Allspring

Overview, Strategy, and Outlook

Allspring Money Market Funds

CONTRIBUTING AUTHORS

Jeffrey L. Weaver
Head of Global Liquidity Solutions
628-266-1214
jeff.weaver@allspringglobal.com

Laurie R. White
Managing Director and Senior Portfolio Manager, Taxable Money Funds
612-895-1858
laurie.r.white@allspringglobal.com

Michael C. Bird
Senior Portfolio Manager, Taxable Money Funds
612-351-0675
michael.c.bird@allspringglobal.com

James C. Randazzo
Senior Portfolio Manager, Municipal Money Markets
704-533-8784
jrandazzo@allspringglobal.com

Madeleine M. Gish
Senior Portfolio Manager, Taxable Money Funds
628-266-1054
madeleine.gish@allspringglobal.com

John R. Kelly
Senior Portfolio Manager, Taxable Money Funds
612-474-3075
kellyjr@allspringglobal.com

Daniel J. Tronstad
Senior Portfolio Manager, Taxable Money Funds
612-895-1827
daniel.j.tronstad@allspringglobal.com

Sector views

The highlight of the month was the Federal Open Market Committee (FOMC) meeting on March 20, but unlike some meetings in the past few years, this one was largely uneventful. There were no changes to rates, no consequential changes in the statement (literally just a few words), and the "dots" didn't move much. Since the FOMC's December pivot, when they told us rates had likely peaked and the next move was down, it's been just a matter of when they would start and how many times they would cut. At that time, the dots in the Summary of Economic Projections suggested there would be perhaps three cuts in 2024. While the market has been all over the place in its cut expectations as it digested economic data and other Federal Reserve (Fed) communications, the March dots came in right where the Fed left them in December, at three cuts. The Fed wants to be a bit more confident that inflation is truly headed back down to the 2% target before easing, but it is also mindful of the risks of being overly restrictive for too long.

Prime sector

Our focus here is often on the Fed, market reactions, and anticipation for changes to the benchmark rates. As we hit the one-year anniversary of the regional banking crisis, it is appropriate to discuss another determinant of yield levels in prime markets, namely credit conditions. Recall the issue last year was largely contained due to decisive government intervention and credit markets quickly got back to business as usual. But as we close out the first quarter of 2024 and approach the beginning of the Fed's easing cycle, the timing is appropriate to explore some of the asset types that comprise our holdings in the prime funds.

By and large, credit conditions in 2023 were solid with areas of strength but also signs of deterioration starting to show. Broadly speaking, corporate credit metrics strengthened in 2021 and 2022 as the post-COVID economic rebound enabled improvement in profitability and balance sheet metrics. In 2023, high inflation, rising interest rates, and slowing economic growth drove weakening in credit metrics, such that several metrics (margins, interest coverage, and leverage) are now generally in line with pre-COVID levels. Some companies and industries benefited from these factors, but many were pressured. The tightening of financial conditions was likewise reflected in rating agency activity. In 2023, rating agency upgrades outpaced downgrades in high-grade companies, but downgrades outpaced upgrades in high yield companies, reflecting the uneven economic distribution across various sectors. The credit landscape that affects our funds remains favorable, but we will be diligently monitoring the situation.

Corporates

Investment-grade nonfinancial corporate credit metrics remain resilient though they have shown some deterioration in recent quarters. Overall revenues and earnings before interest, taxes, depreciation, and amortization (EBITDA) contracted 1.3% and 5.4%, respectively, in 2023, marking the first yearly decline since fourth quarter 2020.

That said, these figures were heavily skewed by commodities-linked sectors that saw inflated results in 2022 and thus large declines in 2023. Stripping out commodities sectors, revenue and EBITDA *grew* 3.8% and 3.4%, respectively. In other words, ex-commodities, revenues, and EBITDA have shown *slowing growth* from 2021/2022 rather than an outright decline and now sit roughly in line with pre-COVID levels.

Given the steep rise in interest rates and, by extension, corporate borrowing costs, interest expense for investment-grade corporates has risen considerably. At the end of 2023, interest expense was 18.4% higher than last year. This was partially driven by higher debt levels but was mainly attributed to the higher interest rates orchestrated by the FOMC. However, interest coverage remains adequate as companies have been able to pass on rising costs.

Leverage metrics improved considerably in 2021 and 2022 as corporate earnings growth was strong and low interest rates enabled cheap borrowing. Aggregate corporate leverage bottomed out in the third quarter of 2022, but it has since been rising as debt growth has outpaced slowing EBITDA growth. Leverage is now back to roughly in line with pre-COVID levels, though it remains below the peaks seen in 2020.

U.S. banks

The United States money center, trust, and super regional banks continue to exhibit strong performance despite the weakening economic environment. The U.S. banking sector saw strong net interest income (NII) and net revenue growth in 2022 and 2023 as the rising rate environment pushed net interest margins (NIM) wider. It appears that NII and NIM peaked in 2023 and will decline slightly in 2024 as the expected interest rate environment changes though will remain higher than the lows experienced in 2020/2021.

The higher-rate environment as well as the regional banking crisis in 2023 sparked some deposit shifts across the banking sector as customers exited lower-yielding bank deposits in search of higher-yielding alternatives such as money market funds or certificates of deposit. That said, funding and liquidity remain more than adequate at the money center, trust, and super regional banks, and these banks generally experienced less deposit outflows in 2023 compared with smaller banking peers.

Loan growth was modest across the banking sector in 2023. Unrealized losses embedded in securities portfolios diminished in 2023 relative to 2022. Given the slowing macroeconomic environment, asset quality metrics have weakened slightly but remain very manageable and well below Global Financial Crisis levels. Additionally, the U.S. banking sector generally increased provisions for credit losses in 2023, and provisions appear adequate to cover credit losses going forward. That said, credit losses will likely continue to rise (dependent on the macro environment) and will bear monitoring. Commercial real estate (CRE)—particularly office—will continue to be a focus for several quarters. Positively, CRE is likely to be more of a concern for smaller regional lenders with high concentrations of CRE loans, whereas the larger banks continue to hold well-diversified loan portfolios.

Lastly, the U.S. banking sector continues to be well capitalized, with Common Equity Tier 1 (CET1) capital ratios in excess of regulatory minimums. As of the end of 2023, all money center, trust, and super regional banks maintained CET1 ratios at least 100 basis points (bps; 100 bps equal 1.00%), higher than their regulatory minimums (and on average 287 bps higher). Liquidity coverage ratios also remained in excess of regulatory minimums across the banking sector. The U.S. banking sector continues to perform well on the stress-testing regime under the severely adverse scenario.

Aussie banks

The large Australian banks continue to be among the highest rated in the world. Despite pressure on the consumer from higher interest rates, inflation, and poor housing affordability, Australian bank earnings, capital, and liquidity remain strong. The Australian regulator has a track record of effective oversight, further boosting the sector’s soundness.

Canadian banks

The performance of the major Canadian banks continues to be solid, notwithstanding ongoing challenges from elevated interest rates and weak economic prospects. Bank profitability in 2024 will depend on the resiliency of the Canadian economy, which will also dictate whether the Bank of Canada begins to cut rates this year or if stubborn inflation pushes out that decision. The major banks continue to be acquisitive, with the focus on strengthening North American footprints.

U.K. banks

The largest United Kingdom banks are diverse in their business profiles, exposing them to different market risks. After a robust 2023, U.K. bank earnings face pressure from a weakening economy, high inflation, and elevated interest rates. Additional uncertainty exists given the U.K.’s upcoming general election. Current polling highlights the chance of a change in government from the Conservative Party to the Labour Party, with the economy, cost of living, and geopolitics driving voter mood. Despite these challenges, the major players in U.K. banking operate on solid foundations, with strong capital and liquidity levels.

Asian banks (Japan, Singapore, Korea)

For the major banks, 2023 was a solid year with generally higher profitability and rising regulatory capitalization ratios. Liquidity remains a strength as domestic customer deposits were steady and represent a main funding source. Asset quality was satisfactory with low non-performing loans though credit costs were on balance higher as banks made preemptive provisions/management overlays to boost allowance for loan losses. 2024 is expected to be more challenging as the interest rate cycle turns and as credit costs remain elevated in line with a more uncertain economy and the lagged effect of higher interest rates on households and borrowers.

Eurozone banks

Profitability was solid in 2023 amid much higher net interest income due to rising interest rates. NIM and NII have likely peaked as competition for deposits intensifies and the interest rate cycle turns. Asset quality is expected to weaken in 2024 given ongoing slow economic growth and lagged effects from higher interest rates. Liquidity and funding for the biggest European banks have remained resilient.

The changing interest rate landscape and the impacts on our issuers will remain a focus for the Credit team. We feel that our credits have diverse earnings streams, are well capitalized, and have access to liquidity markets to meet stress tests from various regulators. We will continue to monitor the impacts of political, monetary, and fiscal issues on our credits and make the necessary recommendations to maintain minimal credit risk thresholds.

U.S. government sector

Treasury bill (T-bill) supply is following its usual seasonal pattern as it rose in January and February to fund tax refunds and began to fall in March as borrowing needs will decline when taxes are paid in April. Two years ago, after a year of robust gains in the financial markets in 2021, tax receipts in April 2022 surprised to the upside, and T-bill supply languished for the entire summer as a result. The Treasury was sitting on more cash than expected and simply didn't need to borrow incrementally. Last year was a mirror image, as a tough 2022 in the financial markets gave way to lighter tax receipts in April 2023 and greater borrowing needs.

How this year plays out remains to be seen, but 2023 was a good year for investors, and that points to it being a good year for Treasury's cash balance and perhaps a less pleasant summer for T-bill supply and investors in that market. The first indication we've seen suggesting that result is that the Treasury has cut the auction sizes on some of its T-bill tenors somewhat earlier and by a bit more than expected. For example, the total size of the four-week and eight-week T-bill auctions fell from $185 billion on March 14 to $155 billion for the auctions held on March 28. Despite that, there are still plenty of T-bills, and the U.S. budget deficit isn't going away anytime soon, so any supply impacts should take place at the margin, perhaps lowering T-bill yields slightly. The larger driver of yield changes will likely be changes in the expected path of interest rates by the Fed.

Municipal sector

Yields in the municipal money market space drifted higher during the month of March as market participants reassessed the path of monetary policy and tax season loomed on the horizon. The Securities Industry and Financial Markets Association (SIFMA) Index[1] remained relatively range bound for the second straight month. The index began the month at 3.37% but rose each consecutive week before closing out the month at 3.64%, or 68% of the effective federal funds rate. Further out on the curve, rates on one-year high-grades backed up to 3.31%, up from 3.12% at the end of February. Assets in municipal money market funds rose approximately $2 billion to $128.6 billion during the month, according to Crane Data.

During the month we continued to focus our purchases primarily in variable-rate demand notes (VRDNs)[2] and tender option bonds (TOBs)[3] with daily and weekly puts in order to emphasize principal preservation. However, we did opportunistically add exposure to fixed-rate commercial paper and notes primarily in the three-month and six-month space. We also remained highly selective in investing beyond six months while carefully balancing relative value with the prospects of rate cuts later in 2024.

On the horizon

The interest rate path is appropriately data dependent. If 2023's impressive disinflation, which was interrupted by pricing pressures early this year, resumes in the coming months, the Fed will probably have the confidence it needs to begin lowering rates this summer. When that happens, if the economy and labor market keep chugging along as they have, the Fed won't feel particularly compelled to be very aggressive, but if the labor market appears to weaken materially, the Fed may cut rates more than expected as its much-desired soft landing may then appear to be in jeopardy.

RATES FOR SAMPLE INVESTMENT INSTRUMENTS—CURRENT MONTH-END % (MARCH 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	–	–	5.29	5.30	5.28	5.24	5.00
Agency discount notes	5.13	5.15	5.19	5.23	5.25	5.20	5.00
LIBOR	5.39	–	5.44	–	5.60	5.70	–
Asset-backed commercial paper	5.33	5.35	5.37	5.40	5.42	5.48	–
Dealer commercial paper	5.25	5.28	5.32	5.33	5.35	5.35	–
Municipals	4.53	3.64	3.20	3.21	3.22	3.25	3.31

Fund	7-day current yield
Heritage MMF*–Select	5.41
Money Market Fund**– Premier	5.39
Government MMF***– Select	5.24
Treasury Plus MMF***– Select	5.23
100% Treasury MMF***– Inst'l	5.17

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, 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; the Institutional Class of the100% Treasury Money Market Fund; and the Premier Class of the Money Market Fund would have been 5.34%, 5.22%, 5.20%, 5.15%, and 5.28%, 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 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.

2. 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.

3. 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. 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.*

***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.*

****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 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.*

The views expressed and any forward-looking statements are as of March 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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