



Stock Alert: Air Canada Stock Could Nosedive

Description

Airline stocks are interesting coronavirus turnaround plays right now. Stocks such as **Air Canada** ([TSX:AC](#)) have rebounded nicely from pandemic-related lows in March.

Shares of Air Canada are now up more than 140% from the aforementioned low. This dramatic increase in Air Canada's share price may have some investors itchy to profit from this momentum.

In this article, I'm going to discuss why this optimism might be as short-sighted as the initial pandemic-driven selling. Furthermore, I'm going to make the case for why Air Canada's shares could be overvalued at these levels.

Will a bailout change everything?

News that a government relief package is being negotiated now has the markets excited. With airlines expected to get a juicy bailout, stock prices have more than fully reflected this anticipated announcement. The idea that governments can stock prices is not new, and investors have reason to believe a bailout will come to fruition.

This relief is certainly positive for all airlines, and Air Canada's stock price lift is warranted. That said, the extent to which Air Canada's stock has taken off may be underestimating the pandemic-related pain that is still on the horizon.

Nothing's really changed

That said, a bailout will not change the fundamentals of the airline industry through 2021. There will be at least another year of pain on the horizon, even with a vaccine coming available now. Masks and other precautions will remain in force, and passengers may be allowed to fly. However, some may also choose not to.

Consumer behaviour with respect to discretionary flying may have undergone a structural change.

Commuter flights which became so common prior to the pandemic have been replaced by Zoom and Skype meetings. The idea that a consultant has to fly halfway across the world to attend a meeting seems like an ancient one.

Bottom line

In [January](#), before the pandemic became a major concern for investors, I wrote about the fact that Air Canada's shares looked fully valued at that time. Air Canada had a lot going for it prior to the pandemic, but as with other shocks (think 9/11), airlines get hit hard when economic disaster hits.

I would recommend investors interested in Air Canada stock look for a more attractive entry point. Right now, there are simply too many unknowns to jump in with both feet. I would encourage investors consider safer, more defensive options currently. Staying away from highly cyclical stocks like Air Canada is the "sleep at night" approach investors ought to seek.

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