When holidaymakers become interested in travel and leisure, so do investors

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My hairdresser recently told me how her strategy of buying Apple shares before the end of the year had been serving her well. ‘Everybody wants an iPhone for Christmas, it’s simple”, she exclaimed.

It may be that investing is much easier when everything is going up – at least if you are taking long positions. Or maybe one only needs to combine observation with common sense to see how people are spending their money. That’s where the investing opportunity may be. Pretty simple?

Given the widespread chaos at airports these days, might the opportunity be in the travel and leisure sector?

People are certainly travelling again

After two years of lockdowns and staycations, it seems like people are now keen to get on a plane and fly away somewhere. Passenger numbers at airports have bounced back, as expected, but remain below pre-pandemic levels (see figure 01 below).

Source: heathrow.com as of 23 June 2022.

Where are all these passengers off to? In May, around 44% of the total traffic for London Heathrow was made up of passengers to or from Europe1. This is in line with the historic average which means that the destinations haven’t changed, broadly speaking. But as the absolute numbers continue to rise and eventually return to trend levels, European travel numbers will rise further.

When people travel, they also stay at hotels

So, it appears that people aren’t just taking flights, they are booking hotel rooms as well. Monthly hotel occupancy in Spain based on tourists from abroad has also risen sharply (see figure 02 below).

Source: Bloomberg, data as of 23 June 2022.

Naturally, with higher bookings come higher revenues, and eventually profits for the hospitality sector. According to forecasts by Statista, Europe’s travel and tourism revenues are expected to return to pre-pandemic levels somewhere between 2023 and 2024, i.e., it is a sector still very much in recovery.

Key considerations for investors

Europe’s travel and leisure sector comprises of three major categories of businesses. These are 1. Airlines, 2. Hotels, resorts, cruises, and restaurants, and 3. Online gaming and betting companies. Arguably, the sector’s performance has not been stellar this year given the risk-off sentiment in equities more widely. Among the 20 industry groups within the Stoxx Europe 600 Index, energy is the only one with positive performance year-to-date2. The travel and leisure sector is down this year but currently ranks somewhere in the middle in terms of year-to-date performance among the 20 categories.

This implies that macroeconomics is currently driving markets and the sector-specific improvement in outlook for travel and leisure is perhaps underappreciated. If the macro clouds dissipate, we may see lift-off in the sector in line with its supportive fundamentals.

Nevertheless, there is also a flipside, as there always is. If recessionary risks rise in Europe, travel and leisure numbers may drop again before even returning to trend levels. Travelling is indeed a ‘discretionary’ expense that can be curtailed when money becomes tight for both individuals and businesses.

Ultimately, predicting market movements is difficult but it may be easier to track consumer behaviour through airport passenger volumes and hotel occupancy rates. Will prices follow the fundamentals? You can never be sure, although my hairdresser is convinced that they do.

1 Source: Heathrow.com as of 23 June 2022.

2 Source: Bloomberg, as of 23 June 2022.

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