Here Comes the Sun: COVID Summer Playbook

Powerful tailwinds are expected for the travel and leisure sector this summer. This audiocast highlights how this recovery may look and what it means for a global investment portfolio.

Click here for the full Global Insights report related to this audiocast.
Hello and welcome to another edition of Wealth Management Insights. I’m Chris Baxter, Investment Strategist for Morgan Stanley Wealth Management. Today is Wednesday, June 16th, and I’m recording this at my home in Brooklyn, New York.

In 2020, the travel and tourism industry suffered a devastating blow. The World Travel & Tourism Council estimates that the sector lost nearly $4.5 trillion and 62 million jobs globally due to the coronavirus pandemic.

International travel suffered the sharpest decline. According to the United Nations World Tourism Organization, international tourist arrivals, which is a measure used to capture overnight visitors, plunged by 70%.

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 also after the 2008 financial crisis.

As many countries push forward in a bid to restart travel and tourism, we see an asynchronous regional recovery taking place. In this context, we see high-income nations as the relative winners. In fact, 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.

With vaccinations in developed nations gaining momentum, we see a phased border reopening benefitting countries that have reported declines in new coronavirus cases, setting the stage for a powerful surge in spending on travel and tourism as we move into the summer.

Even as more countries reopen to tourism, domestic travel is likely to return more quickly than international. While international travel and hotel occupancy in many cities remain deeply depressed, domestic travel has experienced a vaccine-fueled surge. As the US economy continues to reopen, we expect excess household savings will propel spending on services going forward. Ellen Zentner, Morgan Stanley’s chief US economist, reports that households plan to spend 17% more on domestic travel for leisure post-COVID relative to pre-COVID.

High-frequency data shows signs that people are ready to travel again. According to the Morgan Stanley 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.

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.

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.

Economies that have contained the spread of the virus through lockdown measures and rapid vaccine rollouts have emerged as the relative winners.

In the US, the recovery appears on track, with the Citi Economic Surprise Index showing a positive reading for 12 straight months, nearly double the length of any other period since 2002, when the data started being recorded. With the arrival of stimulus checks, consumers have demonstrated a willingness to spend more on travel-related categories.

In Europe, consumer confidence has risen as vaccinations have accelerated and households have become cash-rich. With long-haul travel restricted, we believe that countries that are less reliant on foreign visitors are better positioned to benefit from a strong tourist season.

As for investment implications, we reiterate our preference for cyclical stocks over defensives, as a call on improving economic GDP bolstered by a stronger upcoming tourist season. Investors should consider overweighting stocks in accommodation, air travel and food services, given that those categories account for more than half of travel- and tourism-related spending.

Thank you for listening. For more information on portfolio strategies in the current economic environment, please reach out to your Morgan Stanley Financial Advisor.
Disclosure Section

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For index, indicator and survey definitions referenced in this report please visit the following: https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions

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