Overview, Strategy, and Outlook

Allspring Money Market Funds

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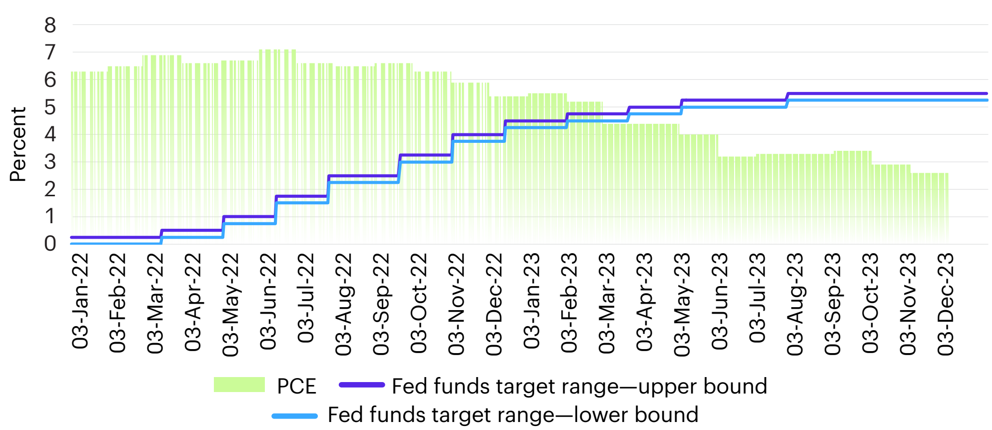
Sector views

On the heels of 2022's 425-basis-point (bp; 100 bps equal 1.00%) tightening, 2023's 100 further basis points served to quantify the "how high" part of the "higher for longer" narrative the Federal Reserve (Fed) has been advancing. On the surface, the year began routinely enough, in that the path of rates was following that established by the Fed in the prior year, with three consecutive 25-bp tightenings at the February (to 4.50–4.75%), March (to 4.75–5.00%), and May meetings (to 5.00–5.25%). The February economic data, with its shocking 517,000 increase in January's jobs as well as still-elevated inflation numbers—headline inflation coming in over 5%—seemed to justify ongoing rate hikes. During the course of late winter and early spring, measures of inflation and economic activity were mixed, showing signs of lingering strength, though both appeared to be moderating at the margins as well. However, the banking crisis in late March, coupled with signs of moderation, helped the Fed refine its messaging (and position) by late spring to one of diligence and data dependence. Although the March banking crisis was short lived thanks to the efforts of the regulators and the Fed, and the banking system was deemed sound and resilient, the anticipated future ripple effects from the crisis in the form of tighter credit were expected to have a chilling effect on economic activity, propelling the Fed to pause after the May meeting to assess the impact of its tightening efforts.

While the Fed made no move at its June meeting, the slow pace at which inflation was declining led the Fed to increase rates at the July meeting by another 25 bps, bringing the federal funds target range to 5.25–5.50%. After both the June and July meetings, Fed Chair Powell and others delivered a somewhat hawkish message, noting the persistent nature of inflation and the Fed still having a way to go before declaring victory. Higher for longer and data dependence seemed to be the name of the game.

The Summary of Economic Projections (SEP or dot plot) released at the conclusion of the June meeting showed expectations of the federal funds target range being 5.50–5.75% by the end of 2023. This did not, however, come to fruition.

PCE AND FEDERAL FUNDS TARGET



Sources: Federal Reserve and Bloomberg Finance L.P.

As shown in the chart above, after moving sideways for the better part of late spring and summer, the headline inflation number as measured by the Personal Consumption Expenditures (PCE)[1] Price Index legged down below 3% as of September 30. With the help of a decline in commodities prices, that downward trend continued through October and November, leading to a somewhat jubilant press conference following the Fed's December 13 meeting, which also marked the third consecutive pause since the July meeting. Although Chair Powell refrained from declaring victory over inflation, it was a fairly rosy picture he painted:

"We are seeing ... strong growth ... that appears to be moderating; we're seeing a labor market that is coming back into balance by so many measures; and we're seeing inflation making real progress. These are the things we've been wanting to see."

While noting a number of times that we are at or near the peak of rates, he also didn't want to remove the optionality of additional hikes if the economy (specifically inflation) surprised them again, stating there is a lot of uncertainty:

"We can't know. We still have a ways to go. No one is declaring victory. That would be premature. And we can't be guaranteed of this progress [continuing]."

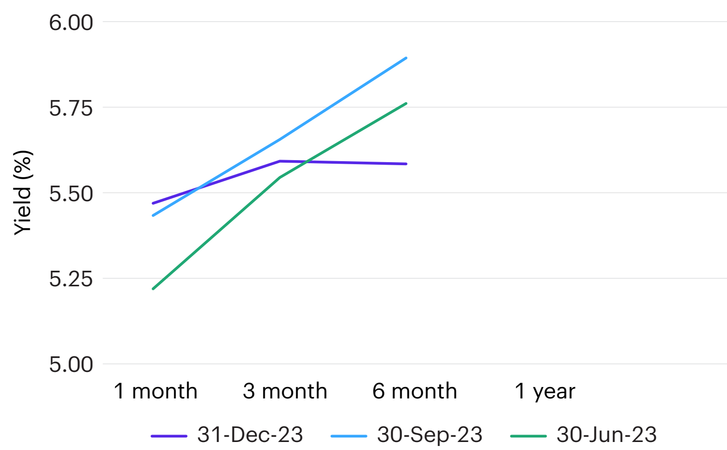
In weighing the significance of Chair Powell's message, the first statement seemed to carry more weight with an ever-optimistic market, which rapidly concluded the Fed was done; inflation was dead; and despite the newly released dot plot showing three cuts or a rate of 4.50–4.75% by the end of 2024, six cuts would be forthcoming in the new year starting as early as March!

Prime sector

The Fed's aggressive moves in 2022 and early 2023 had an unforeseen consequence that manifested itself in March 2023. As the cost of funding grew ever higher, some bank portfolios experienced strains as the value of their longer-dated holdings declined; this resulted in runs on some weaker banks and eventually led to the failure of Silicon Valley Bank, Signature Bank, and First Republic and the acquisition of Credit Suisse by UBS. The immediate actions taken by the Treasury, the Federal Deposit Insurance Corporation, and the Swiss National Bank quickly calmed the markets, but the credit sector remained cautious. Prime funds let liquidity grow while waiting to see if more cracks in the financial system showed. However, as calm returned and yields increased, the credit market quickly got back to business as investors returned, lured by the siren song of higher yields.

As the Fed pivoted to data dependence midyear, the short credit sector was steady, with the positive slope of the one-month to one-year yield curve reflecting the magnitude of expectations for the future path of rate increase. The markets noticed, however, the Fed's intention to keep rates higher for longer, which was reinforced at the Jackson Hole Symposium in August, and so spreads and yields that were fairly stable in summer again began to widen and move higher in the fall. One-year yields traded as high as 6.00% for a time as expectations for several more moves by the Fed were priced into market rates. This backup in rates, however, proved ephemeral, as the Fed's pause appeared to be permanent following the November meeting, causing yields to drop and spreads to narrow dramatically.

LONDON INTERBANK OFFERED RATE (LIBOR)[2] YIELD CURVES AS OF 31-DEC-23



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

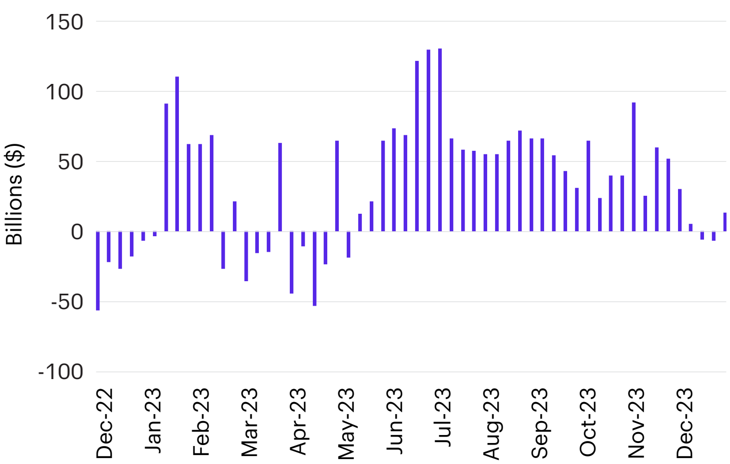
For much of the year, in order to capture the immediate effects of increasing rates, we favored exposure to higher liquidity and credit products with resetting rates, such as those offered by floating-rate paper and variable-rate demand notes (VRDNs)[3], over fixed-rate paper. In the fourth quarter, as it became commonly understood that if we weren't exactly at the end we were very close to the end of the rate hiking cycle, we extended investments in fixed-rate term purchases, capturing the steepness of the curve before expectations reset. Even as we extend purchases when the opportunity offers favorable risk/reward proposition, we have maintained an enhanced liquidity buffer in our portfolios not only to meet liquidity needs of our investors but also to dampen net asset value (NAV) volatility.

U.S. government sector

While the direction of travel for the government money markets is undoubtedly set by the Fed, the actual trading levels can vary from officially prescribed levels, usually as a result of changes in demand, such as in crisis-driven flights to quality, or supply. In that "game within the game," the main event in 2023 was the debt ceiling, not because of a real fear of default, but because it caused the Treasury to reduce Treasury bill (T-bill) supply to draw its cash balance down before eventually launching a T-bill bonanza to rebuild cash after the debt ceiling suspension at the end of May.

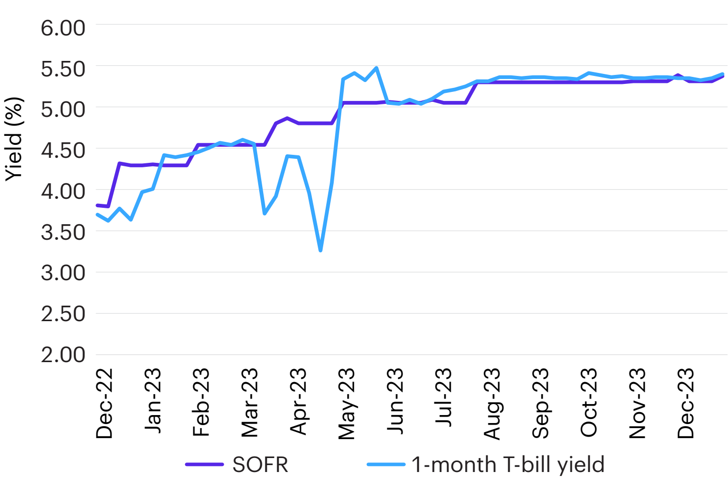
The first chart below shows the weekly net changes in T-bill supply since late 2022, when the Treasury began paring supply for the debt ceiling, while the second shows how the 1-month T-bill yield compared with the Secured Overnight Financing Rate (SOFR), the Fed's measure of overnight repo rates over that period.

WEEKLY NET NEW T-BILL ISSUANCE



Source: U.S. Treasury

GOVERNMENT YIELDS



Source: Bloomberg Finance L.P.

One-month T-bill yields initially dropped in the spring, when the Treasury's supply contraction unfortunately coincided with additional demand brought on by the regional banking concerns that surfaced suddenly in March. Then, as the debt ceiling risks came into clearer focus in April, demand grew further as the one-month maturities were deemed to be relatively safe from any potential debt-ceiling-driven repayment delay. When May arrived, like the flip of a light switch, 1-month T-bill maturities went from a "safe zone" to a "danger zone," having crossed over the potential debt ceiling deadline, and they were suddenly unloved, causing yields to rise 2%. To complete the cycle, the debt ceiling was suspended and demand returned, but then supply did as well as the Treasury issued an extra $1.6 trillion in T-bills over the balance of the year, both to rebuild its cash balance from near zero to about $770 billion and of course to fund the deficit.

Since then, investors have lived in a supply-rich environment, which is unusual outside of crises that require the government to raise money quickly, and as a result, they've been able to buy T-bills at fair yields, which, again, is unusual, as it typically seems as if there are never enough to go around. As the Fed's hiking cycle seems likely to transition to an easing cycle next year, T-bill demand should be robust, with investors wanting to lock in higher fixed rates before any Fed cuts. While T-bill supply should still be positive (thank you, deficit), it's not likely to increase at the pace that prevailed over the last half of last year, and so the combination of strong demand and lesser supply should make 2024 feel just like the difficult old days.

Municipal sector

The municipal money markets continued to exhibit volatility during the year as market participants struggled to assess the impact of global central bank monetary policies on macroeconomic conditions and, most importantly, inflation. Likewise, the broader financial markets exhibited volatility as well, with shifting views on the evolution of monetary policy leading to bouts of market gyrations. In the municipal space, yields continued to follow the general trend of the broader fixed income markets; however, good old supply and demand dynamics drove much of the action in the tax-exempt space, resulting in wide variations in relative value throughout the year.

As the Fed forged ahead with a series of rate hikes in the first half of 2023, rates in the municipal money market space were forced to contend with the usual seasonal factors as well as short-term technicals that influenced supply and demand. The Securities Industry and Financial Markets Association (SIFMA)[4] Index began the year at 3.66% but would exhibit volatility on a week-to-week basis as supply and demand imbalances were commonplace in the market for overnight and weekly VRDNs and tender option bonds (TOBs)[5]. Rates on high-grade notes in the one-year space began the year at 2.97%, down from 2022 highs as lackluster supply of fixed-rated paper resulted in an inverted yield curve for long periods.

While the overall trend in short-term municipal rates would be to drift higher in sympathy with taxable equivalents, the tax-exempt space often had a mind of its own as sudden bursts of demand would drive rates lower, thus reducing the attractiveness of tax-exempts relative to taxable securities. Asset flows in and out of municipal money market funds tracked by Crane Data showed large swings in both nominal and percentage terms. Despite the volatility, though, investors in the municipal money market space benefited as floating-rate securities were rewarded with higher rates overall. For example, the SIFMA Index averaged 2.93%, 3.32%, 3.52%, and 3.64% in the first, second, third, and fourth quarters, respectively. Stripping out the volatility of the index on a weekly basis resulted in a relatively attractive 67% SIFMA/Fed effective ratio on average for the year.

Further out on the curve, yields on high-grade paper in the one-year space drifted higher throughout the year as the Federal Open Market Committee (FOMC) aggressively pursued its restrictive policy stance. However, lackluster supply in the tax-exempt sector weighed on the market and kept yields in check during the year. The extraordinary level of pandemic-related stimulus and financial support to municipalities in prior years continued to reduce the need for short-term cash flow borrowing in the municipal money market space. After finishing 2022 at 2.97%, yields on one-year paper closed at 2.96%, 3.44%, 3.81%, and 3.12% in the first, second, third, and fourth quarters, respectively.

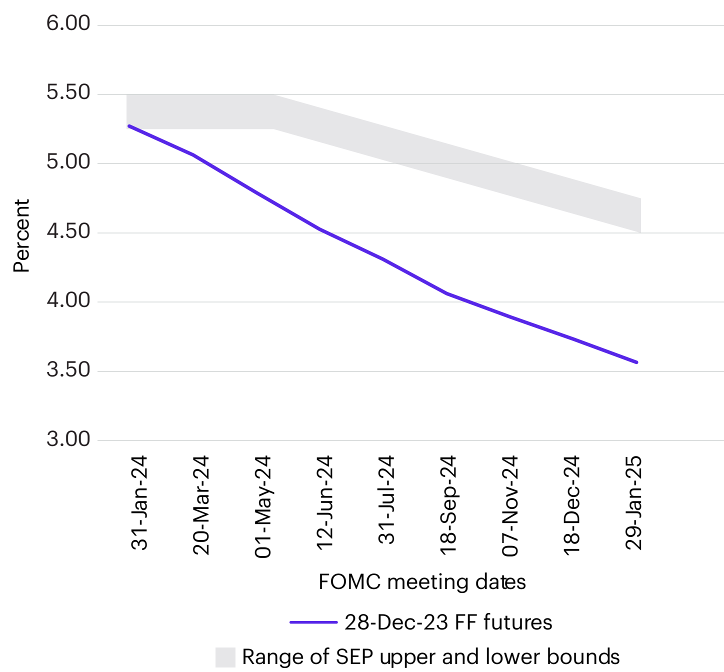
Closing out the year, the financial markets experienced an extraordinary reversal in sentiment as market participants were encouraged by moderating inflation indicators and dovish comments from several Fed officials. This sparked a massive rally around the globe and markets began to price a swifter pivot toward policy accommodation by the Fed. In the municipal money market space, yields on one-year high grades fell swiftly in concert with taxable equivalents. One-year yields closed out the year at 3.12%, down from 3.63% at the end of November. In the short end, the SIFMA Index spiked to 4.52% on December 20 before closing out the year at 3.87% as year-end technicals were at play.

During the year, we continued to emphasize portfolio liquidity by maintaining our bias toward purchases in daily and weekly VRDNs and TOBs. Accordingly, we were able to capture the higher levels presented as the FOMC proceeded with rate hikes in the first half of the year. Further out on the curve, we remained very selective in our fixed-rate purchases as the municipal yield curve was flat to inverted for much of the year. However, we continued to add high-grade commercial paper in the 1- to 3-month space while selectively adding cash flow notes and bonds beyond six months. As we head into 2024, we believe our portfolios will be well positioned to benefit from still-elevated money market rates. Although we do expect the Fed to switch into a monetary easing mode, municipal money market yields should remain attractive on both a nominal and after-tax basis.

On the horizon

If we're talking about rates, it looks like it's all downhill from here. With the Fed seemingly firmly on pause until the first cut, the only question becomes, how steep is the grade? If you believe the SEP provides a blueprint of the future course of rates, the Fed seems to think it's not very steep—about 14% or 75 bps over the next year. While we don't know exactly when they will start cutting rates, pushback from Fed governors this month advanced a timetable of the second half of the year. Using that as a guideline, the federal funds target range would look something like pictured below, with the shaded gray area showing the SEP's upper and lower bounds.

FUTURES-IMPLIED PATH OF FEDERAL FUNDS RATE VS. SEP PATH

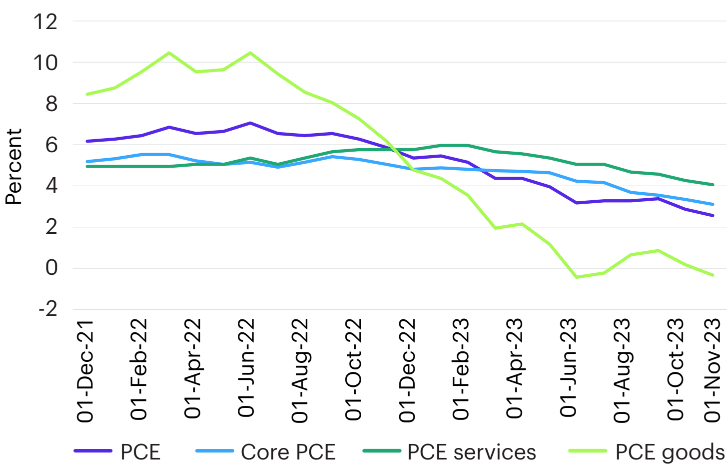


Sources: Federal Reserve Board, Bloomberg Finance L.P., and Allspring Global Investments

The market, however, sharply disagrees with the Fed, not on direction but on speed. This should come as no surprise to observers, since this has been the case since the Fed started the tightening cycle in March 2022. On the way up, they underestimated the length and height of the tightening cycle. And as shown by the violet line, the markets, represented by the federal funds (FF) futures curve, seem to think the Fed will cut rates faster and deeper. While the Fed seemingly anticipates a rate range 75 bps lower than the current range, at 4.50–4.75% at the end of 2024, the market is pricing in six cuts for a total of 150 bps to 3.75–4.00%—twice as fast as the Fed.

Who is ultimately right remains to be seen. If inflation continues to moderate, then the Fed certainly has room to make policy cuts and still maintain a restrictive monetary stance. While headline inflation is certainly heading in the right direction, the core PCE, which strips out the more volatile food and energy components, is elevated above headline PCE and has been since the end of March. Additionally, the service component of PCE remains elevated, and declines in that component have slowed relative to other components.

PCE COMPONENTS



Source: Bloomberg Finance L.P.

Should these trends continue, then we could see inflation measures leveling off and moving sideways, which may place a floor under the Fed and limit their flexibility.

Over the next 33 days, we will be coming to the place in the road where the fiscal can landed following last fall's punt. As you may recall, Congress passed two continuing resolutions in November to avoid a government shutdown, giving members time to agree on spending bills in the wake of U.S. House Speaker McCarthy's resignation and the subsequent (protracted) nomination process for the new speaker, Mike Johnson. The first resolution, expiring January 19, funded four appropriation bills, with the other eight departments funded through February 2. There hasn't been much in the news about progress on any front, though, to be fair, the House has been on recess since December 14 and will return on January 9. In the interim, the players haven't changed, and it's likely their issues haven't either, so this may be another long, contentious process with bipartisan opposition to any kind of "deal," if recent episodes are any predictor of future results. Look for the news cycle to ramp up on this issue as we get closer to deadline.

RATES FOR SAMPLE INVESTMENT INSTRUMENTS—CURRENT MONTH-END % (DECEMBER 2023)

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	5.33	5.33	–	–	–	–	–
Fed reverse repo rate	5.30	–	–	–	–	–	–
U.S. Treasury bills	–	–	5.31	5.32	5.26	5.17	4.77
Agency discount notes	5.28	5.25	5.26	5.28	5.27	5.16	5.00
LIBOR	5.43	–	5.47	–	5.59	5.59	–
Asset-backed commercial paper	5.35	5.39	5.49	5.43	5.43	5.35	–
Dealer commercial paper	5.33	5.39	5.38	5.38	5.36	5.28	–
Municipals	4.07	3.87	3.01	3.02	3.03	3.06	3.12

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
Municipal Cash Management MMF*–Inst'l	4.28
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 the Municipal Cash Management Money Market Fund and 100% Treasury Money Market Fund would have been 5.41%, 5.25%, 5.25%, 3.95%, and 5.20%, 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) 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.

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. Variable-rate demand notes (VRDNs) are debt securities commonly held within the Allspring Money Market Funds. Like all bonds, VRDN values fluctuate in response to the financial condition of individual issuers, general market and economic conditions, and changes in interest rates. Changes in market conditions and government policies may lead to periods of heightened volatility in the bond market and reduced liquidity for certain bonds. In general, when interest rates rise, bond values fall and investors may lose principal value. Interest rate changes can be sudden and unpredictable. In addition to credit and interest rate risk, VRDNs are subject to municipal securities risk.

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.

5. A tender option bond (TOB) is a type of VRDN where a long-term bond is placed into a trust. Floating-rate securities are created from the trust.

**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. The fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the fund's liquidity falls below required minimums because of market conditions or other factors. 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. The fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the fund's liquidity falls below required minimums because of market conditions or other factors. 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.*

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 December 31, 2023, 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.