THE GLOBE AND MAIL

What Salvador Dalí and fixed income investing have in common

KEVIN FOLEY
SPECIAL TO THE GLOBE AND MAIL
September 1, 2026

At the International Surrealist Exhibition on July 1, 1936, in Mayfair, London, a packed crowd awaits Salvador Dalí's entrance. Salvador Dalí (SAL-vuh-dor dah-LEE) has a lecture planned.

They are alerted by clunky, too-slow footsteps, but they can't quite be sure it is Dalí who has entered, since he's clad in a full deep-sea diving suit, including a metal helmet enclosing his head. The artist slowly creaks toward his spot on the stage with a billiard cue in one hand, and the leash for two distinguished-looking borzoi dogs with long coats and narrow faces in the other.

Once settled, Dalí proves very hard to hear; his voice is muffled inside the helmet, plus he is speaking French to the English crowd. The indecipherable slides that accompany his lecture are, for whatever reason, displayed upside down.

The fact that Dalí almost suffocated inside the helmet, his gestures becoming erratic as he staggered across the stage in the locked, oversized suit, is not the focus here. Dalí's paintings of twisted clocks, swans reflecting elephants, and impossibly long-legged elephants aren't, either.

What struck me about the spectacle of the infamous lecture and the artist's oeuvre are how far beyond immediate comprehension they both could be, begging for some sort of explanation before you could begin to appreciate what you were looking at.

Fixed income investing has somehow managed to deliver much the same experience.

Which is strange, because a bond is simply a loan. The lender, in this case the investor, hands over money, hopes to get it back eventually, and collects a fee along the way. Yet, it has become Dalí-level confusing.

I've watched very smart people, even those who invest for a living, glaze over when fixed income discussions get into duration, central banks and credit spreads. They forget or don't quite comprehend that when interest rates rise, bond prices fall. Or that credit spreads are a distinct, lower-volatility return driver from the interest rate portion of a bond.

All that complexity, plus investors' genuine effort to understand fixed income, has been rewarded with a bond index – and too many bond funds that closely resemble it – earning little more than 0 per cent or 1 per cent over the past five- and 10-year periods, while equities have proven enormously rewarding.

Therefore, it would be easy to excuse investors for ignoring the asset class, reaching for unsuitable risks, or resigning themselves to GICs. But, much like Dalí's celebrated paintings, there is considerably more to the bond market once you understand what you're looking at. And, appreciate it or not, a well-constructed portfolio still needs effective fixed income.

The problem is that the bond index, and the many funds that track it closely, is constructed largely according to how much governments and companies borrow, not according to which risks investors should want to own. It relies heavily on interest rate risk, even though a bond actually has two primary sources of risk and return – interest rates and credit spreads. They're very different factors, yet investors have spent decades relying predominantly on the first, missing the return and diversification opportunity of the second.

A credit spread is the fee or yield added to the underlying interest rate that forms the yield or coupon on a corporate bond. The fee compensates the lender for the credit quality of the borrower. Think of it as an evaluation of the borrower's willingness and ability to pay, on time. Investment-grade credit spreads have experienced much lower volatility than interest rates, and they shift for different reasons than either rates or equities, adding to their utility in a portfolio. That is why some fund managers focus solely on credit spreads, eliminating the more volatile interest rate risk.

Mortgages are another distinct source of fixed income return: a promise to pay secured by property, with a return profile that also isn't linked to interest rates.

Interest rates, also known as bond yields, grabbed the spotlight when they were high during the last century, generating windfalls when declining yields caused bond prices to rise. They haven't garnered anywhere near the same appeal recently, with ongoing inflation pressures limiting their potential.

Exposure to interest rates likely belongs in every portfolio, but their effect on returns and future outlook demand a more diverse fixed income allocation.

It feels worth highlighting the half-life of a bond that many investors overlook. A bond is a liquid security, as readily tradeable as a stock. Its value changes between issuance and maturity, creating opportunities that GICs and hold-to-maturity investors miss.

A bond investor can exit a security whose outlook has changed, or sell one that has appreciated enough that another now offers better value. Those opportunities can come from changes in rates or credit spreads, a new issue, or an updated outlook for the borrower. Fixed income return isn't limited to collecting the coupon and waiting for maturity. It can include smart positioning in the right security for the right period of time. It's why access, expertise and constant monitoring matter so much.

Dalí could certainly be frustrating, contradictory and even intentionally difficult to understand. None of it made his work less worth the effort.

Fixed income can create some of the same frustration. Its terminology, moving parts and disappointing experiences have made it remarkably easy to glaze over or write off, leading some investors to settle for something either too simple, or simply too risky.

But there is considerable value available to investors willing to understand what they're looking at and who the experts are. You can choose to walk past a Dalí you don't understand. A well-constructed portfolio cannot ignore effective fixed income.

Kevin Foley is Managing Director, Institutional Accounts at YTM Capital, a Canadian asset manager specializing in credit and mortgage funds. He spent two decades trading and managing fixed income at a major Canadian bank and serves on several Canadian foundation boards and investment committees. Kevin.Foley@YTMCapital.com