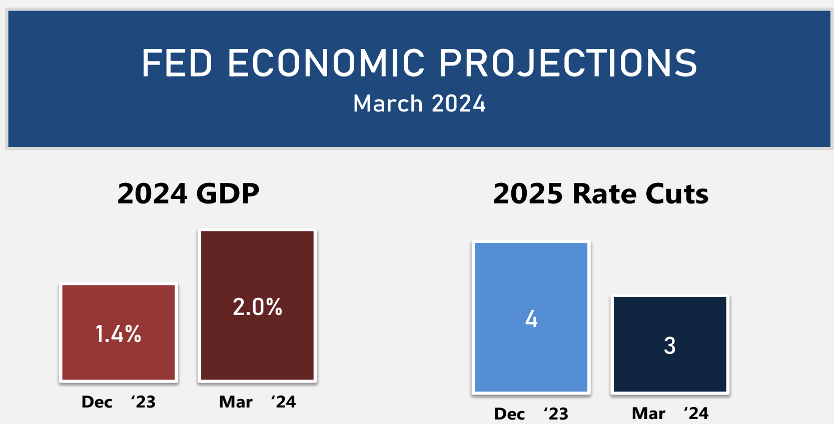
NORTHEAST INVESTORS TRUST
A No-Load Mutual Fund
Paying Dividends for Over 70 Years

A Softer, Slower Landing?

At the Federal Reserve meeting earlier this week, the Fed, as expected, kept interest rates unchanged, **but noticeably upgraded its estimate of economic growth for 2024 and removed one forecasted 2025 interest rate cut.** The bond market, which had been contemplating the removal of a 2024 interest rate cut (but less so a 2025 cut), moved short-term yields in that direction. In his press conference, Chair Powell reconfirmed his view that monetary was now restrictive and that interest rate cuts would be appropriate later this year.



The Fed bumped its projection for 2024 GDP to 2.0%, up from 1.4% in December, and removed one rate cut from its projected rate in 2025. These changes suggest a softer landing and a more deliberate path, in other words higher for longer.

Notwithstanding the dovish bent to those headlines and remarks, we see significance in the changes to the Fed's Summary of Economic Projections. In moving its 2024 and 2025 GDP estimates up from 1.4% and 1.8%, respectively, to 2.0% for both years, **the Fed further removed recession talk from the dialogue and opened up for fundamental debate whether current monetary policy is indeed restrictive.** A benchmark central banking rule of thumb suggests that the appropriate interest rate is reached when both the inflation and growth/unemployment targets are simultaneously met, a state which may soon characterize the US economy. We therefore think it was appropriate to remove a projected interest rate cut for 2025, and there might be further such reversals as 2024 progresses.

Finally, the long-run "dot" – i.e., the proxy for where interest rates will settle in the long run – was moved incrementally higher after several years of being held constant at 2.5%. **We expect the debate over this long-run target now to gain further attention in 2024.**

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.

NORTHEAST INVESTORS TRUST

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