



Why Did Air Canada Stock Jump 8% Last Week?

Description

Last week was a good one overall for the TSX. While financials and energy still trended lower, industrials and materials responded favourably to fresh vaccine hopes. The pattern was reassuringly familiar. Especially encouraging was the [potential breakthrough](#) made by biopharma outfit **Moderna**. The response of the markets gave a glimpse of what a full-blooded recovery might look like, with beaten-up names seeing some gains.

A few select airline stocks might take off

It's been a turbulent time for **Air Canada** ([TSX:AC](#)). It hardly needs repeating how tough the pandemic has been for airlines. But Air Canada rallies have been supported by a contrarian bullishness that has typified the markets since the March selloff. The market crash created some historic value opportunities overnight. Airlines in particular have been generating a lot of contrarian interest.

Then came Air Canada's quiet segue into the [cargo-only space](#). This saw the flag-carrying airline muscling in on **Cargojet** territory. But before a new buy thesis could emerge from this development, the news came out that Air Canada – among other operators – would be selling middle-aisle seats. The reaction was generally negative: Air Canada is still negative by 9% for the last four weeks.

But last week saw a return of bullishness on the TSX. The Moderna breakthrough lifted Canada's main market by more than 2%. At one point, Air Canada was enjoying five-day gains of 8%. It ended the week overall positive by 5%. Monday saw Air Canada remain flat. It might not have been much of a victory over all. But it was a taste of things to come. Investors should rest assured that a full, post-pandemic market recovery will include Air Canada.

A new pandemic stock trend is emerging

So, Air Canada is tied positively to vaccine rallies. But this also means that it will be tied to vaccine letdowns. Additionally, since growth is never going to be massive (expect a muted, staggered return to social normalcy) investors should not expect anything too amazing from Air Canada. A brief period of

appreciation may be forthcoming, as the world gets a handle on the coronavirus.

Air Canada upside is therefore likely to be somewhat limited as well as unspectacular. But then again, the pandemic has been making heroes of unlikely names. Bulls have been running stocks without a strong thesis other than momentum for momentum's sake. Look at **Hertz**, a classic example of a defunct name generating zombie momentum. So, while it's 50:50, a big Air Canada comeback isn't impossible.

And unlike Hertz, Air Canada is not bankrupt — at least, not yet. And even if things got to that point, a federal bailout might be forthcoming. In that scenario, bold contrarians might push Air Canada higher. Doing so would further divorce market performance from economic realities. But it would generate upside nonetheless. However, even without this backstop, further vaccine rallies are likely to see Air Canada stock take to the skies.

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Date

2025/07/03

Date Created

2020/07/20

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