NORTHEAST INVESTORS TRUST

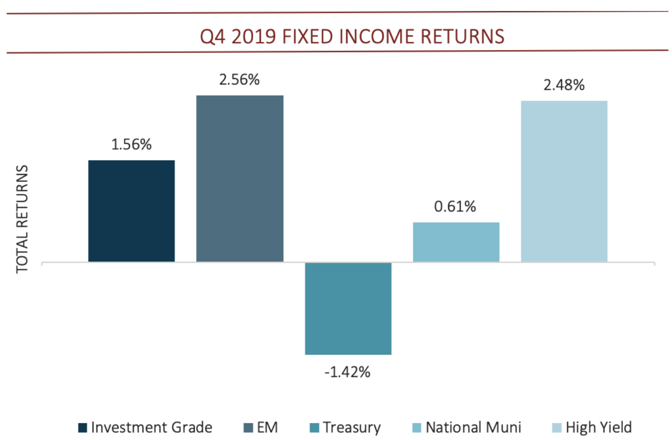
Paying Dividends for Over 60 Years

Quarterly Commentary
Fourth Quarter 2019

Market Recap

The favorable conditions—low inflation, low interest rates, low unemployment and moderate growth—that fostered this "Goldilocks" backdrop for High Yield have been resilient. As we saw (again) last quarter, investors continued to turn (again) to "risk-on" asset classes despite potential headwinds (again). High Yield and Emerging Markets led in Fixed Income, with both up roughly 2.5%.

This has been a familiar scene in recent years. Potential threats seem to come and go, but none have really disrupted Fixed Income for an extended period of time. The market digests the information and marches ahead as each threat gets kicked down the road (trade, impeachment, Brexit) or just fades away (inverted yield curve, debt overhang, repo markets). Not surprisingly, High Yield, Emerging Markets and Investment Grade have performed well under this "glass half full" mindset.



The Yield Curve: The Federal Reserve continued its accommodative policy with one more cut in October and has since stayed the course on a "data-dependent" path. The Fed Funds target stands at 1.50-1.75%. Short-term Treasury rates (under 1 year) responded in kind by dropping across the board, while longer-dated instruments drifted higher, resulting in a more traditional upward-sloping yield curve. The 10-Year/2-Year Treasury spread also widened to 34 basis points, up from 12 bps at the end of the third quarter.

The Economy: The U.S. economy experienced modest growth, with GDP up 2.1% in the third quarter. However, trade war worries continue to put pressure on manufacturing expectations. The Institute for Supply Management's manufacturing PMI for December was 47.2%, the lowest level since 2009. The non-manufacturing (service) side has fared much better. The NMI for December was 55%, up 1.1% from November and its 125th consecutive month of growth. The employment picture is very healthy with the unemployment rate holding at 3.5%. This marks the second-consecutive year in which the unemployment rate closed the year below 4%. The last time this occurred was in the late 1960's, during the Vietnam War. Inflation remains around 2%.

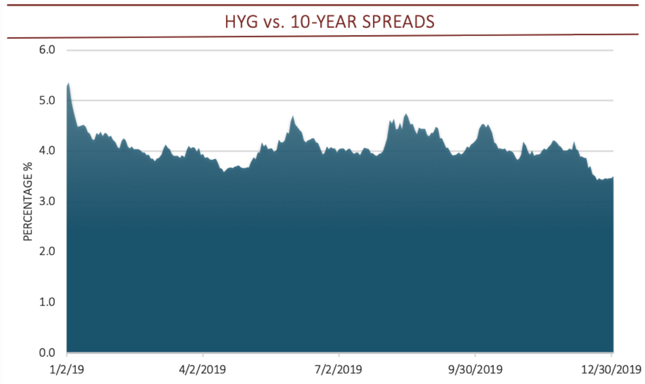
The High Yield Market: Last year, High Yield outpaced 2018 issuance levels in every quarter. Recession fears put the clamps on issuance at the end of 2018, but there was no such slowdown in 2019. More than $68 billion of High Yield bonds were introduced in the fourth quarter, leaving the annual total at $273.5 billion, a 62% increase from the prior year. The average annual issuance over the last 10 years is $269 billion, so market demand for High Yield bonds remains consistent and strong.

Spreads: The High Yield bond spread (also known as the credit spread), which is used to evaluate credit markets, narrowed to the lowest level since mid-2017. At the end of Q4, the spread was 350 bps, which tightened 70 bps from the prior quarter. Spreads, which tend to tighten in favorable credit markets, stand at roughly 170 bps less than the current 20-year average of 522 bps.

Fund Performance

The Trust's primary objective is income and as such has roughly 80% of its portfolio invested in High Yield securities. Within this High Yield space, the Trust continues to use a barbell strategy with over 40% invested in low-volatility, short-duration, yield-to-call bonds and another 35% at the longer end, in core High Yield bonds. The Trust also maintains exposure in "special situation" post-bankruptcy bonds and stocks, which comprise roughly 15% of the portfolio.

For Q4, the Trust was up 0.73%, compared to 2.61% gains for the benchmark, the ICE BAML US High Yield Index. The Trust underperformed the benchmark due mainly to its overweight exposure in out-of-index securities.



Contributors to the Trust's performance:

- Parker Drilling Common Stock — Oil and Gas Exploration
- CNX Resources Corp. 7.25% 3/14/27 — Natural Gas
- Talos Energy Common Stock — Offshore Oil and Gas Exploration

Detractors to performance: These names represent a portion of our "special situation" equities acquired through restructurings. Their underperformance was due mainly to technical pressures rather than fundamental issues.

- Advanced Lighting Inc. — 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: The Trust ended Q3 with a repurchase agreement which was used, along with proceeds from called securities, to purchase the following securities:

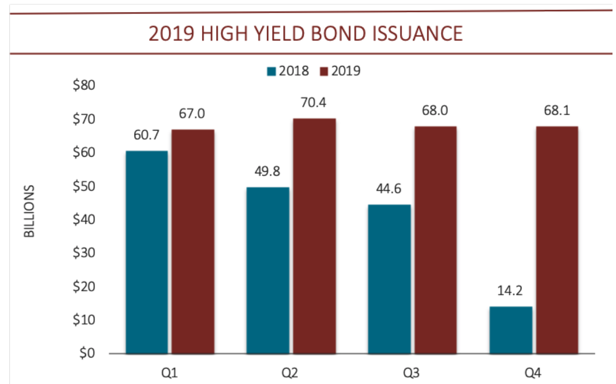
- Allegheny Ludlum 6.95% 12/15/25
- Eldorado Resorts 6% 4/1/25
- Mueller Industries 6% 3/1/27
- Synovus Financial 5.75% 12/15/25
- Unisys Corp. 10.75% 4/15/22
- Universal Health Services 4.75% 8/1/22

Subtractions: The following securities were removed due to calls (early redemptions by issuers):

- Tidewater 8% 8/1/22 — Partial Call
- Transdigm 6% 7/15/22 — Full Call
- Enviva Partners 8.5% 11/1/21 — Full Call

S&P Ratings Changes:

- Pyxus International 8.5% 4/15/21 — downgrade from B- to CCC+
- AES Corp. 7.25% 10/15/21 — downgrade from BBB- to BB
- Rite Aid 6.125% 4/1/23 — downgrade from CCC to CCC-



Outlook

Overall, we continue to hold a constructive view of the U.S. economy. GDP continues to grow at a modest pace despite an overall rise in geo-political noise. Fundamentals in the credit markets have stabilized and default rates remain low. This is a similar position we held at the end of 2018, when recession fears ripped through financial markets, pushing yields on High Yield over 8% and widening spreads over 5%. However, this 11th-hour pullback provided areas of value and set the stage for a rebound in 2019 that eventually produced an annual return of over 14% for the BAML US High Yield Index, its best in 10 years.

Yet despite such a productive year in 2019, High Yield still had areas that lagged, specifically Energy and lower-quality CCC-rated bonds. We believe these particular areas will have a heavy hand in determining High Yield's performance in the coming year. Our base case would expect to see High Yield returns normalize to their historical single-digit average, but depending on how they play out, both Energy or CCC could move the needle in either direction.

We continue to hold a barbell strategy, using short-duration, yield-to-call securities as a ballast for downside protection, along with high yield securities and reorganized stock as a potential source of alpha. As always, we will continue to generate income in the form of a quarterly dividend, which stands at 5.62% TTM at the end of the year.

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 more than 30 years.

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High Yield & Equities: northeastinvestors.com/frothy-equities-and-high-yield/
Market Outlook: northeastinvestors.com/2020-outlook-podcast/
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The Fed: northeastinvestors.com/the-third-times-a-charm/

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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.