



Fasten Your Seat Belts! Air Canada (TSX:AC) Is About to Take Off

Description

On Monday, **Air Canada** ([TSX:AC](#)) stock rose by 6.1% — outperforming the broader market by a wide margin. By comparison, the Canadian stock market benchmark **S&P/TSX Composite Index** rose by only 0.7% on August 24. It seems to be the kind of rally in Air Canada stock that I've been [expecting](#) for the last few weeks. Here's why it could just be the start of a big recovery in Air Canada in the months to come.

Why Air Canada stock rose on August 24

This rally was not limited to Air Canada; all major airline stocks across North America rose sharply yesterday. For example, the shares of Halifax-based **Chorus Aviation** popped 9.1% on August 24, while the U.S. airline industry players such as **American Airlines** and **Delta Air Lines** also surged by 10.5% and 9.3%, respectively.

The COVID-19 crisis has taken a significant toll on the airline industry and its investors. Investors' optimism — due to multiple positive updates related to the pandemic — drove Monday's notable gains. Gradually declining daily new cases in the U.S. and Canada, along with rising hopes of a vaccine, came as a big relief for investors and fueled a rally in airline stocks.

Is this rally sustainable?

The broader market sell-off during COVID-19-related closures caused panic selling and intensified sell-off in airline stocks. Bears may argue that the recent gains in the airline stocks are not sustainable, as they're not based on any concrete fundamental improvements. However, most airline stocks fell well below their fair value during the coronavirus sell-off. So, we shouldn't be questioning the recovery in airline stocks now, I believe.

Clearly, investors' fears about COVID-19's negative impact on the airline industry have been the key reason for the airline sector's terrible performance in 2020 so far. So, I would definitely want to pay attention to any positive update related to the COVID-19 vaccine, as it can accelerate a sharp recovery

in airline stocks, including in Air Canada.

Why Air Canada stock?

There are a couple of reasons why I would recommend betting on Air Canada stock rather than buying the shares of any other airline company right now.

First, Air Canada's management has [taken many steps to improve its cargo business](#) in the last couple of quarters, which I think would strengthen its business model in the long run. Second, Air Canada is not just any airline company; it's Canada's flag carrier. Even if we take the worst-case scenario into account, we have good chances that the Canadian government would come forward to save Air Canada.

Indications of a reversal

Apart from gradually improving business conditions for the airline companies, you may also want to pay attention to Air Canada's stock price chart right now. While its stock price has largely remained range-bound since June, the RSI indicator on the weekly chart is showcasing an upside divergence from its stock price action. It could be an early signal of a possible trend reversal in Air Canada stock.

Foolish takeaway

For years, Air Canada has been a reliable company to invest in. Despite a nearly 70% drop this year, Air Canada stock has still yielded a positive return of about 700% in the last 10 years. You may want to buy its stock long term — especially when you're getting it so cheap with multiple signs of a positive reversal in trend.

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