Are These Airline Stocks Too Risky to Buy in April?

Description

The recession that followed the 2007-2008 financial crisis was devastating for the airline industry. Even top airliners like **Air Canada** (TSX:AC)(TSX:AC.B) were on the brink of catastrophe. Air Canada stock sunk below the $1 mark in the grips of the crisis and did not begin a steady recovery until late 2012.

Earlier this year, I'd discussed why airline stocks are a risky bet with economic headwinds building up. Historically, the airline industry has been particularly vulnerable to the negative impacts of a recession. **WestJet Airlines** (TSX:WJA), another top Canadian airliner, saw its stock halved in the grips of the financial crisis. Shares managed to regain momentum in 2012.

North American stock markets were hit hard with news of a yield curve inversion on the U.S. 10-year Treasury last week. This suggests that there is a 25-30% chance of recession in the next 12-18 months. An inverted yield curve has preceded the last seven recessions. Canada's 10-year bond followed with a yield curve inversion, which has deepened as of close on March 27. So, is it time to panic and sell your airline stocks?

Not for fear of a recession, or at least not yet. Both the United States and Canada are expected to post lower growth in 2019 and 2020. Retail sales have slumped in both countries and holiday season activity was disappointing in comparison to the prior year.

However, spreads between yields on safe Treasury bonds and riskier high-yield bonds have narrowed, which is a positive indicator. Canada added 56,000 jobs in February, which blew past expectations. To add to that, most of the jobs were full time and in Ontario. The United States economy only added 20,000 jobs in February, which missed expectations.

We will not get a glimpse of Air Canada's first-quarter results until late April. WestJet is also expected to post its Q1 2019 earnings in early May. Both stocks were hit with turbulence after the grounding of the **Boeing** 737 MAX 8. The fallout from the crash of Ethiopia Airlines Flight 302 stirred global anxiety in the airline industry, so the dip in shares was not unexpected.

Does this mean Air Canada and WestJet are trading at a discount right now? Not exactly. Air Canada hit an all-time high in late February and is still trading at the high end of its 52-week range. As of this writing, the stock had an RSI of 53, which puts it in neutral territory as we move into April. Air Canada earnings have consistently impressed, so value investors may want to consider pulling the trigger if the stock moves into oversold territory before the earnings release.

WestJet stock has climbed 6% in 2019 as of close on March 27. Shares were trading in the middle of its 52-week range as of this writing. The stock had an RSI of 39, which puts it in more enticing territory. However, WestJet's earnings have been disappointing, as the company is battling labour issues and rising costs. Investors on the hunt for income may be swayed, as the stock offers a quarterly dividend of $0.14 per share, which represents a solid 2.9% yield.

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aocallaghan