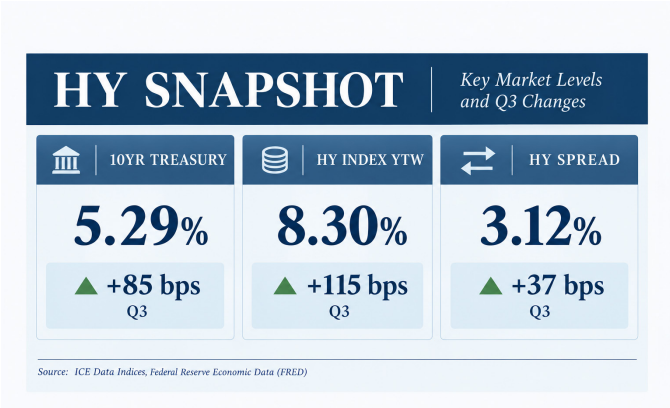
NORTHEAST
INVESTORS TRUST
A No-Load Mutual Fund

Paying Dividends for Over 70 Years

# Quarterly Commentary
## Q3 2026

## Market Recap

During the third quarter of 2026, the financial landscape shifted noticeably as persistent inflation concerns and strong GDP growth (+3.5% annualized estimate per the Atlanta Fed GDPNow) reshaped interest rate expectations. Unlike the steady pricing observed in Q2, fixed income markets experienced significant selling pressure. Benchmark Treasury yields vaulted across the curve, driving absolute high yield borrowing costs higher and prompting a widening in high yield credit spreads.




Quite clearly, the situation in energy markets remains a key focus, what with nearly 20% of global oil production and a similar level of liquified natural gas supplies being on- or off-line depending on the most recent developments. In turn, energy pricing affects not only macroeconomic variables such as inflation and interest rates, but also key microeconomic variables such as various industries' competitive position in global markets.

The uncertainty arising from the energy sector created an inflationary backdrop that did not pass the Fed's "test for meaningful improvement" according to Fed Chair, Kevin Warsh. As a result, the Fed raised its benchmark rate a quarter-point to 3.75%-4.00% at its September meeting. Softer post-meeting employment figures dampened the hawkish tone, but another quarter-point hike is still expected by the end of the year.

Furthermore, international bond markets, most notably that in France, suffered as the markets began to question whether the politicians would likely, or perhaps ever, embrace the fiscal rectitude required to restore confidence in sovereigns' finances.

### Yields/Spreads:

Treasury yields experienced a sharp upward repricing during Q3. The benchmark 10-Year U.S. Treasury yield climbed 85 basis points ("bps"), moving from 4.44% on June 30 to 5.29% on September 30. Short- and mid-term Treasury yields also recorded dramatic shifts as market participants digested a more restrictive stance by the Fed.

The yield-to-worst ("YTW") on the ICE BofA U.S. High Yield Index surged from 7.15% at the end of Q2 to 8.30% by quarter-end, reflecting the broader backup in underlying Treasury rates. Option-adjusted spreads ("OAS") reversed their previous Q2 contraction, widening by 37 bps from 275 bps to 312 bps.

Credit differentiation intensified during Q3. While higher-quality BB-rated spreads widened moderately by 24 bps, lower-quality CCC-rated bonds faced significant pressure, widening by 237 bps as investors demanded higher risk premiums for debt-laden balance sheets.

### Issuance & Defaults:

Primary high yield bond issuance remained strong in part due to a surge in September ($39B). The $107B in Q3 is the highest quarterly mark over the last two years. AI-related infrastructure debt and megadeals like Softbank and Paramount were the main drivers of the September push.

According to CreditSights, trailing 12-month default rates held relatively stable at 2.6%. However, the High Yield Distress Ratio (bonds trading above 1,000 bps spread) climbed to 7.4%, reflecting stress concentrated in consumer-facing and highly leveraged sectors. High yield retail mutual funds and ETFs recorded net outflows of $4.8 billion during Q3, reversing Q2's inflows as investors sought refuge in cash equivalents.

## Fund Performance

The Trust's total return in Q3 was +0.12% versus the ICE BofA U.S. High Yield Index which posted -1.82%. The Trust outperformed its benchmark by almost 200 bps during the quarter, driven primarily by its conservative short-duration position which shielded capital from the sharp rise in Treasury yields. **For full performance results, please see the table on page 3.** The Trust's modified duration stood at 2.4 years at quarter-end, compared to the Morningstar High Yield category average of 3.4 years.

**Contributors to the Trust's performance**:

- HC Group Holdings L.P.
- NLI Holdings, Inc.

**Detractors to the Trust's performance**:

- Republic of Argentina GDP-Linked Bonds
- Nabors Industries Ltd.

**Additions** - The following securities were added to the portfolio:

- KBR, Inc. 4.75% 9/30/28 (Buy)
- Dream Finders Homes, Inc. 6.875% 9/15/30 (Buy)

**Subtractions** - The following position was removed due to a corporate action:

- Brinker International, Inc. 8.25% 7/15/30 (Full Call)

**S&P Ratings Changes**:

- KB Home 7.25% 7/15/30 - Downgrade (7/17/26) from BB+ to BB

## Outlook

In the corporate bond market, credit conditions in the form of spread levels remain relatively benign. While there is weakness in CCC bonds, i.e. those with the riskiest credit profiles, most bond spreads remain at historically modest levels. At the same time, geopolitical instability and uncertainty surrounding the global economic outlook continue to present challenges. Domestically, the upcoming midterm elections introduce the potential for political turnover and shifts in fiscal policy, adding another layer of uncertainty to the investment environment.

This is an important point. While the economy remains resilient, investors must contend with the potential implications of changing monetary and fiscal policies, geopolitical developments, and the possibility that economic weakness may ultimately be required to bring inflation lower. These uncertainties make credit selection and interest rate sensitivity particularly important as we look ahead.

Accordingly, we at Northeast are comfortable with our positioning. Short-duration, high-quality, high yield bonds offer a risk premium that we see as worth taking, while providing a more prudent approach to managing interest rate and credit risk. At the same time, such a portfolio weighting has permitted us to largely avoid the risks arising from owning long-duration bonds and CCC securities.

In an environment characterized by geopolitical uncertainty, domestic political turnover, and the potential for continued market volatility, we believe maintaining a disciplined focus on capital preservation through our current investment strategy is a sound investment approach on a risk-adjusted basis.



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 Northeat Investors Trust for more than 30 years.

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NORTHEAST INVESTORS TRUST

Watch and Read Bruce's Takes on...

- Credit Stress in 2026
- Higher For Longer
- Northeast Investors Trust Overview

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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. Below is the performance data ending 9/30/26:***

AVERAGE ANNUAL RETURNS (AS OF SEPTEMBER 30, 2026)

| | 3 Months | YTD | 1 YR | 3-YR | 5-YR | 10-YR | Since Inception* |
|---|---|---|---|---|---|---|---|
| Northeast Investors Trust | 0.12% | 1.57% | 1.71% | 7.49% | 5.34% | 3.48% | 6.83% |
| ICE BofA US High Yield Index | -1.82% | 0.04% | 1.39% | 7.93% | 3.55% | 4.94% | N/A |

* The inception date for the Trust is 3/1/1950; the inception date for the ICE BofA US High Yield Index is 8/31/1986.

Top 10 Issuers (% of Net Assets): 1. Homer City Holdings (9.3%) 2. Pyxus Holdings, Inc. (7.6%) 3. Carvana Co. (4.4%) 4. Tidewater, Inc. (4.3%) 5. KB Home (4.1%) 6. Comstock Resources, Inc. (4.1%) 7. XPO, Inc. (4.1%) 8. SS&C Technologies, Inc. (4.1%) 9. Anywhere Real Estate (4.0%) 10. Darling Ingredients (3.9%).

For a complete list of holdings, click here to see the most recent quarterly holdings report (as of 6/30/26). Holdings are subject to change and may differ from the most recent filing.

The operating expense ratio, which includes interest expense and commitment fees when applicable, was 1.94% on an annualized basis ending 9/30/2025. The current expense ratio may differ from the one reported here due to fluctuations in net assets and expenses.

Duration measures the price sensitivity to changes in interest rates. The longer a bond's duration, the higher the sensitivity to interest rate movements, and vice versa.

The ICE BofA U.S. High Yield Index is an unmanaged market capitalization-weighted index comprised of all domestic and yankee high yield bonds, including deferred interest bonds and payment-in-kind securities. Bonds included in the index have maturities of one year or more and have a below-investment grade rating but are not in default. It is shown for comparative purposes only and reflects no deduction for fees, expenses and taxes.

***Investors should carefully consider investment objectives, risks, charges and expenses. This material must be preceded or accompanied by a prospectus or summary prospectus, either of which can be obtained by calling 1-800-225-6704 or by visiting www.northeastinvestors.com. Please read 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.

Falling Interest rates and bond defaults may negatively impact the Trust's distributable income. In addition, during periods of declining interest rates, higher yield securities may be called and the Trust may be unable to reinvest those proceeds in similar yielding securities. Therefore, shareholders should expect the Trust's quarterly dividend distributions to decline under these circumstances. The Trust is generally for investors with longer-term investment horizons, and should not be used for short-term trading purposes. An investment in the Trust involves risk and should be part of a balanced investment program.

Marketing services provided by ALPS Distributors, Inc, (ALPS) a registered broker dealer. Northeast Investors Trust is unaffiliated with ALPS and FLX Distribution.