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

When Policy Meets the Bond Market

Fiscal Policy

The midterm elections have introduced a new political dynamic in Washington, with a shift in congressional power likely to influence fiscal priorities and the broader economic agenda. While political turnover can bring meaningful policy changes, one question remains: How much flexibility do elected officials really have when their decisions are constrained by financial markets? At Northeast Investors Trust, we believe the bond market often provides the answer.

Fiscal discipline is rarely politically attractive. Difficult decisions involving spending reductions, taxation and deficits are often postponed, even when the need for restraint is apparent. However, when investors begin to question a government's ability to manage its finances, they demand higher yields to compensate for the perceived risk. As borrowing costs rise, the consequences of continued fiscal irresponsibility become increasingly difficult for policymakers to ignore.

We tend to subscribe to the aphorism: "The politicians won't move until the bond markets make them move." In this sense, the bond market does more than evaluate fiscal discipline; it can help bring it about, serving as an important fiscal guardrail through the cost of government borrowing.

The Fed

If the bond market serves as a fiscal guardrail for policy makers, the Federal Reserve serves as a monetary speed limit, adjusting interest rates to balance economic growth against the risks of elevated inflation.

With the economy remaining relatively strong and inflation still elevated, the Fed faces a difficult balancing act. The central question is whether some degree of economic weakness is necessary to bring inflation under control, and how policymakers will respond if that proves to be the case.

At his October press conference, Fed Chair Kevin Warsh said "the goal isn't to throw sand in the gears of the economy and throw people out of work" in order to fix inflation, but he was otherwise vague about the process and the tools he will use going forward.

The Bond Market

Corporate credit markets have remained relatively resilient despite a combination of political, geopolitical and economic uncertainties. Although credit spreads have widened, they remain relatively contained, suggesting investors have not broadly anticipated a significant deterioration in corporate fundamentals.

Weakness has been more pronounced in lower-quality CCC-rated securities, where valuations and credit fundamentals are particularly sensitive to changing economic conditions. Meanwhile, the enormous investment commitments associated with artificial intelligence represent another potential source of volatility, as investors assess the sustainability of corporate spending and financing arrangements.

Looking Ahead

The policy priorities of the 120th Congress have yet to take shape, but political considerations will undoubtedly influence its decisions. However, those decisions will not be made in a vacuum. The bond market will continue to influence the cost of government borrowing and, ultimately, the financial flexibility available to policymakers. The Federal Reserve, under new leadership, presents another important consideration, as changes in monetary policy can have an equally meaningful impact on financial markets.

As both fiscal and monetary policy continue to recalibrate, bond investors must remain mindful of how shifting priorities and economic conditions may influence interest rates, credit spreads and, in turn, portfolio positioning. **At the same time, policymakers cannot afford to overlook the bond market, whose reaction may ultimately influence future decisions.**

At Northeast, we remain comfortable with our active focus on short-duration, higher-quality high-yield bonds, which we believe offer a degree of insulation from the uncertainties and potential policy shifts ahead.

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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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 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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