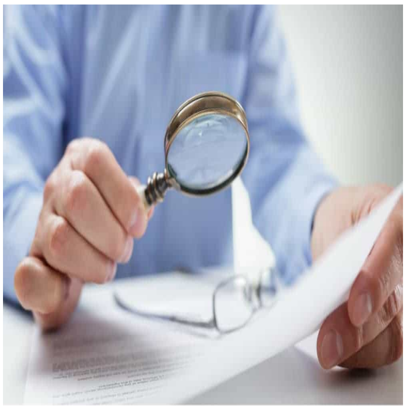

Air Canada: #1 Stock to Watch Now

Description

Airline stocks like **Air Canada** (TSX:AC) have suffered particularly hard hits during the COVID-19 pandemic. Travel restrictions like 14-day mandatory quarantines have made it increasingly difficult for people to travel. Further, airlines have been forced to relax refund policies in light of the dangers associated with travelling.

We don't know how quickly Air Canada stock will rebound. The world is just barely coming out of the initial thick of the COVID-19 health crisis. Moreover, as many jurisdictions relax social-distancing policies, a resurgence in infection rates continues to weigh on the **Toronto Stock Exchange**.

For the moment, Canadian investors should keep airlines on their watch list. Brave investors who can handle a little risk in their portfolio could buy the stock with plans to hold for at least one year. For everyone else: your TFSA and RRSP can wait to benefit from owning shares of stock in the airline industry.

Airline stocks drag down the S&P/TSX Index

In the past 12 months, the **S&P/TSX Composite Index** fell by 5.37%. Airlines are the biggest culprit dragging down the index. During the same period, Air Canada stock declined by a whopping 52.58%.

Prior to the coronavirus pandemic, Air Canada stock was outperforming the index up until the travel restrictions tanked airline profits. Now, Air Canada stock is trading for less than $20 per share.

Many long-term investors see this as an opportunity to buy the dip in airline stocks. However, many knowledgeable individuals also see the COVID-19 crisis and accompanying restrictions as more or less permanent features of the society in the foreseeable future. If they are right, you might want to move your hand away from the "buy" button.

Empty planes drain free cash flow

The primary issue with travel restrictions is the drain on free cash flow. Even as airplanes cut costs by laying off staff, these firms must accept losses on partially booked routes. One stock market personality online posted a picture in jest of a practically empty plane on social media with the comment:

> Perhaps Warren Buffett wasn't so wrong…$DAL $AAL $UAL $SAVE $LUV $AC $JETS #stocks #stockmarket https://t.co/FUREpvJgTV
>
> — Humble Stock Guy (@humblestockguy) June 13, 2020

It might not be a good idea to own stock in companies that possess so much idle capacity amid this crisis. In addition, airlines face substantial volatility from debt and bankruptcy risk, especially during a recession.

Airline stocks are not the best investments right now. That doesn't mean that these assets won't be good stocks to buy in the future. We just don't know when that will be.

When will the V-shaped recovery happen?

The recovery will be more pronounced in reaction to news like earnings guidance and public advisories regarding the lifting of travel restrictions. If you want to buy stock in airlines, you should monitor these events closely.

Mark your calendar for earnings releases. Set up news alerts for airline travel restrictions. This information is going to move the market quickly.

Now might not be the best time to buy airlines. Nonetheless, that doesn't mean you can't put airlines on your watch list and keep an eye out for relevant news to guide your decision making.

CATEGORY

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