

Buffett Gets Out of Airlines
May 4, 2020



Stocks staged an impressive late day rally Monday, with the major indexes all finishing in the green. The Dow Jones Industrial Average finished 26 points higher, or 0.11% to close at 23,749. While 26 points doesn't seem like much, it is impressive when you realize that the Blue-Chip index was down 348 points to begin the day. The S&P 500 also eked out a gain rising 12 points, or 0.42% to close at 2843. The Nasdaq Composite jumped 105 points, or 1.23% to 8711.

The market was colored by the Berkshire Hathaway shareholders meeting that was held over the weekend. In the annual event Warren Buffett announced that he sold his entire position of airlines amid the growing concerns about the coronavirus' impact on airline travel. This was no small decision, given that Mr. Buffett's company had taken nearly a 10 percent stake in each of the major airlines -- Delta Airlines (11%), Southwest Airlines (10%), American Airlines (10%) and United Airlines (9%).



KANSAS CITY, MISSOURI - APRIL 03: Planes belonging to Delta Air Lines sit idle at Kansas City ... [+] GETTY IMAGES



Warren Buffett, chairman and CEO of Berkshire Hathaway (Yahoo Finance)

Buffet explained, "I wouldn't normally talk about it, but I think it requires an explanation... We are not disappointed at all in the businesses that were being run and the management, but we did come to a different opinion on it.... "[Airlines are] being hurt by an exogenous shock "far beyond their control". Many investors paid attention to his comment that, "the world has changed for airlines"; although, he stated that, "I don't know how it's changed".

Buffet announcement that he sold his equity positions came on the heels of an announcement last Friday that Boeing had successfully secured \$25 billion in debt financing from the public markets. A dramatic development given that Boeing had been negotiating with the government about borrowing money. The Boeing bonds were sold with maturities ranging from three to 40 years. After the offering was secured, Boeing management announced, "The robust demand for the offering reflects strong support for the long-term strength of Boeing and the aviation industry". Similarly, Delta Airlines successfully raised \$5.0 billion in bonds from the private market.

Bond investors are betting big on the aviation industry and taking a different stance than Mr. Buffett. Certainly, part of this is because bond holders have a higher priority on the cash flow of the company than Buffett's equity position. And to be fair to Mr. Buffett, he did not say the aviation business was dead, just does not think the airlines will make much money after they pay off these bond investors. *Regardless, these divergent opinions are what makes a market -- a buyer and a seller. Someone who wants in and someone who wants out.*



PITTSBURGH, PA - MARCH 27: Jets are parked on runway 28 at the Pittsburgh International Airport on ... [+] GETTY