# Travel stocks expected to rebound when pandemic subsides

**BRENDA BOUW**

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Travel stocks have been all over the map since the pandemic hit two years ago: Most plummeted when the first wave of COVID-19 lockdowns happened, then they slowly started to crawl their way back before being knocked down again amid the fallout from the Omicron variant.

There is optimism that the broader industry could fully recover in the next year or two if pandemic restrictions begin to ease and vaccines are rolled out in more countries worldwide. Still, analysts and money managers caution that investors should not treat all travel sectors and companies equally.

Airlines and cruise ship companies could face additional headwinds due to rising costs for food, fuel, labour and capital expenses, especially as interest rates could go up. Meanwhile, some hotel and travel booking companies are already trading above pre-pandemic levels, which suggests the comeback trade is already priced in.

Rising inflation and anticipation of higher borrowing rates are also eating into household budgets, which could dampen people's enthusiasm to hit the road. Business travel could be slow to return as companies have become accustomed to virtual meetings and events.

“The expectation is that, at some point, everyone is going to go out and travel – but there's more to it than that,” says Brooke Thackray, a research analyst at Horizons ETFs Management (Canada) Inc. “The demand is there, but I don't think the spending power is going to be there. There's not going to be as much money for people to spend and they're going to have to choose.”

Not everyone will be ready to travel – even if it's in their budget, Mr. Thackray adds, especially to international destinations.

“The outlook looks positive from a pent-up-demand perspective as COVID goes down, but I think there's going to be some hesitation: It's a behavioural pattern that needs to be changed for a group of people.”

Investors who want to bet on a travel rebound should be selective about which stocks and segments to invest in, says Christine Poole, chief executive officer and managing director at GlobeInvest Capital Management Inc.

”I wouldn't recommend a pure-play on travel,” Ms. Poole says. “For travel to really pick up, you're betting that COVID is behind us, and the borders will reopen. And that may take time, especially internationally, because we know that, in so many countries, vaccination rates are so much lower.”

She suggests investors steer clear of airlines and cruise lines, even though many of their stock prices are significantly below pre-COVID levels. High costs and debt levels are big issues for both sectors, as is increased competition – especially as these companies fight for customers willing to travel.

Airlines, in particular, have little brand loyalty, she notes. “When people book a plane ticket, they're looking for the best price.”

Cruise companies are problematic for investors since many weren't eligible for government subsidies and were forced to go deeper into debt and sell shares to stay afloat.

Hotel stocks may tempt investors, but Ms. Poole says many have returned to their pre-pandemic level. “They’re fully valued right now,” she adds.

Instead, she recommends companies like Walt Disney Co., which will be ramping up capacity at its theme parks worldwide, and credit card companies like Visa Inc. and Mastercard Inc. that should benefit from a broader uptick in travel spending.

Barry Schwartz, chief investment officer and portfolio manager at Baskin Wealth Management, is bullish on leisure travel in the months ahead as the pandemic’s impact is expected to fade.

“I think the narrative is going to change,” he says, but also recommends investors steer clear of capital-intensive and volatile sectors such as airlines and cruise ships.

“Airlines were never a good business pre-COVID. They area worse business during COVID. They’ll never be a good business post-COVID,” he says.

Cruise lines may fare better since many travellers are devoted to them, but Mr. Schwartz also warns their costs will increase amid rising inflation and interest rates.

His firm prefers to hold specialty travel and related stocks like ski-resort operator Vail Resorts Inc. and Live Nation Entertainment Inc., which hosts concerts and events that people will be eager to attend once the pandemic passes and restrictions are lifted.

In general, Mr. Schwartz says travel stocks are better suited to short-term investors looking to capitalize on quick stock movements, not longer-term investors – like his clients – who seek steady returns.

“As a buy-and-hold investor who wants to ‘set it and forget it,’ you can’t own most – if not all – the travel names: They’re extremely cyclical. They go through rough patches and amazing times. And if you look at the charts on some of them, they’ve never had consistent results or returns for clients,” he explains.

“The travel sector is one of the worst sectors to invest in,” he adds. “I would put it right up there with anything commodity or cyclical: when it works, it’s amazing, but for long-term investors, the best advice is to sidestep and ignore it.”