Allspring

Overview, Strategy, and Outlook

Allspring Money Market Funds

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Money market overview

The Federal Reserve (Fed) delivered its promised interest rate cut in September with 50 basis points' (bps; 100 bps equal 1.00%) worth of gusto and cleared up a few things about how it operates in the process. Ever since the soft labor market report in early August, the market was pretty sure September would see the first rate cut of this cycle, and it was just a question of whether it would be 25 bps or 50 bps in size. As we noted last month, Fed Chair Powell sounded concerned about the labor market in Jackson Hole in late August, declaring further deterioration there unwelcome, but since that time various Fed speakers presented a picture of gradual and measured action with an untroubled tone. Coupled with a steady stream of economic data that was at worst bland but generally steady, the market took that tone and moved the chances of a 50-bp cut down from about 25% to less than 10% a week before the Fed meeting, and so the debate seemed settled. Then several articles appeared in the financial press five days before the Federal Open Market Committee (FOMC) meeting quoting former Fed officials, who, it should be noted, have as many votes as we do, advocating for 50 bps. The market ran with the possibility, and it became more of a coin toss at the time of the meeting, perhaps leaning to 50 bps.

Seeing that 50-bp cut, with the new federal funds rate target range of 4.75–5.00%, leads us to a few conclusions:

- The committee may be divided, and some may speak of gradual or measured moves, but Powell was concerned and it's his committee. Listen to Powell.
- There was legitimate discussion in the market about whether the rapidly approaching election would affect the willingness to make a big move. It turns out doing what they felt was right was more important than those optics.
- In the absence of a crisis, the Fed has historically taken a baby step of 25 bps to kick off an easing cycle. It turns out doing what they felt was right was more important than that history.
- For the past 17 years or so, the market pretty much knew the result of every meeting before it was announced, as the Fed had guided it there. Over the days of deliberation and the days leading up to them, the market was divided this time, and the Fed didn't seem to care. So perhaps that convention is now history as well.

It appears the FOMC's position is that inflation is beaten and that victory washes away any need to be restrictive. To defend the labor market, rates need to move closer to neutral, so they decided to get going. Pace is still the question, and the committee probably remains divided, but it appears the Fed is going to move as the data dictates, regardless of the unwritten rules people have constructed around its behavior.

Sector views

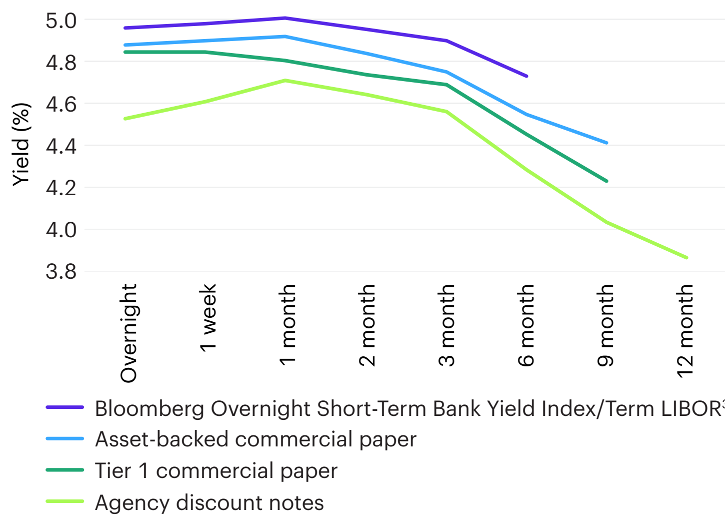
Prime sector

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. Now that the FOMC has begun cutting rates, market expectations will most likely continue to reflect impatience, with markets now looking for an aggressive easing cycle, and the FOMC will need to continue to carefully digest economic data and effectively communicate to ensure a smooth transition to a more neutral rate in the coming months.

As expected, market rates in the front end of the yield curve continued to be volatile as participants attempted to decipher economic data and Fed speak to adjust positioning. Weighted average maturities (WAMs)[1] came down in the week leading up to the FOMC meeting as issuers and investors were at an impasse about the magnitude of the rate cut. Going forward, the pace and magnitude of future rate cuts will be at the forefront of market participants deciding portfolio strategies. Using the Secured Overnight Financing Rate (SOFR)[2] as a guide to the path of future overnight rates, six-month SOFR this month has fallen roughly 50 bps to 4.25% and one-year SOFR is down 50 bps to 3.75%.

Overall commercial paper supply increased this month with issuers adjusting liquidity positions as mixed economic data and Fed speak have created uncertainty around the magnitude and timing of policy rate changes. This uncertainty and corresponding volatility have caused issuers in short-dated credit products to be more active. According to Fed data, monthly total commercial paper outstandings as of September 25 were $1.63 trillion, up $46 billion from the end of August. The increase in commercial paper outstanding was focused mainly in the financials sector, up $41 billion during the month.

MONEY MARKET YIELD CURVES



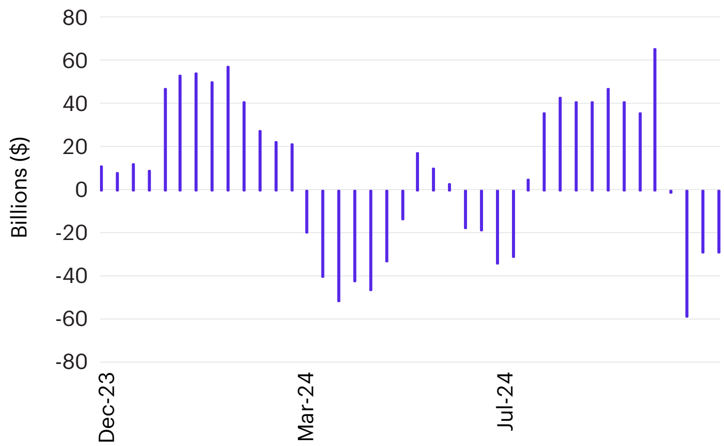
Sources: Bloomberg Finance L.P. and Allspring Global Investments

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 WAMs to capture above-target yields in a yield environment that is skewed toward the FOMC delivering future rate decreases.

U.S. government sector

The Fed's interest rate adjustment and the accompanying uncertainty about its future decisions combined with the more technical factors of Treasury bill (T-bill) supply and quarter-end window dressing added volatility to the T-bill market. With overnight rates administered by the Fed falling, short-term investors have choices to make, including whether to extend further out the T-bill curve to lock in rates before they fall further or, if they don't feel those longer securities offer sufficient value, to park in shorter T-bills until the value further out improves. To the extent the latter approach had some appeal, this would have resulted in crowding into very short T-bills—those maturing in less than a month. While we can't know to what degree this occurred, we do know that the last half of September saw a seasonal reduction in T-bill supply, as the Treasury received tax payments in mid-September and thus needed less cash from the market. Weekly changes in T-bill supply are presented in the chart on the next page.

WEEKLY NET NEW TREASURY BILL ISSUANCE



Source: U.S. Treasury

In addition, T-bills are often in demand as a reporting date such as the September 30 quarter-end approaches, as entities like the clean look of a pristine T-bill on their books. Whatever the mix of these influences, together they had short T-bills yielding 20–30 bps less than overnight repo rates. Uncertainty about the Fed's future actions is probably here to stay for the near term, but the good news is the two technical factors will soon flip, as the end of the quarter has moved into the past, and the government's chronic deficit spending will have it needing more cash, funded with increased T-bill supply, as soon as the first week of October. Then we'll get to do it all over again as year-end approaches.

Municipal sector

Yields in the municipal money market space fell across the board as the Fed initiated a much-anticipated easing cycle with its large 50-bp cut on September 18. Yields on high-grade commercial paper in the one-month to three-month space fell roughly 10–15 bps on the month, with rates leveling off in the 2.80% range. Further out on the curve, rates on high-grade one-year notes fell to 2.83%, down from 2.97%. In the overnight and weekly space, volatility persisted as new issue volume remained elevated from previous years and investors conducted last-minute positioning ahead of the Fed. The Securities Industry and Financial Markets Association (SIFMA)[4] Index began the month at 2.92% before eventually closing out at 3.15%.

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. With the expectation that the FOMC will continue to reduce policy rates in the upcoming months, we have prudently extended our WAM by taking advantage of the uptick in supply in the municipal space. Accordingly, we continue to selectively target high-grade fixed notes, puts, and bonds in the nine-month to one-year space.

On the horizon

As to the pace of interest rate cuts, economic data set to be released between now and the next FOMC meeting in early November, which includes two nonfarm payroll reports and one more look at the various inflation measures, will likely guide the Fed's hand. But if the siren song of neutral again calls out to them and they feel a burning desire to get there quickly, the question is: What could go wrong? First, they could be wrong about the destination. Interest rates sat above 5% for 14 months and the economy didn't exactly fall apart, so maybe neutral in a post-pandemic world is higher. Second, while the past few months have been encouraging, inflation is still above the 2% target, as it has gotten stuck around 2.5%. It's possible the difference between 2.0% and 2.5% is not very noticeable to consumers, so maybe close is close enough. But if the Fed drops rates quickly below 4% and then inflation starts to tick up, what then? The possibility of an inflation resurrection seems far from market and FOMC participants' minds, which would make it all the more disconcerting.

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

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	4.86	4.86	–	–	–	–	–
Fed reverse repo rate	4.80	–	–	–	–	–	–
U.S. Treasury bills	–	–	4.74	4.69	4.52	4.31	3.97
Agency discount notes	4.48	4.56	4.66	4.59	4.51	4.23	3.81
LIBOR	4.91	–	4.96	–	4.85	4.68	–
Asset-backed commercial paper	4.83	4.85	4.87	4.79	4.70	4.50	–
Dealer commercial paper	4.80	4.80	4.76	4.69	4.64	4.40	–
Municipals	3.93	3.15	2.79	2.80	2.80	2.81	2.83

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	4.95
Government MMF**–Select	4.86
Treasury Plus MMF**–Select	4.83
100% Treasury MMF**–Inst	4.89

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 4.82%, 4.79%, 4.87%, and 4.84%, 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. 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.

2. 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.

3. 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.

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.

**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.

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