Is Now the Time to Buy Travel Stocks?

Description

Travel stocks, once battered by the COVID-19 pandemic, resurfaced in late 2021 as pent-up travel demand skyrocketed globally. However, as recession fears pile on, the fate of these stocks seems bleak once again. While some argue that the strong consumer demand will buoy travel stocks well into the next year, stock market bears expect the global economic slowdown to lead to declining travel demand.

Here's what you should know before choosing to invest in travel stocks.

Post-pandemic trends

After nearly two years of being confined to their homes due to travel restrictions and social-distancing rules, people are excited to travel once again. The vaccine mandates were eased only recently, while international travel resumed unabated sometime late last year.

Also, the additional supplementary income from government subsidies and savings has allowed people to accumulate substantial reserves to fund their vacations. Despite the increasing airfares, flights have been more or less full lately, indicating undeterred travel enthusiasm.

For example, **United Airlines**, a major U.S.-based airline, reported its first quarterly profit since the pandemic in 2020. UAL's unit revenues soared 24% from the 2019 levels in the last quarter, thanks to robust domestic and international travel demand.

This trend will likely continue through the end of the peak summer season. Moreover, the recent strengthening of the Canadian dollar will make international travel cheaper in the upcoming months, fueling demand further.

Will recession impact travel stocks?

Canada has an upper hand in the current geopolitical scenario. One of the major reasons stoking recessionary fears is the rising commodity prices, which, in turn, puts additional pressure on the inflation rates. However, thanks to its enormous natural resource reserves, Canada is better positioned to weather an economic downturn compared to other developed nations.

The heavyweights of the energy sector and other major players in the commodities space have allowed the Canadian stock markets to fare better than their U.S. counterparts. The **Canadian S&P/TSX 60 Composite Index** has declined only 10.38% so far this year compared to the U.S.-focused S&P 500 Index's 16.92% fall over this period.

Also, major Canadian banks are forecasting only a mild to moderate recession to occur in 2023. In fact, **Bank of Nova Scotia** predicts the Canadian economy to register positive growth through 2023, thanks to the historically high level of pent-up demand.

A recent Scotiabank report stated, "Record levels of pent-up demand are expected to keep household consumption spending elevated … and keep the Canadian economy from going into recession. This pent-up demand is multiple times higher than what we have observed over history and reflects a number of fundamental drivers of consumption over the last year, in addition to an interruption of spending patterns that occurs, and persists, because of the pandemic."

Thus, strong consumer spending should boost travel stocks over this period.

Best travel stocks for 2022

Air Canada

Air Canada, which is the largest Canadian airline carrier, has been benefitting from rising travel demand this year. Its passenger ticket sales nearly doubled from the 2020 levels in the first quarter of 2022 (ended March).

Despite the increasing fares due to the upsurge in oil prices, Air Canada's available seat miles (ASMs) rose 3.4 times from the first quarter of 2021. This trend will likely continue, as travel demand persists.

Onex

While investment management firm **Onex** in itself is not a travel stock; it is the parent company of WestJet Airlines. In fact, WestJet is one of the largest assets held by Onex. As travel demand prevails, Onex stock can not only deliver gains from this sector but also provide diversification benefits in case of a black swan event.

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Date
2025/07/22
Date Created
2022/07/21
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