Global Insights

Here Comes the Sun: COVID Summer Playbook

In 2020, a sharp decline in passenger traffic crippled travel and tourism. With vaccinations proceeding and economies reopening, we expect the industry to rebound strongly. Unprecedented fiscal and monetary support have strengthened household balance sheets and consumer confidence, setting the stage for a powerful surge in spending on travel and tourism as we move into summer. We anticipate a season that will look very different from 2020, with important implications.

- We see high-income nations as the relative winners in a bid to restart travel and tourism. Research shows that while most high-income nations will achieve herd immunity by the end of the summer, lower-income nations will likely struggle to achieve that through at least 2024.

- A return to normalcy will take some time. It took four years for global air passenger traffic to return to trend following the end of the dot-com bubble in the early 2000s and the 2008 financial crisis. As more countries reopen to tourism, domestic travel is likely to return more quickly than international.

- Economies that have contained the spread of the virus through lockdown measures or rapid vaccine rollouts, such as the US, France and China, will likely be far better positioned to enjoy a strong summer season.

- Investors should consider cyclical stocks that are more levered to rebounding global growth bolstered by spending on travel goods and services.

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In 2020, global tourism suffered its worst year on record as international tourist arrivals plunged by 70%. The sharp decline in passenger traffic crippled the travel and tourism industry. Still, green shoots are emerging as economies reopen. As we head toward summer, tourism is expected to rebound, and companies are hiring to meet the renewed demand. In fact, US employers have refilled nearly half of the 8 million jobs lost in travel and tourism during the pandemic.

With vaccinations gaining momentum, we see phased border openings benefitting countries that have reported declines in new coronavirus cases. A February 2021 report from the United Nations World Tourism Organization warned that 32% of all global destinations were closed to international tourists. While we expect this number to decrease in the coming months, we see high-income nations as the relative winners in a bid to restart tourism and travel given the asynchronous regional recovery (see Exhibit 1). Research by Bloomberg Economics shows that while most high-income nations will vaccinate 70% to 85% of their population by the end of the summer, lower-middle and low-income nations will likely struggle to achieve high vaccination rates through at least 2024.

Even as more countries reopen to tourism, domestic travel is likely to return more quickly than international. New Centers for Disease Control and Prevention guidelines allow for fully vaccinated people to remove their masks in most circumstances. We think this will boost travel and tourism by easing traveler anxiety. Still, it remains to be seen whether governments will be able to harmonize policies quickly enough for cross-border travel to resume soon.

For example, the UK, which has fully vaccinated just over 30% of its population, versus 4.5% globally, recently eased travel rules for its residents. As of May 17, the UK allows Britons to travel abroad, but with restrictions. The UK’s system, which is designed as a preventative measure against new strains, differentiates between “green” destinations, where travelers will not have to quarantine on return, and “amber” and “red” destinations, which have stricter policies in place, making them far less attractive. The categorization may impede countries with lower vaccine rates.

Unwelcoming pandemic-related guidelines aside, the pickup in demand is real. Unprecedented fiscal and monetary support have strengthened household balance sheets, setting the stage for a powerful surge in spending on travel and tourism. In March, according to Adobe Analytics, flight bookings saw a 111% jump, and hotel booking rates were 50% higher than in the weeks leading up to the vaccine rollout last December. Overall, we anticipate a summer that will look very different from 2020, as demand for travel goes into full swing. In fact, in its first quarter earnings call, American Airlines reported that it plans to operate at 90% of its 2019 domestic capacity during the summer peak.

Given healthy consumer balance sheets, extra savings and pent-up demand, we expect travel to surge. High-frequency data shows signs that people are ready to travel again. According to the Morgan Stanley & Co. Leisure and Activity Tracker, travel searches for “holiday” in the UK and Germany are close to or above pre-COVID levels, while searches for “flights” in the US are nearing pre-pandemic levels. Morgan Stanley’s AlphaWise surveys also confirm better sentiment around travel plans. When questioned about personal choices in the next three months, 19% of US respondents said they would avoid traveling within the country by car or train, and 38% said they would avoid traveling within the country by plane. That’s down from last year’s highs of 37% and 62%, respectively.

Beyond plans and projections, we are starting to see actual travel numbers improve markedly. The Transportation Security Administration’s 20-day moving average of passengers is nearly 70% of pre-COVID levels. Notably, it appears that international travel may not be in the cards for many people, as they focus on destinations closer to home. Morgan Stanley’s AlphaWise survey conducted in Europe found that 77% of respondents are planning a domestic vacation in the next 12 months, whereas 45% are planning an international vacation. The diverging preferences become more noticeable when examining airlines’ expected passenger capacities across different routes. Based on data from OAG, volumes for most intercontinental routes remain below domestic routes. For example, in May, passenger volumes for North American and Asian domestic flights were down 26% and 31%, respectively, year-over-year; transatlantic and EU-to-Asia routes were down 78% and 80%, respectively (see Exhibit 2).

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**Exhibit 1: US and UK Lead World in Vaccinations**

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage of Population Vaccinated</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>100%</td>
</tr>
<tr>
<td>US</td>
<td>90%</td>
</tr>
<tr>
<td>Singapore</td>
<td>80%</td>
</tr>
<tr>
<td>EU</td>
<td>60%</td>
</tr>
<tr>
<td>China</td>
<td>50%</td>
</tr>
<tr>
<td>India</td>
<td>40%</td>
</tr>
<tr>
<td>South Korea</td>
<td>30%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>20%</td>
</tr>
<tr>
<td>Japan</td>
<td>10%</td>
</tr>
<tr>
<td>Thailand</td>
<td>0%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>0%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of May 24, 2021
Similarly, domestic passenger volume is forecast to improve to just 10% above pre-COVID levels for North America and Asia in July, and to around 50% for transatlantic and EU-to-Asia, given longer-term challenges. Intra-EU travel was down 83% year-over-year in April, highlighting the severity of the region’s lockdowns and the economic consequences.

A return to normalcy will take some time. According to a 2015 report published by the International Air Transport Association, it took four years for global air passenger traffic to return to trend following the end of the dot-com bubble in the early 2000s and the 2008 financial crisis. Although the nature of this crisis and the sharp return to growth augurs for a faster return to trend, we will likely see international travel return more slowly than domestic.

While international travel and hotel occupancy in many cities remain deeply depressed, domestic travel has experienced a vaccine-fueled surge. In economies for which tourism is an important source of growth, those that have contained the spread of the virus through lockdown measures and rapid vaccine rollouts have emerged as relative winners. We anticipate a crowded summer travel season for these destinations, which will further extend their economic recoveries.

Investment Implications

In the US, recovery appears on track, with improvements in broad economic indicators. Initial jobless claims, for instance, recently fell to a fresh pandemic low of 444,000. Additionally, in the past month, vaccinations in the US are tracking above 2 million shots a day. With the arrival of stimulus checks, consumers have demonstrated a willingness to spend more on travel-related categories, as indicated by air travel, which increased sharply in March and April.

In Europe, consumer confidence has risen over the last two months as vaccinations have accelerated and households have become cash-rich. Furthermore, with the launch of “green certificates” scheduled for late June, cross-border travel will be more accessible, and we anticipate a significant increase in tourism. With long-haul travel restricted, we believe that France, which is less reliant on foreign visitors than other tourism-dependent economies, is best positioned to benefit from a strong tourist season.

With many emerging markets experiencing worsening COVID-19 outbreaks, the summer of travel may not be a theme in some parts of the world. In Brazil, the public health crisis is threatening to turn into a full-blown economic crisis. In India, the government has little appetite for a new national lockdown despite rising infection rates, and we believe there is a real possibility of spillover effects in neighboring countries, which could erode confidence in travel. China, however, stands out as an exception, with the number of tourists over their recent Labor Day holiday sitting 3.2% above pre-COVID levels.

We reiterate our preference for cyclical stocks over defensives, as a call on improving global GDP bolstered by a stronger upcoming tourist season. Investors should consider overweighting stocks in accommodations, air travel and food services, given that they account for more than half of travel-and tourism-related spending. Globally, with roughly 6% of the world having received at least one vaccine shot, we anticipate meaningful tailwinds for the beaten-up travel and leisure sectors.
International Travelers Are Price Sensitive

Note: The Big Mac Index uses the concept of purchasing power parity which states that the dollar should buy the same amount in all countries. Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of Dec. 31, 2020

Europeans Plan to Stay Close to Home

Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of April 30, 2021

Pandemic Devastated Near-Term Travel Demand

Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of Feb. 28, 2021

Global Airline Passenger Traffic Resilient Longer-Term

Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of Dec. 31, 2019

Please refer to important information, disclosures and qualifications at the end of this material.
New York–London Route Is the Only Non-Asian Route in Top 10 Busiest

Source: OAG, Morgan Stanley Wealth Management Global Investment Office as of May 24, 2021

Ongoing Development Spotlight

A Snap of the Cable: Travel Between the US and the UK Still Remains Closed

As countries reopen for travel this summer, many are left wondering where they can go. One popular flight that many still cannot board is between New York and London, as the US has maintained its travel ban on people residing in the UK. According to OAG, the route between New York JFK and London Heathrow is the seventh busiest international route in the world, filling approximately 3.8 million seats per year. Additionally, it is the world’s most profitable route, generating more than $1.15 billion for a given airline, highlighting not only its significance to global mobility, but to the global economy. However, even as US and British COVID-19 cases decline and vaccinations increase, the route is not yet available for British travelers. The CEOs of several large US and UK airlines signed a letter to US Transportation Secretary Pete Buttigieg and his UK counterpart, Grant Shapps, requesting an end to the restriction.

New York–London Route Is the Only Non-Asian Route in Top 10 Busiest

<table>
<thead>
<tr>
<th>Route</th>
<th>Seats (Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong-Taipei</td>
<td>7.96</td>
</tr>
<tr>
<td>Kuala Lumpur-Singapore</td>
<td>5.56</td>
</tr>
<tr>
<td>Jakarta-Singapore</td>
<td>5.48</td>
</tr>
<tr>
<td>Bangkok-Hong Kong</td>
<td>4.82</td>
</tr>
<tr>
<td>Hong Kong-Shanghai</td>
<td>4.46</td>
</tr>
<tr>
<td>Hong Kong-Seoul</td>
<td>3.94</td>
</tr>
<tr>
<td>Hong Kong-Manila</td>
<td>3.85</td>
</tr>
<tr>
<td>New York-London</td>
<td>3.83</td>
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<tr>
<td>Bangkok-Singapore</td>
<td>3.83</td>
</tr>
<tr>
<td>Jakarta-Kuala Lumpur</td>
<td>3.79</td>
</tr>
</tbody>
</table>

Source: OAG, Morgan Stanley Wealth Management Global Investment Office as of May 24, 2021
Disclosure Section

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GLOBAL INSIGHTS

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