

Overview, Strategy, and Outlook

Allspring Money Market Funds

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Sector views

Prime sector

The Federal Open Market Committee (FOMC), in a 10-2 vote, left the target funds rate unchanged at a range of 3.50–3.75% at the conclusion of its January meeting. Only Governors Waller and Miran dissented, both in favor of a quarter-point rate cut. Chair Powell sounded modestly hawkish in his press conference, particularly with respect to growth. The economy is coming into 2026 “on a firm footing,” according to Powell, and “the outlook has clearly improved since the last meeting.” With “signs of stabilization” in the labor market, he indicated that policy is “well positioned” and the FOMC can make its decisions “meeting by meeting.”

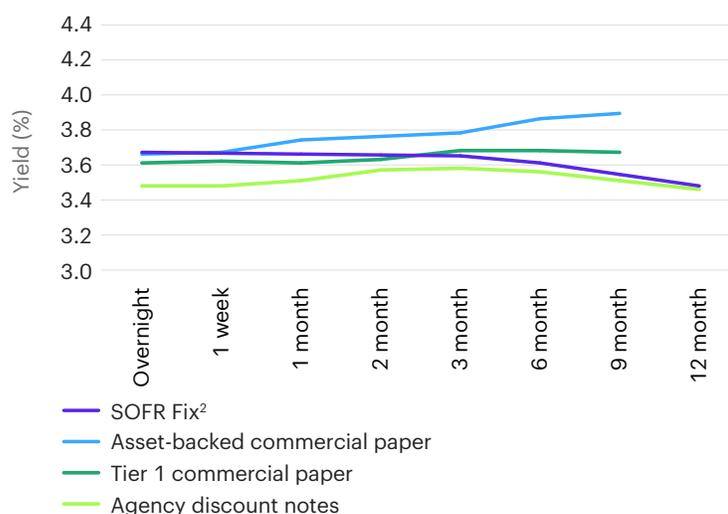
In the era of press conferences, the FOMC statement itself has taken on less significance, though the changes to the statement were echoed repeatedly at the press conference. There were three notable changes: better growth, possible stabilization in labor market slack, and more of a balance between employment and inflation risks. In particular: The assessment of activity growth was revised from “moderate” to “solid,” the unemployment rate was said to have “shown some signs of stabilization,” and the December statement’s mention of downside employment risks was dropped. Powell caveated that he wouldn’t “go too far” with those signs of stabilization and that it was hard to say if inflation and employment risks are perfectly in balance. When questioned on if in fact inflation were to tick up, he said it was in no one’s base case for the next move to be a hike in interest rates.

The money market reaction has been to scale back the timing of eases. Futures currently reflect the possibility of the next ease midyear, after the new Federal Reserve (Fed) chair takes the helm. Focus going forward will continue to be squarely on how fiscal policy plays out, how these policy measures affect economic data, and in turn how the FOMC will respond to maintain its dual mandate. In short-term credit markets, the yield curve is generally flat, reflecting expectations that the FOMC will be on hold for the foreseeable future.

We continue our strategy of opportunistically extending 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 maturities¹ to lock in yields in an environment that is skewed toward the FOMC delivering future rate cuts.



MONEY MARKET YIELD CURVES



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

U.S. government sector

In last month’s commentary, we discussed the recently announced Reserve Management Program (RMP) reintroduced by the Fed. This month, we take a slightly deeper dive into how the RMP might affect Treasury bill (T-bill) supply.

The Fed’s RMP is designed to keep the financial system functioning smoothly by making sure banks always have enough reserves. One of the main ways the Fed does this is by buying T-bills in the open market. These purchases matter for investors because they directly influence how many T-bills are available to the public and how the front end of the yield curve behaves.

When the Fed buys T-bills through the RMP, those bills are effectively taken out of regular market circulation and held on the Fed’s balance sheet until they mature. That means there are fewer T-bills available for investors, which can make the short-term Treasury market feel tighter than usual. These are not temporary or overnight operations—the Fed is buying these securities outright—so the reduction in supply tends to last for as long as the program is active.

The amount of buying the Fed does under the RMP isn’t driven by economic stimulus goals, as is the case with programs like quantitative easing. Instead, it’s tied to the Fed’s own balance sheet needs. When certain liabilities—such as currency in circulation or the Treasury General Account—grow, they drain reserves from the banking system. To compensate, the Fed increases its purchases of T-bills to rebuild those reserves. Because these liabilities fluctuate throughout the year, the pace of Fed buying also fluctuates. For example, during the tax season in the spring, reserves often fall due to changes in Treasury cash balances, so the Fed temporarily steps up its purchases. When that happens, the market can feel an even sharper pull on T-bill supply.

It’s important to clarify that while RMP affects how many T-bills are available in the secondary market, it does not influence how many bills the Treasury issues. The Treasury’s issuance decisions depend on federal budget needs, not Fed operations. Still, even without changing issuance, Fed buying has real implications for pricing. With fewer T-bills available to investors, demand becomes concentrated on a smaller pool of securities. That can push T-bill yields lower relative to other short-term instruments and can affect the behavior of money market funds, repo markets, and investors who rely on T-bills for liquidity management or collateral.

Because the RMP focuses almost entirely on very short-dated securities—T-bills and maturities of up to three years—the impact is isolated to the front end of the curve. Longer-term Treasury markets are unaffected by these purchases, which makes the RMP very different from programs like quantitative easing. As a result, any distortions created by the RMP occur in the short-term funding markets rather than across the broader fixed income landscape.

Taken together, the RMP creates a backdrop where T-bills can periodically become scarce, especially when the Fed increases purchases to stabilize reserves. For investors, this means it’s important to be aware that yield movements at the front end may reflect supply pressures caused by the Fed—not just traditional macroeconomic forces. The program is not meant to be stimulative, but its influence on T-bill availability can still shape short-term yields, collateral conditions, and liquidity across money markets.



Municipal sector

Yields in the municipal money space were lower across the board as the “January effect” was on full display in the overnight and weekly sectors with strong demand easily outpacing available supply to start the year. The Securities Industry and Financial Markets Association³ (SIFMA) Index averaged 1.62% for the month (44% of Fed effective), down from an average of 2.85% (77% of Fed effective) in December. Further out on the curve, yields on high-grade fixed-rate paper were 10–15 basis points (bps; 100 bps equal 1.00%) lower, with yields in the one-year space falling to 2.44%, down from 2.59% at the end of December. The relative richness of tax-exempts relative to taxables resulted in large outflows from municipal money market funds with close to \$9 billion leaving the sector, according to Crane Data.

During the month, we remained selective in our fixed-rate purchases out on the curve, as we expect the FOMC to reduce the pace of interest rate cuts as the risks to the Fed’s dual mandate have become more balanced. We will also continue to emphasize principal stability and liquidity by maintaining exposures to variable-rate demand notes⁴ (VRDNs) and tender option bonds⁵ (TOBs) for their daily and weekly liquidity profiles.

On the horizon

After much discussion regarding who will be the next chair of the Fed, President Trump announced former Fed Governor Kevin Warsh as his choice for the position. Warsh served on the Board of Governors from 2006 to 2011, playing a key role acting as liaison between the Fed and Wall Street during the Global Financial Crisis. His outlook had previously been considered hawkish, but more recently he has touted the need for lower rates. Mr. Warsh has been critical of the size of the Fed’s balance sheet, pushing back against the ample reserves era that short-term funding markets have been operating within. The nominee will have to build consensus in order to change course. Whether that be immediately lowering rates or starting to shrink the balance sheet, he will need to convince committee members with solid reasoning for change. Regardless of who leads the Fed, we expect monetary policy to be determined by the economic outlook and by the Fed’s existing policy goals and framework.

RATES FOR SAMPLE INVESTMENT INSTRUMENTS—CURRENT MONTH-END % (JANUARY 2026)

Sector	1 day	1 week	1 month	2 month	3 month	6 month	12 month
U.S. Treasury repos	3.67	3.65	–	–	–	–	–
Fed reverse repo rate	3.50	–	–	–	–	–	–
U.S. Treasury bills	–	–	3.62	3.64	3.61	3.57	3.44
Agency discount notes	3.49	3.49	3.52	3.58	3.59	3.57	3.47
SOFR	3.68	–	3.67	–	3.66	3.62	3.49
Asset-backed commercial paper	3.67	3.68	3.75	3.77	3.79	3.87	–
Dealer commercial paper	3.62	3.63	3.62	3.64	3.69	3.69	–
Municipals	3.21	2.28	2.33	2.34	2.35	2.38	2.44

Fund	7-day current yield (%)
Money Market Fund*–Premier	3.74
Government MMF**–Select	3.63
Treasury Plus MMF**–Select	3.63
100% Treasury MMF**–Inst	3.54

Source: Allspring Funds

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

Past performance is no guarantee of future results.

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, 2026, 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 3.60%, 3.59%, 3.52%, and 3.40%, 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. SOFR Fix data is provided by Bloomberg Finance L.P. and Allspring. The forward-looking measurements of the Fed's Secured Overnight Financing Rate (SOFR) are based on market expectations implied from leading derivatives markets. 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 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.

4. Variable-rate demand notes (VRDNs) are debt securities commonly held within certain mutual 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.

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 retail money markets: 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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Diversification does not ensure or guarantee better performance and cannot eliminate the risk of investment losses.

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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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