Overview, Strategy, and Outlook

Allspring Money Market Funds

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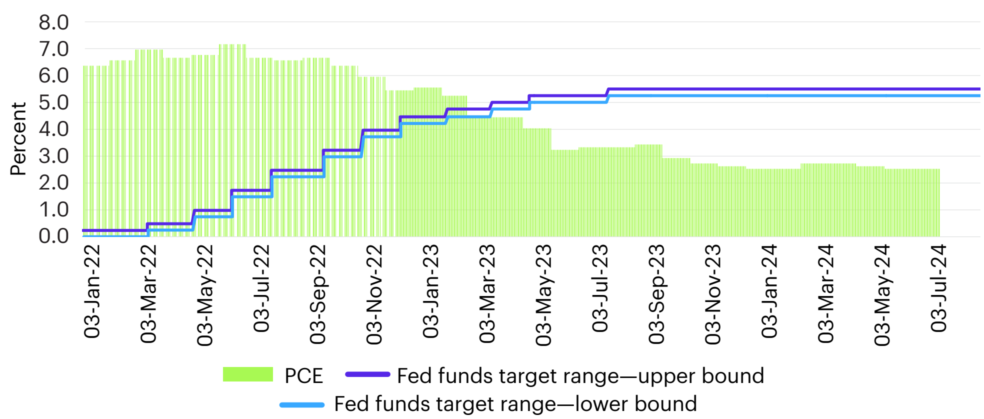
Money market overview

Since we last wrote at the end of June, the money markets have become more firmly convinced interest rates are headed lower—and soon. The most recent information available at that time was the Federal Reserve's (Fed's) June meeting "dot plot," which suggested the Fed was looking to cut rates once—by 25 basis points (bps; 100 bps equal 1.00%)—over the balance of 2024. The Fed would be quick to say the dot plot is not a projection or promise, but even with that caveat, this one got stale quickly and dried out more and more with each significant economic release since then. In terms of its dual mandates, the first quarter bump in inflation that stymied the burst of enthusiasm for lower rates that ushered in 2024 has whimpered away over the summer, leaving inflation still above target but seeming hardly a threat, as shown in the chart below.

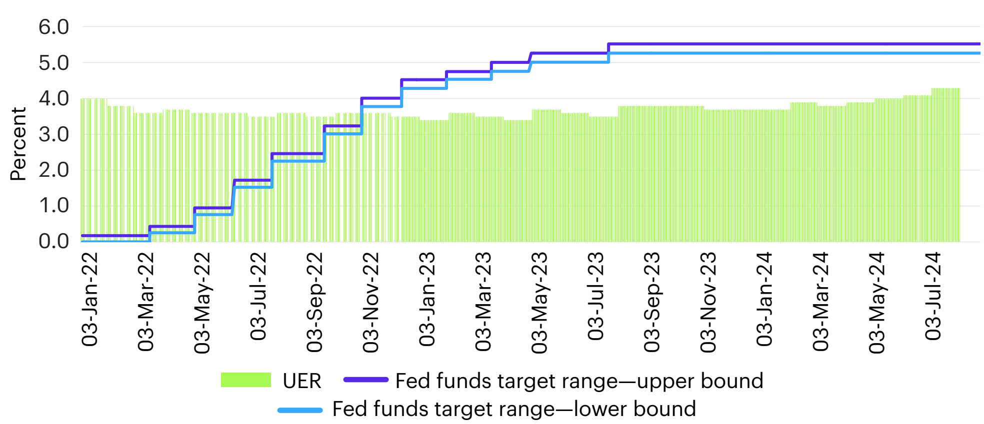
PERSONAL CONSUMPTION EXPENDITURES (PCE)[1] AND FEDERAL FUNDS TARGET



Sources: Federal Reserve and Bloomberg Finance L.P.

On the flip side, as shown in the next chart, the labor market has weakened more rapidly lately, with the unemployment rate up from 3.8% in March to 4.3% in July.

UNEMPLOYMENT RATE (UER) AND FEDERAL FUNDS TARGET



Sources: Federal Reserve and Bloomberg Finance L.P.

The Fed's calculus has thus shifted from fighting inflation, a job it considers largely done, to protecting the labor market, a job it has not yet begun to fight. Last December, the Fed declared it was done raising rates, but it had little urgency to lower them. Now, as communicated by the Fed at its July meeting, in the minutes to that meeting, in speeches by an array of Federal Open Market Committee (FOMC) members, and most importantly by Fed Chair Powell at Jackson Hole in late August, it's ready to cut rates at its September meeting. Chair Powell laid it out clearly:

"Overall, the economy continues to grow at a solid pace. But the inflation and labor market data show an evolving situation. The upside risks to inflation have diminished. And the downside risks to employment have increased. As we highlighted in our last FOMC statement, we are attentive to the risks to both sides of our dual mandate.

The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks."

So we prepare to say goodbye not only to summer but to the extended period of "higher for longer" interest rates.

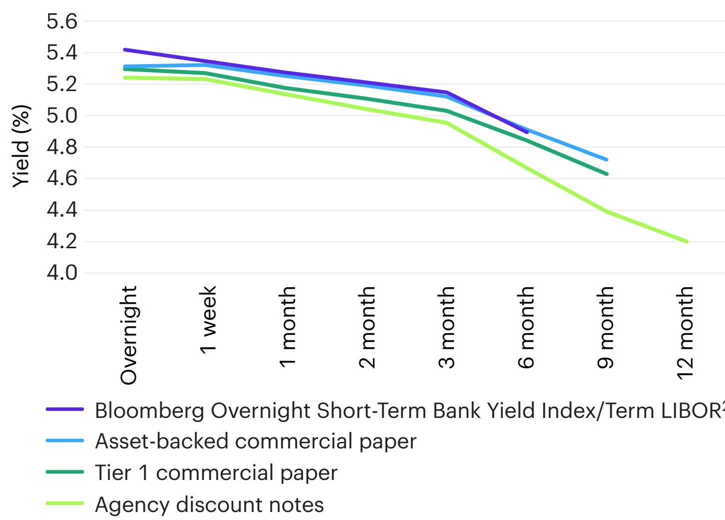
Sector views

Prime sector

August was busy for a non-FOMC meeting month. Markets have been impatiently waiting all year for the FOMC to begin easing its target rate only to instead be constantly disappointed by an FOMC that has been prudently reviewing economic data to verify that enough work has been done, or mostly done, in meeting its dual mandate to begin easing policy rates. Fed speak is now confirming that most FOMC members are gaining comfort that policy rates can be lowered in September without ramping up inflation and overheating the economy. Once again, market yields have overreacted to this change in narrative and are getting ahead of the FOMC with dramatic moves. For example, when the Producer Price Index was released mid-month with softer-than-expected results, one-year Yankee CD yields fell approximately 20 bps to below 4.50%. The next day, as the Consumer Price Index came in as expected, the one-year yield was higher by over 15 bps to 4.65%. This is just one illustration of the gyrations in short-end yield levels seen this month as participants grapple with the uncertainty of rate change magnitude and timing.

Another way we observe potential FOMC moves is derived from the federal funds futures market. To start the month, expectations for policy rates after the December 18, 2024, FOMC meeting were 4.54%, showing participants were expecting just over three 25-bp rate decreases by the end of this year. At different times this month, expectations moved to more than five 25-bp decreases by the end of the year. As we close the month, federal fund futures currently have four rate decreases by year-end to 4.30%. Since there are only three FOMC meetings remaining this year, one would have a 50-bp decrease and the others only 25 bps. Once again, we will need to review the incoming data to assess policy rate impacts and adjust portfolios accordingly.

MONEY MARKET YIELD CURVES



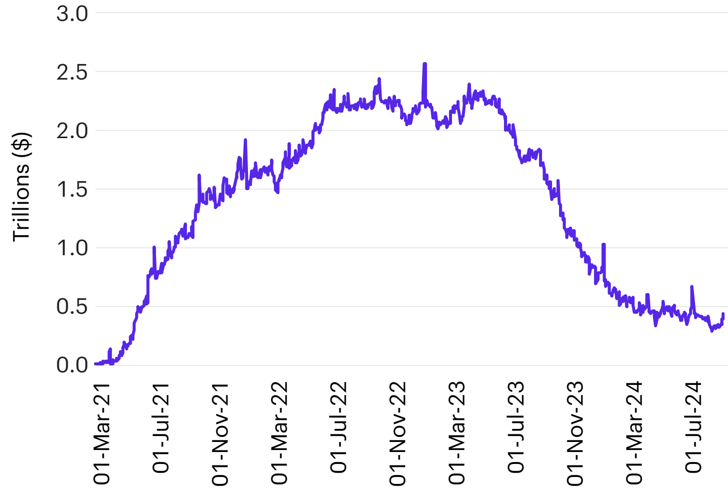
Sources: Bloomberg Finance L.P. and Allspring Global Investments

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. 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 preparing the market for future rate decreases.

U.S. government sector

The Fed's quantitative tightening (QT), where it gradually shrinks its balance sheet by allowing a portion of its maturing investments to roll off without reinvestment, continued throughout the summer at a reduced pace, and as with higher-for-longer interest rates, its days appear to be numbered. The Fed is watching many nuanced indicators to determine when to end QT, but two that we follow point to an approaching conclusion. First, the amount left at the Fed's reverse repurchase agreement program (RRP) averaged $333 billion each day in August, a small fraction of its peak of $2.5 trillion less than two years ago. As the chart below shows, the rate of decline has slowed dramatically this year but it continues to inch lower, and as it does, the cushion of extra cash in the market available to be redeployed to take advantage of higher repo rates shrinks as well.

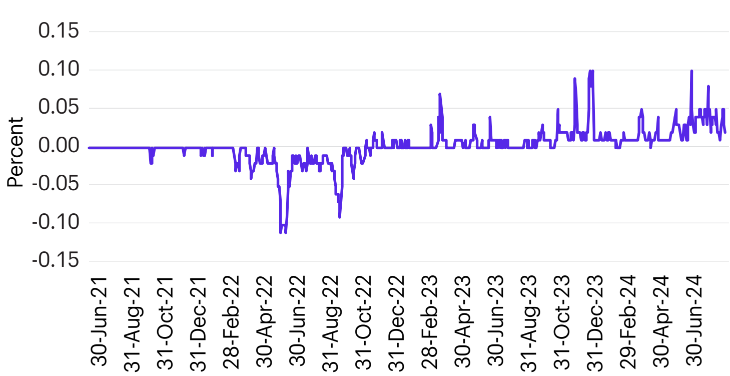
FED RRP VOLUME



Sources: Federal Reserve and Bloomberg Finance L.P.

Second, repo market rates have been very gradually rising over the past few years relative to the risk-free floor rate of the RRP. As the Fed flooded the market with liquidity during the pandemic through quantitative easing (its purchase of Treasuries and mortgage-backed securities), the Secured Overnight Financing Rate (SOFR)[4] was locked at or slightly below the RRP rate. Over the past few years, though, SOFR has been consistently set higher than the RRP rate by ever-increasing amounts, as shown in the chart below. There are many factors influencing repo markets, including banking regulations and Treasury bill supply, but very generally speaking, QT puts more securities in the hands of the public that need to be financed, often in the repo market, so it's no surprise to see repo rates edge higher as QT has gone on. Together, these indicators point to the Fed closing in on QT's end.

SOFR/RRP SPREAD



Sources: Federal Reserve and Bloomberg Finance L.P.

Municipal sector

Yields in the municipal money market space fell across the board as market participants prepared for the Fed to embark on an easing monetary policy regime in the coming months. The Securities Industry and Financial Markets Association (SIFMA)[5] Index began the month at 3.51% before eventually closing out at 2.92%. Further out the curve, yields on high-grade tax-exempt paper continued to fall in the one-month to three-month space, dropping roughly 10 bps to 15 bps while averaging roughly 2.92%. Meanwhile, yields on one-year high grades finished the month at 2.97%, down from 3.26%. Municipal money market assets finished the month at $133 billion, up almost $1.2 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 to tax-exempt commercial paper. In anticipation of lower rates courtesy of the FOMC, we have continued to prudently extend our weighted average maturity by taking advantage of an uptick in supply in the municipal space. Accordingly, we have selectively targeted high-grade fixed notes, puts, and bonds in the nine-month to one-year space.

On the horizon

Now that interest rates are set to move lower, the questions are: how often and how fast? Among other things, Chair Powell's quote in the Overview section above notes the economy's continued strength. The economy really has held in there remarkably well—better than almost anyone would have thought after a year with an overnight Fed target rate of 5.25%. But while the economy is hanging in there, the tide has definitely turned at the Fed, with its data dependence more squarely focused on employment. The pace of interest rate reductions will not be determined by inflation figures, which the Fed sees in the mid-2s and heading lower, but by labor market data, as we return to the days when the first-Friday-of-the-month employment report was the biggest event each month. Chair Powell also said:

"We do not seek or welcome further cooling in labor market conditions."

Watch the monthly nonfarm payroll reports and weekly jobless claims data for further cooling because, being unwelcome, they may draw a Fed response in the form of accelerated easing.

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

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	5.32	5.33	–	–	–	–	–
Fed reverse repo rate	5.30	–	–	–	–	–	–
U.S. Treasury bills	–	–	5.19	5.14	5.03	4.79	4.40
Agency discount notes	5.24	5.23	5.13	5.04	4.95	4.66	4.19
LIBOR	5.41	–	5.27	–	5.15	4.91	–
Asset-backed commercial paper	5.33	5.34	5.27	5.21	5.14	4.93	–
Dealer commercial paper	5.32	5.30	5.20	5.13	5.05	4.86	–
Municipals	3.89	2.92	2.92	2.92	2.93	2.94	2.97

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

Fund	7-day current yield
Money Market Fund*–Premier	5.31
Government MMF**–Select	5.23
Treasury Plus MMF**–Select	5.20
100% Treasury MMF**–Inst	5.10

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 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 5.20%, 5.16%, 5.08%, and 5.21%, 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 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. 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 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.

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.

**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.*

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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, 2024, 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.

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