from three with the March release.

Turning toward the economy, members' expectations for headline and core Personal Consumption Expenditures[1] data were revised up two-tenths to 2.6% and 2.8%, respectively, from the March meeting. This persistent stickiness in inflation expectations seemingly validated the SEP expectations pushing policy rate moves out into 2025 and 2026. As we have observed, the dots are a very fluid indicator but are much less volatile than expectations-based market rates: Following the June 12 release of the dot plot, 2-year Treasury notes traded in a roughly 5-basis-point (bp; 100 bps equal 1.00%) range, whereas during the previous month, 2-year notes traded in a 25-bp range. Even implied policy rate moves in the futures market have been quite stable still—only showing one rate cut this year, in line with the SEP.

Sector views

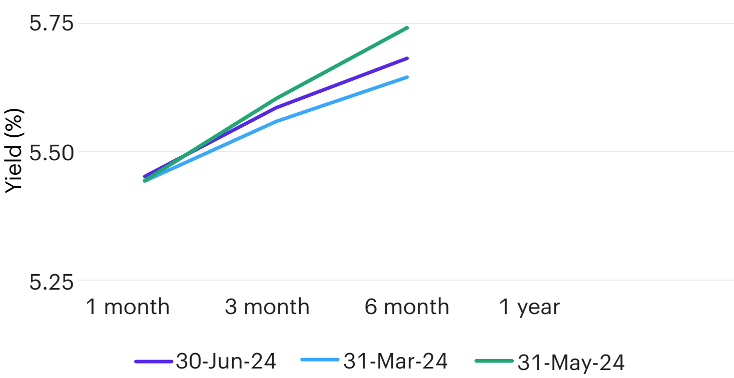
Prime sector

Overall commercial paper supply increased again this month with issuers adjusting liquidity positions as mixed economic data and Fed speak have created uncertainty around the timing of changes to policy rates. According to Fed data, monthly total commercial paper outstandings as of June 26 were $1.290 trillion, up $10 billion from May 29 outstandings of $1.280 trillion, which in turn were $24 billion higher from the end of March and April. The increase in commercial paper outstanding was broad-based as volatility has affected all sectors of the market.

For investors in prime securities, the reduction in volatility surrounding the market's expectations for policy rates caused the yields on term securities to decrease slightly as uncertainty over the shape of the forward rate curve has diminished. As a proxy for commercial paper rates, the 6-month London Interbank Offered Rate (LIBOR)[2] ended the month at 5.69%, down 5 bps from May, and 6-month Secured Overnight Financing Rate (SOFR)[3] yields are also lower by 5 bps from May at 5.26%. As a point of reference, the implied federal fund futures rate at the November 2024 FOMC meeting is still above 5.00%, meaning a full move of 25 bps is not currently being priced in. All three proxy rates reflecting the higher-for-longer adage is unusual because, as we have noted several times in the past, the futures market was well behind the pace of tightening on the way up in rates and just recently was way ahead of the path of expected easing on the way down.

Spreads on floating-rate paper widened slightly this month as yields on fixed-rate paper decreased slightly. This structure can be an attractive alternative to fixed-rate paper, especially as expectations of a slower pace of rate cuts take hold, though fixed-rate paper yields continue to trade in a narrow range at attractive levels. Prime funds offer an attractive yield and minimal price volatility as the FOMC continues to be patient in assessing its dual mandate and the future path of its policy rate.

LIBOR 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 (NAV) volatility. We feel the risk/reward proposition generally favors extending weighted average maturities[4] 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

The government money markets have settled into a steady state in many ways. The Fed's overnight interest rate target range has been unchanged for 11 months, with probably at least several more to go. Likewise, the Fed's quantitative tightening (QT), which we wrote about in more detail last month, continues to run in the background, albeit at a moderated pace. We're between debt ceiling episodes, with the debt ceiling set to be reestablished at the beginning of 2025. Treasury bill (T-bill) supply, which shrunk more than it should have in 2023 because of the debt ceiling and then had to grow rapidly immediately after, has experienced only relatively modest adjustments since then, usually to counterbalance tax-related flows. This has led to the Treasury's cash balance settling into a range of roughly $650–950 billion. Excess cash in the system remains parked in the Fed's reverse repurchase agreements, and while the balance there has continued to decline, the rate of decline has slowed.

We can be pretty sure the calm period will end as we approach the debt ceiling again, first as supply shrinks later this year heading into its reestablishment and then as the usual posturing and press coverage raise the possibility of default later in the spring or summer. But other largely unforeseen events may lie in wait to interrupt this stable period. Although we can't say now what they might be, our powers in hindsight are much stronger. Examples of market-roiling episodes that came largely out of the blue in the past five years include:

- The "repo-pocalypse" in September 2019, when the Fed had unwittingly let that episode of QT run too long and repurchase rates spiked to as high as 10% at a time when the top of the Fed's target range was 2.25%
- The March 2020 onset of the pandemic and the massive changes it brought to many aspects of the money markets, not to mention life in general
- Inflation emerging from the crypt in which it had been long buried, and 525 bps of rate hikes to arrest its rise
- The March 2023 regional bank crisis, which saw one-year SOFR futures fall 160 bps in a week as the market decided to shoot first, and second, and ask questions later (by the way, the projected imminent rate cuts associated with that particular crisis have still not yet begun)

If there's a lesson here, it's to enjoy the respite while you have it, as it will probably not last. A second lesson is that while the Fed was arguably part of the cause of some of those events (we'll give them a pass on the pandemic's origin), it had tools available to address each of them. The last lesson is that whatever came—not enough T-bills and then too many T-bills, zero interest rates and then 5.25% interest rates, quantitative easing and then QT—money market funds navigated the ever-changing landscape with aplomb.

Municipal sector

Yields in the municipal money market space were mixed this month as volatility remained elevated. The Securities Industry and Financial Markets Association (SIFMA) Index[5] began the month at 3.36% before eventually closing out at 3.88%. Further out on the curve, however, yields on high-grade tax-exempt paper continued to fall in the one-month to three-month space, dropping by roughly 10 bps to 15 bps to average approximately 3.30%. Yields on one-year high grades finished the month relatively unchanged at 3.51% as new issue note supply began to swell. Municipal money market assets finished the month at $132 billion, down almost $3.5 billion, according to Crane Data.

During the month, we continued to target fixed-rate paper by increasing exposures in the one-month and three-month space. However, we have continued to adopt a conservative posture with respect to weighted average maturities given the inverted yield curve in the municipal money market space. Additionally, we continue to remain very selective on longer fixed-rate investments as municipals have remained rich on a relative basis.

On the horizon

As we enter the heart of summer, as noted above, we have been experiencing steady Fed policy (read, overnight) rates for almost a year, since the Fed last raised its target federal funds rate on July 25, 2023. This belies, however, the movement in investable term rates during that time.

One of our themes over the past year has been the volatility associated with term rates and the expectations of the Fed's future path. To put this into context, while there has been zero volatility in the past year in the overnight policy rate, as a proxy for corporate rates, the 3-month LIBOR and 6-month LIBOR have traded in a range of 16 and 42 bps, respectively. Similarly, our favored tranches in the Treasury market—4 months and 6 months—have seen bills trade in a range of 22 and 41 bps, respectively. In even more pronounced movements, the 1-year sector, which in our space is traditionally more susceptible to changes in market sentiments, has seen the 1-year SOFR (a favored index for floating-rate prime instruments) as well as 1-year T-bills trade in a range of 83 bps—almost double the volatility in 6-month rates.

While stable rates may be viewed as desirable, volatile rates offer us opportunities to extend into longer-dated securities as yields become temporarily cheap, which will further allow us to maintain higher fund yields for a longer period of time in the future as the overall level of rates decreases. So as the summer goes on, it's likely we will take advantage of more stable short-term rates for the core of our holdings while selectively extending maturities as conditions (read, volatility) present favorable opportunities.

We will be on hiatus for the balance of the summer, returning after Labor Day with an update on the developments in July and August. Enjoy!

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

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	5.32	5.32	–	–	–	–	–
Fed reverse repo rate	5.30	–	–	–	–	–	–
U.S. Treasury bills	–	–	5.24	5.27	5.29	5.25	5.09
Agency discount notes	5.22	5.23	5.26	5.28	5.27	5.22	5.08
LIBOR	5.41	–	5.45	–	5.59	5.68	–
Asset-backed commercial paper	5.34	5.35	5.40	5.42	5.46	5.48	–
Dealer commercial paper	5.32	5.32	5.32	5.34	5.37	5.34	–
Municipals	4.84	3.88	3.29	3.31	3.33	3.39	3.51

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

Fund	7-day current yield
Heritage MMF*–Select	5.32
Money Market Fund**– Premier	5.34
Government MMF***– Select	5.24
Treasury Plus MMF***– Select	5.22
100% Treasury MMF***– Inst'l	5.17

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, 2025 (or through May 31, 2026 for Government Money Markey Fund Select Class), 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 5.24%, 5.21%, 5.18%, 5.14%, and 5.24%, 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) Index is the primary measure of consumer spending on goods and services in the U.S. economy. It accounts for about two-thirds of domestic final spending and is part of the personal income report issued by the Bureau of Economic Analysis of the Department of Commerce. 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 agreement transactions measuring the cost of overnight cash borrowing.

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. 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.