Allspring

Overview, Strategy, and Outlook

Allspring Money Market Funds

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As widely expected, the Federal Reserve (Fed) left interest rates unchanged at the conclusion of its meeting on January 31. There had been a raging debate in the markets leading into the meeting as to whether the Fed would begin cutting rates as soon as its March meeting or wait until later in the year, and the Fed at least cleared that up in its usual conditional way (more on that later). The important outcome of the meeting was the Fed taking a significant step in the transition from a rate hiking cycle to a rate cutting cycle, in that it signaled via changes in its meeting statement that it was moving from a tightening bias to a neutral one. Unless forced into it by dramatic changes in circumstances, which are unfortunately not rare, the Fed typically follows a deliberate progression with these things: move to neutral first, move to an easing bias, then ease.

While inflation fighting has been the core mission for the past two years, the Federal Open Market Committee's (FOMC's) statement noted now "*… that the risks to achieving its employment and inflation goals are moving into better balance.*" In addition, where the previous meeting statement referenced "*the extent **of any additional policy firming** that may be appropriate,*" this one omitted mention of higher rates in favor of a neutral statement: "*In considering **any adjustments** to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks.*" [Emphasis ours.]

This was the FOMC telling us rate hikes are over and cuts are next. But the key question remains, "*When?*" The data will decide, but the statement accompanying Fed Chair Powell's press conference pointed in two places toward descent beginning sometime after March:

"We believe that our policy rate is likely at its peak for this tightening cycle and that, if the economy evolves broadly as expected, it will likely be appropriate to begin dialing back policy restraint at some point this year. But the economy has surprised forecasters in many ways since the pandemic, and ongoing progress toward our 2% inflation objective is not assured."

Chair Powell further noted, *"[t]he Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%."*

Neither sounds like a committee prepared to lower rates at its next meeting. Later in the press conference, Chair Powell was more direct in his response to questioning when he said that a March cut "*… is probably not the most likely case.*" While economic developments such as a precipitous drop in inflation or a very poor employment report could bring cuts forward, it appears that given current information, the FOMC is planning on beginning to lower rates at some time after March. If the economy evolves on its current trajectory and the Fed believes it should cut at the May meeting, it will probably hint at or signal this after its March meeting, in its peculiar FOMC way, consistent with the steps outlined earlier.

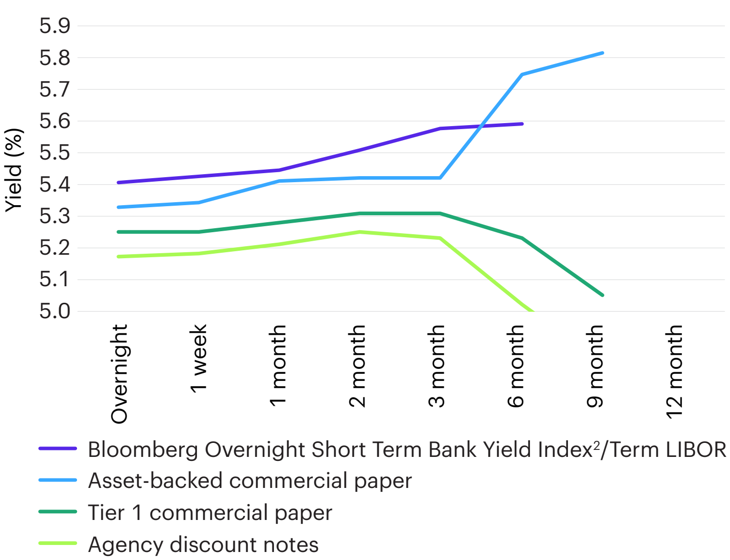
Sector views

Prime sector

Overall commercial paper supply is down this month, allowing issuers to tighten pricing on both fixed- and floating-rate instruments. According to Fed data, monthly total commercial paper outstandings as of January 24 were down $19.3 billion to $1.251 trillion. The reduction in commercial paper outstanding has mainly been in the financials sector as banks are not replacing maturing positions that were largely established to meet year-end liquidity coverage ratios (LCRs). LCRs were created by the banking regulators to enhance the banking sector's ability to absorb financial shocks and monitor liquidity.

Even as rates on term fixed-rate paper in the prime sector have dropped, they are outpaced by the repricing of federal funds futures. As a proxy for commercial paper rates, the six-month London Interbank Offered Rate (LIBOR)[1] is 5.57% and even the six-month Secured Overnight Financing Rate (SOFR) is 5.17%, while the implied federal fund futures rate at the July 2024 FOMC meeting is 4.50%, which is the result of expectations of multiple 25-basis-point (bp; 100 bps equal 1.00%) decreases in federal funds. This rate discrepancy isn't a new phenomenon as the futures market was well behind the pace of tightening on the way up in rates and currently way ahead of the path of easing on the way down. The lack of supply has also caused spreads on floating-rate paper to narrow this month even as term rates decreased, but at times floaters can still be an attractive alternative to fixed-rate paper given expectations of a slower pace of rate cuts.

MONEY MARKET YIELD CURVES



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

We have taken 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 NAV volatility. 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 being done with this hiking cycle and preparing the market for future rate decreases. Maintaining enhanced liquidity in our funds affords us the flexibility to adjust our positioning quickly to respond to economic data and anticipate FOMC activity.

U.S. government sector

Four times a year, the Treasury issues a quarterly refunding statement detailing its funding gameplan for the upcoming three months and, more generally, for the upcoming quarters. It's closely watched by investors across the curve, as it sets forth the sizes for upcoming bond and note auctions. It had its most significant market impact in recent years on November 1, 2023, when the Treasury elected to moderate its issuance further out the curve, assuaging some market angst about excess supply and essentially ending the autumn bond market sell-off that had dominated the market.

The guidance for Treasury bills (T-bills) is less specific, since T-bills are Treasury's shock absorber for differences between planned and actual cash needs. For instance, if tax receipts surprise to the upside, Treasury can issue fewer T-bills. If the pace of the Fed's balance sheet wind-down were to change, Treasury could alter its T-bill issuance to account for the difference. If a once-a-century pandemic requires the need for a quick trillion dollars, Treasury can raise that in the T-bill market, as it demonstrated four years ago.

In its most recent quarterly refunding statement, issued January 31, the Treasury bumped up the note and bond auction sizes again as expected, with little of the drama associated with the previous announcement. About T-bills, it said:

"Given current fiscal forecasts, Treasury expects to maintain bill auction sizes at current levels into late March. Treasury anticipates that this will likely result in a $300–350 billion net increase to privately held supply over the next two months. By late March or early April, Treasury anticipates modestly reducing short-dated bill auction sizes going into the tax filing season. These reductions will likely lead to a $100–150 billion net reduction to privately held supply during the month of April. As always, Treasury will continue to evaluate near-term borrowing needs and assess additional adjustments to bill auction sizes as appropriate."

In the absence of significant funding events, then, it appears as though 2024 will be a typical year for T-bill issuance during tax season: higher bill issuance to fund refunds while snow is still on the ground (in a normal winter) and lower issuance to accommodate tax receipts as the snow melts in March and April.

On the horizon

With the Fed being firmly in the data-dependent camp, the economic releases between meetings will become increasingly important in determining the forward path of rates in 2024—if not the trajectory, which we believe is down, then the timing. The next FOMC meeting is scheduled for March 20, a short seven weeks from the end of January. During that time, we'll see two sets of inflation measures for January and February in the form of the Consumer Price Index (CPI)[4] and the Personal Consumption Expenditures (PCE) Price Index;[5] we'll also get measures of the labor market resilience—two sets of data assessing strength in the form of earnings reports and payroll growth on the one hand and seven measures of weakness in the form of initial and continuing claims and unemployment.

Along the way, the Bureau of Labor Statistics will report on the strength of the economy, the consumer, and economic activity, which will carry some weight with the Fed, but by and large the FOMC will likely be concentrating on those measures that help define the relative success of achieving its dual mandate of price stability and full employment. Keep an eye out for a continuation of friendly trends that would make conditions favorable for declining rates—continued moderation of inflation measures to the 2% goal as well as signs of cooling or moderation in labor market strength—and will signal that the pivot to easing is near.

RATES FOR SAMPLE INVESTMENT INSTRUMENTS—CURRENT MONTH-END % (JANUARY 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	–	–	5.27	5.28	5.27	5.11	4.69
Agency discount notes	5.17	5.18	5.21	5.25	5.23	5.02	4.73
LIBOR	5.41	–	5.44	–	5.58	5.59	–
Asset-backed commercial paper	5.33	5.34	5.41	5.42	5.42	5.75	–
Dealer commercial paper	5.25	5.25	5.28	5.31	5.31	5.23	–

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	5.49
Government MMF**–Select	5.28
Treasury Plus MMF**–Select	5.29
100% Treasury MMF**–Inst'l	5.22

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, 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 and for the Institutional Class of 100% Treasury Money Market Fund would have been 5.39%, 5.24%, 5.22%, and 5.17%, 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 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.

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.

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 Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. You cannot invest directly in an index.

5. 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.

**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. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.*

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. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

***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 insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.*

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