NORTHEAST
INVESTORS TRUST

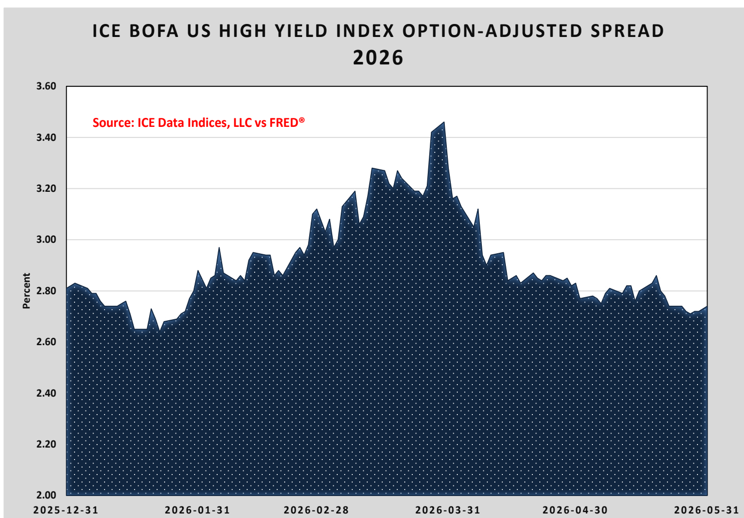
A No-Load Mutual Fund

Paying Dividends for Over 70 Years

What Q1's Credit Stress Told Us And What's Happened Since

The first quarter of 2026 raised a question worth examining: when credit markets sell off broadly, how do we tell whether the stress is systemic or concentrated? Q1 gave us a useful test case. Two headwinds - AI-related disruption affecting software-heavy private credit, and the eruption of conflict in the Middle East converged to create what felt at the time like a broad-based shock to credit. Spreads widened. Yields jumped. Risk-off sentiment took hold.

But once the dust settled, the picture turned out to be more nuanced. The distress, in our view, was highly concentrated rather than systemic. And the months since have largely confirmed that read.



The pressure in Q1 was concentrated in segments of the market with two characteristics in common: meaningful exposure to software-heavy private credit and structures whose liquidity terms can interact with investor flows. Where those features overlapped, redemption activity and pricing pressure tended to reinforce one another, contributing to wider spreads in the more affected areas of credit. This was less a story about any single vehicle type than about where exposure and structure intersected.

High yield, by contrast, was relatively unscathed. The reason is structural. High yield has a much smaller footprint in the software industry, and so the asset class was not tested in the same way. That distinction matters. It is the difference between a localized event and a system-wide one.

The data since then has reinforced this view. The ICE BofA High Yield Index option-adjusted spread, which closed Q1 at 328 basis points, has tightened back to roughly 280 basis points as of mid-May. The risk-off sentiment that defined the first quarter has partially reversed, even as the underlying geopolitical situation remains unresolved. Spreads did not retrace because the news got materially better. They retraced because the initial repricing was driven more by sentiment and structural pressure than by deteriorating credit fundamentals. Default rates remained steady at 2.5% on a trailing twelve-month basis through quarter-end, and the high yield distress ratio finished the quarter roughly 50 basis points lower than a year earlier.

This is worth sitting with, because we expect AI-related disruption to be a recurring conversation rather than a one-time event. The technology is still developing, and its impact on business models, competitive moats, and credit fundamentals will keep expanding. For credit investors, the question is not whether AI will reshape industries - it will. The question is where that reshaping shows up in your portfolio.

The lesson of Q1, and the months that followed, is that not every credit shock is high yield's shock. For active credit investors, the value lies in the ability to assess where concentration risks actually reside and to position accordingly - staying focused on credit quality even when markets sell first and sort later. Distinguishing localized stress from systemic stress isn't just an analytical exercise; it's what separates a measured response from an overreaction.

About Northeast Investors:

Northeast Investors Trust is one of the oldest bond mutual funds in the country, run by the longest-tenured fixed income management team in the industry. Our no-load, fixed income fund invests primarily in domestic high-yield debt, with a buy-and-hold mindset. But unlike some high yield funds and ETF's that are tethered to a rigid benchmark, Northeast Investors Trust has the freedom to invest in sectors and securities in which its managers have the most conviction, regardless of bond ratings or maturities. Our managers can also invest a portion of the fund in other types of debt, preferred securities, common stock, and convertible securities.

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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.

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