2 Stocks Vulnerable to Recession: Should You Steer Clear in 2019?

Description

Back in the summer of 2018, I'd discussed why economic headwinds on the horizon were a significant risk for the airline industry. The 2007-2008 financial crisis sparked a sell-off in many airline stocks and saw top airliners scrambling for cash at the bottom of the recession. In the years since, the airline industry has flourished, and passenger traffic is heavier than ever before.

National Bank released a report in December that warned that "macro-economic uncertainty and increasing recession risk will be a major underlying driver of stock performance" in multiple sectors, including aerospace, transportation, railroad, and airline industries. The report pointed to the stock performance of companies like **Bombardier** and **NFI Group** as examples that have succumbed to broader uncertainty.

The report concluded that airline stocks would be "more sensitive" to a pullback in 2019. Does that mean investors should retreat from Canada's top airline stocks early this year? Let's look at the two I covered in the summer of 2018.

Air Canada (TSX:AC)(TSX:AC.B)

Air Canada stock has climbed 9.6% in 2019 as of early afternoon trading on January 22. Shares are up 24% year over year. In December, I'd discussed why investors should be prepared for a volatile 2019.

The National Bank report maintained a high price target for Air Canada, pointing to its financial health over the course of this decade. The company has managed to dramatically reduced debt while also posting record profits and revenues in successive quarters. Air Canada is expected to release its fourth-quarter results in mid-February.

Air Canada boasted an RSI of 58 as of early afternoon trading on January 22. This indicates that the stock is in neutral territory in late January. Passenger traffic will only increase in 2019, while airliners have also received some relief from lowering jet fuel prices. Air Canada will contend with headwinds this year, but it still looks like a hold in January.

WestJet Airlines (TSX:WJA)

WestJet Airlines stock has increased 6.4% in 2019 as of early afternoon trading on January 22. Shares have dropped 25% year over year. WestJet had a challenging 2018.

In its last quarterly report, the company saw profit dropped $135.9 million from the prior year. The airline pointed to increases in fuel prices and competitive capacity as reasons for weakness in Q3. Segments guests did climb 6.3% year over year to 6.9 million. The board of directors declared a cash dividend of $0.14 per share, which represents a 2.9% yield.

WestJet last had an RSI of 62, which is dangerously close to overbought territory in late January. The company’s price-to-earnings and price-to-sales multiples have fallen behind the industry average in recent quarters, and labour issues are still a concern. WestJet’s CEO attributes some of these issues to growing “too fast,” and hinted that the airline may look to scale back operations. This is another troubling development for shareholders.

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