NORTHEAST INVESTORS TRUST

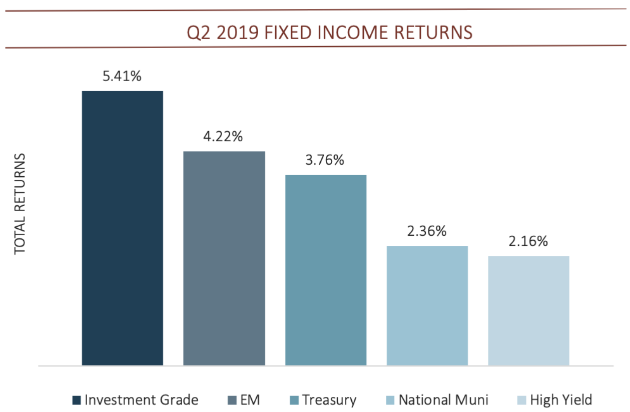
Paying Dividends for Over 60 Years

Quarterly Commentary
Second Quarter 2019

Market Recap

The second quarter was somewhat of a "Goldilocks" environment for all fixed income asset classes. In May, investor appetite for risk abated as U.S.-China trade friction, a slowing global economy, and geopolitical tensions spurred a "flight to quality" that drove the Treasury market. The yield on 10-year Treasuries dropped to 2%—the lowest level since September 2017. The market also favored higher-quality, longer-dated debt, pushing Investment Grade bonds up 5.4% in the quarter.

However, in early June, trade fears diminished and the Federal Reserve came to the rescue with dovish signaling. That sparked a pivot back to the "risk on" trade, pushing High Yield 2% higher for the quarter and up 10% year to date, the best start to a year since 2009. Within the High Yield space, higher-quality, longer-duration bonds outperformed. For the quarter, BB-rated credit was up 3.2% while B- and CCC-rated securities gained 2.4% and 0.7%, respectively. From a sector standpoint, declining oil prices dampened the performance of the energy sector which makes up about 12% of High Yield.



How the Yield Curve Reacted:

The yield curve dropped across the board, but maintained a flat—and even inverted—shape. This means longer-dated instruments are not providing investors a "term premium," as is the case historically. For this reason, we continue to believe that staying at the short end of the yield curve is prudent.

As an overall theme in 2019, money has generally flowed out of equity funds and into fixed income funds. During Q2, early outflows in High Yield quickly reversed and flowed back in, with roughly $12 billion being added in 2019. The growing dichotomy between High Yield and leveraged loan markets continues to manifest itself in technicals, as the latter has experienced 32 straight weeks of outflows ($32 billion out during that span).

The new issuance market remains solid. $69.3 billion in High Yield bonds were issued in Q2, roughly two-thirds of which is related to refinancing activity. The $137 billion in the first half of 2019 represents a 20% increase over the same period in 2018. Defaults remain low, coming in at 1.55% through June, considerably lower than the historical average, which is approximately 3%.

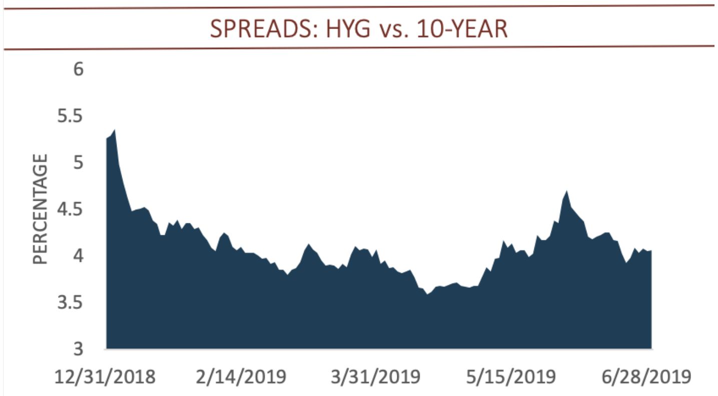
How Spreads Reacted:

Overall, High Yield spreads saw very little change during the second quarter, ending at 406 basis points (bps), down 1 bps from Q1. However, yields dropped 42 bps to 6.06%. The shift lower followed a similar path to the 10-year Treasury yield, which fell 40 bps to 2% at the end of the second quarter. The 406 bps spread remains well below the 20-year average of 524 bps.

Fund Performance

The fund has maintained its barbell strategy with roughly 50% consisting of low-volatility, short-duration, yield-to-call bonds combined with "special situation" post-bankruptcy bonds and stocks, which comprise roughly 20%. The fund has added to the traditional "core" High Yield component of the portfolio which now stands at roughly 30%.

For the Q2 period, the Trust was basically unchanged, down 0.01%, compared to gains of 2.55% for the benchmark—the ICE BAML U.S. High Yield Index. The Trust underperformed the benchmark in Q2 due mainly to its overweight exposure to conservative, short-duration securities as well as underperformance from its out of index securities.



Contributors to the Trust's performance:

- Parker Drilling Common Stock — A post-reorganization equity now trading on the NYSE
- Aircraft Finance Trust — An asset-backed security that has reached an agreement to sell its underlying assets
- Vector Group and Tidewater — Core High Yield positions

Detractors to performance:

These names represent a portion of our "special situations" equities acquired through restructurings. The under-performance of the following equities was due mainly to technical pressures rather than fundamental issues.

- Advanced Lighting — a leading manufacturer of efficient lighting materials and finished products
- Viskase Companies Common Stock — a food service manufacturer based in Chicago, IL
- American Gilsonite, — Produces "Gilsonite," a naturally occurring hydrocarbon resin. The company restructured in 2016

Additions to Trust:

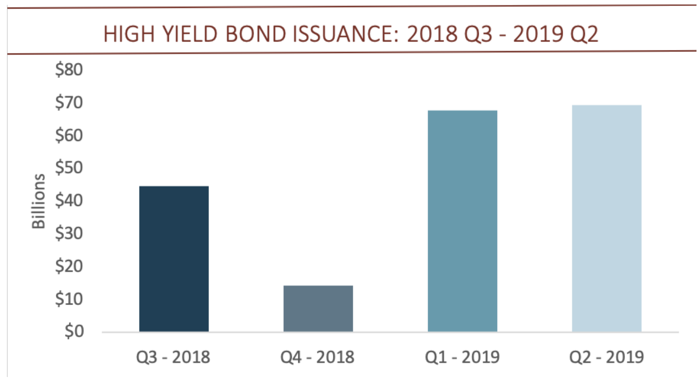
During the quarter, the Trust found values in these names, most of which are callable within the next two years:

- Enviva Partners 8.5% 11/1/21
- Griffon Corp. 5.25% 3/1/22
- Transdigm 6% 7/15/22
- Vistra Energy 7.375% 11/1/22
- Builders Firstsource 6.75% 6/1/27
- CNX Resources 7.25% 3/14/27
- Clean Harbors 4.875% 7/15/27
- Clear Channel 8.75% 12/15/20

Subtractions:

A byproduct of investing in short duration securities is they are called or mature relatively quickly. All of the securities that were removed from the portfolio were due to calls (early redemptions by issuers):

- DPL 7.25% 10/15/21 (Full Call)
- Taylor Morrison 5.25% 4/15/21 (Full Call)
- Vistra Energy 7.625% (Full Call)



S&P Ratings Changes:

- No Ratings Changes

Outlook

We remain defensively positioned with mainly short-duration YTC securities and continue to be invested in the bonds rated at the higher end of the High Yield credit quality spectrum. We believe our focus on this area of High Yield tends to produce securities that offer reasonable valuations, less volatility, and shorter durations.

We maintain a sanguine outlook for the economy and expect moderate growth to continue, but bouts of volatility remain likely due to uncertainties such as slowing earnings, trade tensions, heightened conflicts in the Middle East, and Brexit. The Fed is likely to cut rates as insurance to hold off a recession but may cause added market turmoil if it doesn't follow through on the path that iscurrently priced into the markets. Our portfolio is well positioned should any of these spread-widening events come to pass.

Bruce H. Monrad is chairman and portfolio manager of Northeast Investors Trust (ticker: NTHEX) ,a no-load, high-yield fixed income fund whose primary objective is the production of income. Bruce is among the longest-tenured bond fund managers in the industry, having run Northeast Investors Trust for 30 years.

CONTACT: 1-800-225-6704 (M-F 9:00am - 4:45pm EDT); BMonrad@northeastinvestors.com

NORTHEAST INVESTORS TRUST

Read and Listen to Bruce's Recent Takes on...

The Fed: northeastinvestors.com/the-feds-hawkish-rate-cut/
The Trade War: northeastinvestors.com/whats-on-the-horizon/
Interest Rates: northeastinvestors.com/something-more-with-chris-boyd/
High Yield: northeastinvestors.com/the-problem-with-passive/

DISCLAIMER: From time to time a Trustee or an employee of Northeast Investors Trust may express views regarding a particular company, security, industry or market sector. The views expressed by any such person are the views of only that individual as of the time expressed and do not necessarily represent the views of the Trust or any other person in the Northeast Investors Trust organization. Any such views are subject to change at any time based upon market or other conditions, and Northeast Investors Trust disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for Northeast Investors Trust are based on numerous factors, may not be relied on as an indication of trading intent on behalf of the Trust.

Past Performance does not guarantee future results, and an investment in the Trust is not guaranteed. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than that quoted. Additional Performance data may be obtained by calling 1-800-225-6704 or by visiting http://northeastinvestors.com/fund/performance.

The ICE BAML U.S. High Yield Index is an unmanaged market value-weighted index comprised of approximately 2,200 domestic and yankee high yield bonds, including deferred interest bonds and payment-in-kind securities. Issues included in the index have maturities of one year or more and have a credit rating lower than BBB-/Baa3, but are not in default.

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information about the Trust is contained in the prospectus or summary prospectus, either of which may be obtained by calling 1-800-225-6704 or by visiting www.northeastinvestors.com. Please read either one carefully before investing.

Mutual fund investing involves risk. The Trust invests in lower rated debt securities which may be subject to increased market volatility based on factors such as: the ability of an issuer to make current interest payments, the potential for principal loss if an issuer declares bankruptcy, and the potential difficulty in disposing of certain securities in a timely manner at a desired price and therefore can present an increased risk of investment loss.