Air Canada Stock: Here’s What’s Coming Next

Description

Shares of **Air Canada** (TSX:AC) have recovered sharply in 2023 so far, as early signs of easing inflationary pressures have boosted investors’ confidence to drive a market-wide rally. With this, AC stock is now up 16% on a year-to-date basis to trade at $22.49 per share after losing 60% of its value in the previous three years combined.

Before I discuss what could be coming next for Air Canada stock, let’s take a closer look at the factors that drove it lower in recent years and other key recent developments.

Air Canada stock

A massive selloff in Air Canada stock started in the first quarter of 2020 after the World Health Organization declared COVID-19 outbreak a global pandemic. The fast-spreading coronavirus forced many countries across the world to impose shutdowns and travel restrictions. As a result, AC stock crashed by nearly 68% that quarter.

As investors hoped that the coronavirus-related restrictions would subside soon, shares of airline companies, including Air Canada, staged a recovery in the fourth quarter of 2020, which continued in the first quarter of 2021. However, these gains couldn’t last for long, as new variants of the virus forced authorities to extend travel restrictions. Amid these worries, Air Canada stock plunged by another 7.2% in 2021 after losing 53% of its value in the previous year.

While the travel restrictions significantly eased in 2022, growing macroeconomic uncertainties kept hurting investors’ sentiments. These macroeconomic challenges were mainly led by high inflation, supply chain crisis, rising interest rates, and geopolitical tensions after the Russian invasion of Ukraine. Economic uncertainties triggered a market-wide selloff, extending losses in AC stock by another 8.2% in 2022.

As I noted at the start of this article, recent signs of easing inflationary pressures could be the primary reason for driving the Canadian stock market and Air Canada stock higher so far in 2023. While this rally has encouraged investors to buy beaten-down growth stocks, the market may remain volatile, as the possibility of a looming recession is still keeping investors on their toes.

But can AC stock continue soaring?

While it's yet to announce December quarter results, Air Canada's total revenue jumped by 224% in the first three quarters of 2022 to $11.9 billion. Similarly, its adjusted net loss for the same period came significantly down to $2.46 per share compared to a loss of $8.47 per share during the first three quarters of the previous year. This financial data confirms that the largest Canadian passenger airline company is on the path to a sharp financial recovery.

It's also important to note that jet fuel prices have trended lower in the last few months, which should help airline companies reduce their costs in the coming quarters. In addition, air travel demand is continuing to surge across the globe, which should speed up Air Canada's financial recovery further and keep driving its stock higher. Overall, these positive factors make AC stock look attractive to buy for the long term at the current price, despite expectations of high market volatility in the short term.

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