Air Canada (TSX:AC) Soars While Shopify (TSX:SHOP) Tumbles: What's Happening?

Description

Stock markets took a breather late last week from the epic recovery amid the pandemic blues. Tech stocks, the backbone of the recent rally, are seeing an exaggerated impact of the market weakness mainly because of their inflated valuations.

Air Canada's (TSX:AC) outperformance compared to the broader markets notably stood out last week. The embattled airline stock soared almost 4%, while the tech darling **Shopify** (TSX:SHOP)(NYSE:SHOP) tumbled almost 6% last week. At one point on Friday, Shopify stock fell to $1,178, an 11% decline against its previous close.

Air Canada: One of the top post-pandemic recovery plays

Interestingly, the flurry of bad news continued for Air Canada last week as well. Canadian government extended travel restrictions to September 30, which was another serious blow for the flag carrier.

The extensions were expected to ease sometime last month, but now, prolonged travel curbs mean the airline has to keep its fleet grounded for some more time. That essentially means more financial burden on Air Canada and one more quarter of weaker earnings.

However, the stock was particularly resilient to the news and maintained its recent stable uptrend. It has been up almost 25% since its nasty second-quarter earnings. Valuation is a major aspect here that investors are increasingly focusing on.

The recent travel extensions indicate that there is a good chance that Air Canada and other airlines could restart flying in the fourth quarter of 2020. Air Canada's rising debt and quarterly losses indeed make it a risky bet. However, that still might not hurt its inherent competitive advantages like market share and operational efficiency.

As I have mentioned in my previous articles as well, though air travel demand might take three years' time or more to reach its pre-pandemic levels, Air Canada stock could revive much faster than that.

Shopify: A stock to buy for the next decade

The tech titan Shopify stock is in the news recently for different reasons. The top stock has fallen more than 15% since its all-time high last week. But does that change its fundamentals?

Not at all! Shopify remains a solid growth story with still a steam left for long-term investors. Investors should note that the stock has been trading well ahead of its financials for the last few years, so the recent correction is well expected. The further downside also can’t be ruled out completely at this moment.

However, it continues to look attractive, given the changing consumer behaviour after the pandemic. Besides, with offices shifting to homes and with almost zero commutes, the e-commerce industry might achieve a decade of growth in the next few years.

Shopify stock has returned almost 4,660% since its IPO in May 2015. The scale and consistency of its rally have been indeed unmatchable. Long-term investors could consider adding this tech behemoth to their portfolios.

A one-time investment at this point might turn risky, given its inflated valuation and volatility. However, buying it in a couple of tranches on a pullback will likely avail a better deal.

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