Here’s Why Canadian Tech Stocks Are Breaking Out in 2020

Description

Tech stocks are well-known for their momentum-generating properties. What makes them so nimble, though, is their stripped-down business models. Low overheads and high profit margins are the ideal breeding ground for steep returns — which is why top names in the tech sector are able to thrive amid the pandemic while other industries crash.

Just look at two of the strongest performers in the current cycle: **Shopify** (TSX:SHOP)(NYSE:SHOP) and **Kinaxis** (TSX:KXS). Both names are solid post-earnings buys with sturdy first-quarter results already under their belts. Shopify’s business model in particular renders it a near-perfect stock for the current market. There are several sound reasons why investors have pushed this name up by more than 200% in the last 12 months.

Of course, most of this activity comes down to investors chasing the upside. (Not that there’s anything wrong with that.) But Shopify is more than just a hot ticker. E-commerce growth was already a major market force even before the pandemic. In the current market, Shopify looks unstoppable.

Market disruption favours tech stocks

Indeed, consumerism is at the heart of the matter when it comes to both Shopify and Kinaxis. Actual market demand is weakening, and so businesses need to find ways to strip down capital expenditure while tightening the screws on revenue. From this perspective, it would seem that steep growth must logically be limited, as the limit to which systems can be perfected is finite.

The market’s bottom line is demand. Entire sectors have shuttered during the pandemic, with even traditionally safe asset types seeing instability. Consider utilities, for instance. Electricity production is the most defensive asset type after consumer staples. But a reduction in industry has seen the market price for electricity weaken. Making businesses efficient, therefore, is become a big business in itself.

But growth comes from other areas, too. For Shopify, growth in the cannabis space has been, and should continue to be, a major source of positive investor activity. For Kinaxis, supply chain automation still has entire industries to conquer. By the time Kinaxis has cornered the markets, those markets will have changed again.

Constellation Software and **Descartes Systems Group** are similarly strong plays. Both names allow businesses to streamline their operations while also pinpointing and optimizing their greatest strengths. Cloud computing and systems automation will be major themes for tech investors for the rest of the year as a mounting obstacle course of recessionary stressors impacts bottom lines across the Canadian economy.

Names like Shopify and Kinaxis, Constellation Software and Descartes represent the future of Canada's basic economic structure. The entire market is undergoing a profound change, and investors should eye this paradigm shift in the economy with caution.

But long-term shareholders should also be aware of areas ripe with potential. While disruption can be detrimental to portfolios, it can also offer areas of sudden growth.

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