NORTHEAST
INVESTORS TRUST
A No-Load Mutual Fund

Paying Dividends for Over 70 Years

High Yield - A Safe Haven in Today's Volatile Market

The 2023 fixed income environment has been volatile, with interest rates touching new highs at the beginning of the year, only then to retreat sharply in March in the wake of the collapse of Silicon Valley Bank and now recently regaining and re-establishing new highs. While this has caused renewed capital losses for U.S. Treasury and Investment Grade bondholders, the High Yield market has remained relatively unscathed and has posted a year-to-date return of over 7%. We believe that a "higher for longer" scenario is taking shape and that high yield's resiliency will continue. Why?

1. Investors have increasingly (but not totally) taken recession scenarios off the table. If you had asked investors in March 2022 – i.e., when the Fed began raising interest rates --- what would be the outcome of raising interest rates 5% in a little more than a year, most would have predicted a recession based on historical experience. However, this hasn't happened and perhaps part of the reason is that there was never the identical historical experience. Put another way, the Fed moved from a setting of "very, very accommodative" to "slightly restrictive", which is different than in the past and could be why a recession has yet to materialize. As fears have lessened, the perception of the credit quality of high yield issuers has only strengthened, leading to a narrowing of the yield premium (or spread) that high yield investors receive over investment grade bonds.

2. Expectations of rate cuts are too aggressive. The Treasury bond market is still priced to predict multiple interest rate cuts in short order in 2024 and into 2025. We believe this is aggressive on the part of the bond market, because of our optimistic view of the economy. In general, we believe that the Fed's monetary policy has and will have less "bite" than expected, and that current interest rates are still only a little bit above most gauges of inflation – hardly equivalent to historically "restrictive" levels. With the Treasury market still pricing in 5-6 interest rate cuts in the next two years, a repricing "out" of those cuts under our higher-for-longer scenario would mean Treasury bond prices decline perhaps 2% for EACH rate cut removed from market estimates. Put that way, this is clearly not an insignificant risk.

3. Restocking – the order for goods will resume. We have been experiencing a noticeable slowdown in the purchases of tangible goods (as opposed to services). It is well known that retailers and manufacturers over-ordered during the height of the pandemic and they have been working off excess inventories. It is our view that that has masked what is actually consistent strength in consumer purchasing power, augmented by continued gains in employment and disposable income month after month. We believe orders for goods will resume, and that could be an area of headline focus into 2024.

If investors continue to gain more comfort about economic conditions (i.e., hearing manufacturers reporting that their customers such as retailers have resumed ordering at historical levels), expectations will shift, and yield premiums will contract, which would be good on a relative basis for high yield. At Northeast, we find the short-term end of the market especially attractive. With short-term bonds yielding more than long-term bonds, we believe the risk/reward tradeoff is particularly favorable, and, if investors come to reprice Treasuries lower in response to some of the factors mentioned above, the high yield market might provide a relative safe haven within the fixed income world.

Bruce H. Monrad is chairman and portfolio manager of Northeast Investors Trust (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.

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

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. Diversification does not eliminate the risk of experiencing investment losses.

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.

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.

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