



Air Canada (TSX:AC): A Top Stock Pick for the Rest of 2022?

Description

Air Canada ([TSX:AC](#)) stock has quietly faded into the background amid a new list of troubles weighing down the broader stock markets. Indeed, the Fed rate hikes and the growing possibility of a recession are now fresh in investors' minds.

It seems like stocks don't have what it takes to rally higher until inflation shows some signs of backing off. Though the Fed doesn't want to cause financial distress, there isn't much else to do in the face of elevated inflation. With earnings slowing, some think stagflation is on the horizon and a repeat of the 1970s era.

The grim outlook paints an ugly picture for the rest of 2022

High oil prices, rampant inflation, and meagre economic growth are not what anyone wants. Though a 70s comeback seems unavoidable, I'd argue that the waning consumer is already doing the Fed's job for it. The Fed has gotten started with rate hikes, yet the PCE (Personal Consumer Expenditures) shows signs of promise. The Fed prefers the PCE over the CPI (Consumer Price Index) for gauging inflation. And as more evidence of inflation's rollover comes in, there may be nothing to fear but fear itself.

Back to Air Canada.

The stock, which had been crushed in the early innings of the 2020 stock market plunge, has run out of steam, as investors fret over a potential economic recession and surging fuel prices. As consumers tighten their budgets, they'll likely postpone their vacations, which could spell trouble for Air Canada, as it looks to make the most of the summer travel season.

Could inflation and economic weakness take another stride out of the top Canadian airline's step?

Possibly. Air Canada stock is down more than 4% year to date, and it's hard to get optimistic, even with valuations at such depressed levels.

If it's not the COVID pandemic that hurts travel, it's a recession!

The case for buying Air Canada amid headwinds

In any case, I think there's [too much pessimism](#) baked into the stock. The economy is likely to remain open, and there's likely a lot of pent-up air travel demand.

Business travel took a hit in 2020, and it's unlikely to recover anytime soon with the rise of remote work. With a potential consumer recession on the horizon, it seems like pleasure travel will soon take a hit, pressuring Air Canada from all sides. Add higher fuel prices and other inflationary pressures into the equation, and it seems like the firm is destined for yet another year of weak results.

It's hard to be an airline shareholder these days. With all the fixed costs and economic sensitivity, it's not a mystery why Warren Buffett had bailed on the industry back in 2020. With so many headwinds baked in, I'd argue that the \$7.6 billion airline is ready to buy. COVID has backed off, and if this recession proves more benign than the market expects, we could see headwinds turn into tailwinds pretty fast!

As consumers grow confident (and safer) with flying, expect much of the unmet pent-up demand to be met once the storm clouds have a chance to pass.

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