Q: Are Travel and Hospitality stocks poised for a comeback?

Brian Lockhart: My guess is that winners and losers will be more company specific than industry specific with economies around the world reopening. You can come to radically different conclusions depending on the time frame you are using for analysis. Let's take 3 proxies for Travel and Hospitality -- Disney, Carnival Cruise Line, and Invesco's Dynamic Leisure and Entertainment ETF, and compare against what the S&P 500 has done. On a YTD basis, everyone but DIS has outperformed the S&P with CCL more than double the return this year. On a trailing 1-year basis, accounting for early in the pandemic, all 3 proxies handily beat the S&P, with CCL again leading the way with 110% gains. However, if you look at the trailing 2-year period it is a very different story. None of the proxies have outperformed the last 24 months with PEJ gaining 4%, DIS up 31%, CCL at -49% while the S&P was up 42%.

Carnival has either outperformed by 100% or underperformed by the same depending on which time period you consider. I do believe there is a lot of pent-up demand for travel and returning to favorite restaurants and entertainment. Large crowd venues will likely lag other forms of entertainment for quite a bit longer. I would guess Carnival's target audience is likely to already be vaccinated, so they should not be hurt by any restrictions on travel for those who have not received the COVID vaccine.

Clint Pekrul, CFA: The recovery from COVID sure makes the case for a rebound in travel and hospitality. After a full shut down a year ago, we are starting to see the business and economic activity pick up. A good measure of the travel and hospitality sectors is an index created by S&P. Year-to-date the S&P Travel and Leisure Index is up approximately 17% compared to a gain of roughly 12% for the S&P 500. It is no surprise that the stocks in this group rebounded from their lows in March of 2020. The stocks that got beaten up due to the shutdown are now benefiting from the reopening of the economy.

However, some of the biggest holdings in the leisure and hospitality index are trading at valuations well above historical measures. The price-to-book valuations on some of these companies are north of 30 times. I think the question for investors is to what degree the has the market accounted for the reopening trade? Much of the rally in the travel and hospitality names already reflects the positives of the reopening trade. From a portfolio positioning standpoint, you might want to consider some names in the travel and hospitality sectors to further benefit from the reopening economy but be mindful of valuations.