Allspring

Overview, Strategy, and Outlook

Allspring Money Market Funds

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Money market overview

The Federal Reserve (Fed) began lowering interest rates in September. With no meeting in October, the markets were left to their own devices, interpreting incoming data and Fed communications to glean the pace of expected future cuts. The tone to begin the month was set by the Fed's action—a 50 basis point (bp; 100 bps equal 1.00%) cut—not by its words. The words may have said the removal of restriction would be gradual and that September's 50 bps cut was not the new normal size, but when choosing between a typical 25 bps cut and a more urgent 50 bps move, the Fed chose the larger cut. This move suggested some combination of motivations, perhaps that it was behind the curve and worried about the economy, or that rates were unnecessarily so far above neutral they should get back there quickly. Whatever the motivation, investors saw 50 bps and naturally began to expect a rapid reduction over the coming months, with overnight rates not expected to linger in the "4s" for long on the trip from 5.25% to somewhere around 3.00%.

The market lost that dovish feeling in just the first week of October, as a string of stronger-than-expected economic reports hit pause on the rapidly weakening economy thesis. Both the Job Openings and Labor Turnover Survey (JOLTS) early in the week and more importantly the monthly nonfarm payroll report to close the week revealed a labor market that no longer seemed on the precipice. If anything, it appeared to be rebounding from a soft patch. Data that followed only reinforced the idea: the Consumer Price Index (CPI) and Producer Price Index (PPI) were a little warm, and retail sales were stronger. Now when Fed officials speak of a gradual path, markets are listening.

Keeping track of where the market is day-to-day is important (it is our job, after all), but one can get lost there. We think it's worthwhile to step back and think about where the Fed is in the interest rate cycle and how it typically behaves. The Fed raised rates quickly in 2022 because inflation was shockingly high and it had delayed reacting because it had misdiagnosed the reasons. After reaching a level the Fed considered sufficiently restrictive, it kept rates there, presumably restricting activity, for fourteen months. Even after Fed officials told us rates had peaked, they resisted the urge to begin lowering them, wanting to be sure the risks around the inflation and employment mandates were sufficiently managed to allow that step. The bar to cut was high, and meeting it meant policy makers had gained significant confidence that inflation was no longer a threat. So the Fed has moved from a hiking cycle, to on hold, and now has commenced an easing cycle. Just as a Fed at rest tends to stay at rest, a Fed in motion tends to stay in motion. Fed officials may feel the need to cut a little faster, or they may ease back to the tried-and-tested quarterly moves, but either way the Fed is in the easing portion of its cycle, and the bar to stop will be high now that they've begun.

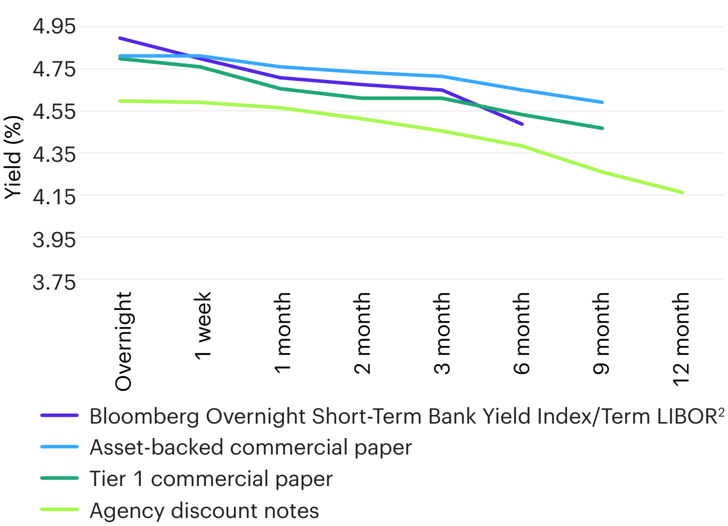
Sector views

Prime sector

Market expectations for the September Federal Open Market Committee (FOMC) decision were a coin flip of a 50-bps or 25-bps ease. Since the FOMC felt it was necessary to move by 50 bps (versus 25 bps), the tea leaves must be pointing to success on the inflation fight and concern on the employment front. After the September move, federal funds futures reflected expectations of 75 bps more easing by year-end, meaning that one of the last two meetings would be another move of 50 bps. Since it appears the FOMC has tilted its focus toward the employment side of its dual mandate, payrolls and data sets relating to employment began to draw more attention, beginning with the nonfarm payroll report to start October. As if on cue, that stronger-than-expected release shifted rate expectations from 75 bps of easing to 50 bps total for the last two meetings in 2024. This would bring its target rate range down to 4.25% to 4.50% at year-end.

At the beginning of October, issuers in the one-year part of the prime curve were paying about 4.15% to 4.20% to borrow money. By mid-month, with the economy chugging along and expectations of large moves by the FOMC dampened, investors could demand more. One-year yields backed up to around 4.50% and stayed in the upper end of that range for the balance of the month. On days when economic numbers were weaker than expected, issuers could drive levels closer to 4.40%, while on days with stronger numbers, they might have to entice investors with rates above 4.50%. The Secured Overnight Financing Rate (SOFR)[1] reflects even more of a correction in the path of future overnight rates, with one-year SOFR rising 39 bps to 4.17%.

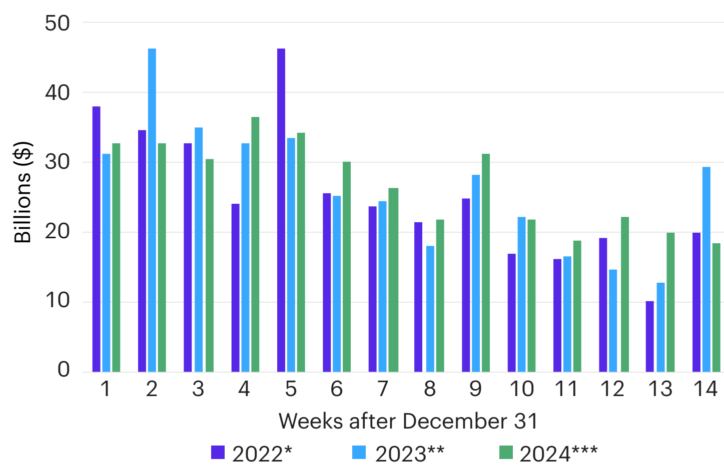
MONEY MARKET YIELD CURVES



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

In addition to the upcoming FOMC meetings in November and December, market focus will turn to the funding landscape over year-end. The total amount of commercial paper maturing past December 31, 2024, is higher compared with this time last year. This makes sense as both issuers and investors are looking to extend maturities but for different reasons. Issuers want to extend maturities for regulatory reasons, while investors are looking to extend maturities to lock in higher yields during the FOMC easing cycle. Once issuers are comfortable with their regulatory positioning, they may be more hesitant to lock in higher funding yields.

THE FED—COMMERCIAL PAPER RATES AND OUTSTANDING SUMMARY



Source: Federal Reserve
*Outstanding as of 2-Nov-2022
**Outstanding as of 1-Nov-2023
***Outstanding as of 30-Oct-2024

With the Fed in an easing cycle, even if the pace is debatable, locking in term yields close to where the overnight target will be after one more move makes sense. 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[3] to capture above-target yields in an environment that is skewed toward the FOMC delivering future rate decreases.

U.S. government sector

One of our least favorite topics will unfortunately be back in the news soon, as the debt ceiling—suspended since June 2023—will be reestablished on January 1 at the amount of indebtedness then outstanding. At that point, a familiar sequence of events is likely to unfold. To pay expenses, the Treasury would initially rely on cash on hand and would also employ extraordinary measures, accounting maneuvers that open up borrowing room under the limit. With those resources, everything should appear to be business as usual for the first few months of the year. Then tax refund payments would draw down the Treasury's cash before tax receipts in mid-April replenish it. From then on, the U.S. government's deficit would chip away at Treasury's remaining resources, potentially eventually reaching a point where there are no more maneuvers to make and no cash left; this is commonly known as the "x-date" or "drop dead date."

When we last dealt with the debt ceiling in a similar timeframe in 2023, the government was just about out of resources at the beginning of June when it was suspended again, at the last minute, of course. There may be a few differences this time. First, Treasury began 2023 with $447 billion in cash; it projects starting 2025 with $700 billion, an amount it considers consistent with its authorities and obligations. Second, and this is the big one, we have no idea how the political landscape will look next year. It's conceivable the election will result in a governance structure that will make a debt ceiling resolution more attainable. Admittedly, you may have to squint to see that.

In terms of impacts to the money markets, in the weeks leading up to the x-date, as the various extraordinary measures near exhaustion, Treasury is usually forced to reduce treasury bill issuance. This tends to push yields lower in the tenors Treasury has reduced. On the other hand, Treasury securities that mature on or near the x-date can fall out of favor, as some investors may fear a payment delay. Especially given the political uncertainty, it's not possible at this point to reliably project when the x-date may be, although it seems reasonable to assume it will be something we deal with in the summer or fall next year. We should also note that every time the debt ceiling has needed to be addressed over the years, it ultimately has been, even if it hasn't been pretty. We would expect the same result next year.

Municipal sector

Yields in the municipal money market space experienced a sharp reversal during the month of October. Stronger than expected economic data during the month led market participants to price in a less aggressive FOMC following September's jumbo rate cut. The Securities Industry and Financial Markets Association (SIFMA) Index[4] continued to experience volatility on a week-to-week basis before closing out the month at 3.24%, up from 3.15% at the end of September. Further out on the curve, yields on high-grade commercial paper in the one-month to three-month space rose roughly 40 bps, with rates levelling off in the 3.20% range. Municipal money market funds experienced roughly $3.7 billion in inflows during the month, according to CraneData.

During the month, we continued to selectively target fixed-rate paper in the one-month and three-month space. With the expectation that the FOMC will continue to gradually reduce policy rates in the upcoming months, we have prudently extended our weighted average maturity 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

A series of potentially market-moving events will rush toward us in early November. The nonfarm payroll report will provide the next comprehensive look at the labor market, but it may be hard to interpret, by both the Fed and markets (though the markets will try nonetheless), given the temporary influences of storms and strikes on the data. Next up will be the election, with potentially seismic consequences for the economy and markets, followed by the FOMC meeting where we'll get to hear the committee's thoughts on the curiously strong economy and how it relates to their interest rate easing plans. We'll be watching closely and will try to remain, as the Fed chair said in 2022, humble and nimble throughout.

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

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	4.85	4.85	–	–	–	–	–
Fed reverse repo rate	4.80	–	–	–	–	–	–
U.S. Treasury bills	–	–	4.63	4.58	4.49	4.41	4.26
Agency discount notes	4.61	4.60	4.57	4.52	4.46	4.38	4.15
LIBOR	4.92	–	4.72	–	4.66	4.49	–
Asset-backed commercial paper	4.83	4.83	4.78	4.75	4.73	4.66	–
Dealer commercial paper	4.82	4.78	4.67	4.62	4.62	4.54	–
Municipals	4.00	3.24	3.20	3.20	3.20	3.21	3.23

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	4.89
Government MMF**–Select	4.78
Treasury Plus MMF**–Select	4.74
100% Treasury MMF**–Inst	4.67

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 been 4.75%, 4.71%, 4.64%, and 4.78%, 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 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.

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 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 October 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.

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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