

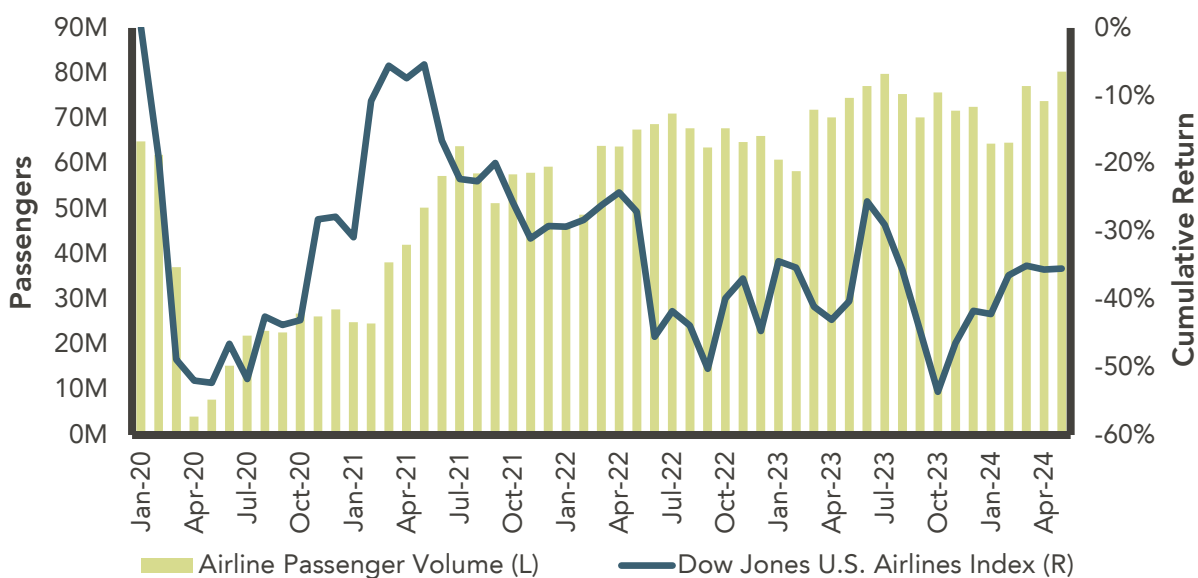
Chart of the Week

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Airline Stocks: Just Plane Challenged

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Despite a return to pre-pandemic passenger volumes, airlines have faced myriad challenges which have served as stock performance headwinds



Source: Bloomberg, Transportation Security Administration as of May 31, 2024

Although travelers have happily bid farewell to pandemic-related restrictions and returned to the skies en masse, airline stocks seem to have missed the memo on bouncing back to pre-COVID levels. To that point, the Dow Jones U.S. Airlines Index has returned roughly -35% since the start of the pandemic. This cumulative performance figure is despite a surge in the index in the wake of vaccine announcements in late 2020, as well as the fact that that this summer may be the busiest travel season the U.S. has ever seen. These dynamics can be observed in this week's chart.

The dichotomy between booming travel numbers and lackluster airline stock performance can be attributed to several challenges facing the industry. Specifically, while increased passenger volumes boost revenues for major airlines, these businesses continue to grapple with profit margin pressures stemming from soaring operational costs. For instance, higher oil prices (now \$80 per barrel compared to roughly \$55 before the pandemic) have proved to be a significant headwind for airlines. Additionally, ongoing issues including pilot and crew shortages, escalating wages, operational inefficiencies, and higher maintenance expenses have further constrained airline profitability in recent time. Spending on corporate travel has also been somewhat tepid over the last few years as well, which has presented problems for airlines that offer premium upgrades such as business class seating.

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In conclusion, the challenges faced by airlines will likely persist into the near future, though robust passenger volumes are certainly a cause for optimism. As it relates to investor exposure to these types of stocks in general, four major airlines (American, Delta, Southwest, and United) are constituents of the S&P 500 Index, and these carriers comprise roughly 0.2% of the benchmark. In other words, adequate diversification should mitigate the impacts of the headwinds described above at the portfolio level. ■

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