Austria COVID-19 Lockdown: Are Pandemic Risks Being Discounted by Canadian Investors?

Description

The **TSX Index** stumbled on Friday's session, as oil prices slumped and worries over COVID-19 lockdowns that could spread through the European region. Austria is returning to full lockdown, and Germany isn't ruling it out completely at this juncture. Undoubtedly, many investors thought that the worst the pandemic was already in the rear-view mirror. With certain localities making a failed move into an endemic-like environment, only to have to rollback reopenings, it's clear that the pandemic poses a major risk to the world economy. And because investors are ready to move on with normalcy (or semi-normalcy), with continued reopenings, certain stocks could be vulnerable if a variant worse than Delta derails the reopening in its tracks.

The pandemic isn't over, and it remains incredibly unpredictable. Inflation and the prospect of rising rates are concerns that may very well take a backseat if the insidious coronavirus brings forth full lockdowns like those suffered through a big part of 2020. That's why it's still a good idea to play both sides of the coin, with a diversified portfolio exposed to beaten-down reopening stocks, like **Cineplex** (TSX:CGX), as well as lockdown plays (think **Shopify**) that have sold off so vigorously over the past several months.

COVID-19 risks still remain as unpredictable as ever

Arguably, taking the opposite side of the trade, with plunging lockdown stocks, may be a strategy to consider, as COVID-19 lockdowns could cause a vicious rotation out of reopening plays back into the lockdown names. Could Mr. Market still be discounting pandemic risks, as focus is shifted to the endemic world? That's the million-dollar question. Investors would be wise to consider the broad range of potential scenarios, including further lockdowns that could cause Federal Reserve tapering and tightening on hold.

At this juncture, Cineplex strikes me as a better reopening stock to own versus the likes of an incredibly capital-intensive **Air Canada**, as the COVID-19 spread in the European region could weigh further on air travel demand. With AC stock down around 7% over the past week, investors are clearly concerned that the pandemic could take an unexpected turn for the worst.

COVID-19 reopening stocks retreat

Cineplex has also been under pressure, down nearly 13% over this past week. Indeed, the movie slate is getting better, and patrons are likely to feel safer, with vaccine passports and enhanced safety protocols that include masks and social distancing. Still, firms may opt to delay major releases, as MGM did with *No Time to Die*, which faced more than its fair share of delays due to waves of COVID-19.

It’s going to be a tough road ahead for Cineplex, and I wouldn’t look to jump in at current valuations, especially if another wave of COVID-19 hits Canada at some point over the coming quarter. While nobody truly knows what type of environment could be up ahead, investors should be ready for anything, as the pandemic looks to enter year three.

The bottom line

Market strategists may already be focused on a post-pandemic environment, when in reality, the pandemic could linger for far longer than expected. Despite enhanced protocols, vaccines, and new treatments, it remains hard to assess the magnitude of disruptions that COVID-19 could continue to bring forth in 2022. As such, investors need to be prepared for anything. A barbell approach may still be the way to go as the crisis continues.

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