



Fears of Delta Variant Plague Airline Stocks: What Should You Do?

Description

On Monday, the market had some bad news for the North American airlines. All major airlines, from **Air Canada** ([TSX:AC](#)) to **American Airlines** and **Delta Airlines**, fell as much as 5% over rising fears of the Delta variant. The dip comes just a few days before Air Canada's earnings. It is not just the airline stocks but also stocks of plane manufacturer **Bombardier** and oil company **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) that fell.

The Delta variant and the stock market

New variants, rising COVID-19 cases, and the growing severity of the virus have become variables that investors factor in when buying a stock. After three waves, investors have learned the trick of the trade. But then, what is different about the Delta variant, and why is it impacting the stock market?

Experts have [noted](#) that the Delta variant is 50% more contagious than the Alpha variant and also infects the young population, including children. So far, the vaccines are effective against the Delta variant. Vaccinated people are less prone to get hospitalized because of the Delta variant, but unvaccinated people are more prone to it.

So, the new wave could be more constrained in low-vaccination towns and be shorter than the previous ones. The biggest concern at hand is the children, as there is no vaccine available for them. Moreover, there is a Delta Plus variant, and experts say it is too early to comment on the severity of the variant and the vaccine's effectiveness.

Australia has limited the number of flights from abroad, forcing American Airlines to suspend flights to Sydney. Other countries could follow if the Delta variant continues to spread and strain the healthcare system.

But these short waves are now normal for the stock market. Unlike the March 2020 crash, which saw a 60-70% dip in airline and oil stocks, the shorter waves see corrections of 5-10%, and then these stocks return to rallying again.

How to make money from the Delta correction

Here, I will discuss AC and Suncor stocks, which dipped 3.5% and 4.8%, respectively, in the first half of the trading session. How can you profit from this correction?

Air Canada stock

My fellow Fool contributor Chris MacDonald [noted](#) that Air Canada was the third most [shorted stock](#) in Canada. But does this open a window for Redditors to play the game of the short squeeze? I don't think so. I do agree there is a lot of institutional ownership in the stock. But the government has a 6% equity stake in AC, and the stock has upside in recovery rally. Redditors generally target shares with no upside.

What has gotten airline investors paranoid is the earnings season. AC is scheduled to release its second-quarter earnings on June 23. Investors started building hopes for double-digit revenue growth. A surge in Delta variant just a few days before the earnings has made traders sensitive.

This is the first time since April 2021 AC stock has dipped below \$24, which is too attractive a price to let go of. As the fourth wave eases, AC stock could surge 30-40% in a month or two on the back of the recovery rally.

Suncor Energy stock

Suncor stock has been falling since July 5 over the Organization of the Petroleum Exporting Countries (OPEC) dispute on increasing oil supply. Today's 4.8% dip puts the stock down 16% from July 5. Suncor is Canada's largest oil sands company and has been rallying on the back of a recovery in oil price. Any news that deviates oil's demand and supply estimates tends to impact Suncor stock directly.

Even during the second wave in January, Suncor stock dipped 12% in 15 days. But it surged 34% in the next 45 days. That is the nature of oil. Suncor is currently facing heat from environmentalists over the high emission from oil sands. But when it's time to fire up the engines, oil is irreplaceable in many areas like airlines. There is a high probability that a dip will be followed by a rally double the size of the dip.

Don't miss this opportunity

The current dip has given you an opportunity to ride a smaller but effective recovery rally once again. Don't miss this opportunity.

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