



## Is Shopify Stock's 90% Jump This Year Justified?

### Description

Many analysts these days are questioning the speed at which some of the largest technology stocks have come back after the March meltdown.

They are asking why these stocks are reaching new highs when the COVID-19 pandemic is still raging and when there are clear risks to economic growth.

In the Canadian market, one such stock that could fall in this category is e-commerce platform provider **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)).

One of the most-loved tech stocks from Canada, Shopify stock has more than doubled since touching \$449.90 on March 16. Trading at \$988.08, the stock is up 91% this year alone.

At this price, Shopify's market capitalization is touching \$118 billion, making it almost as valuable as **Royal Bank of Canada**, the nation's lender.

### Is Shopify stock a bubble?

This price acceleration has been so fast and furious that Shopify stock's current value is more than five times higher than what analysts see the stock trading at in the next 12 months.

The rise of such magnitude is raising concerns in the minds of some investors who are wondering whether Shopify stock is a bubble that's ready to burst. Let's first try to understand how bubbles in asset markets are formed.

A bubble is a run up in the price of an asset that is not justified by the fundamental supply-and-demand factors for the asset. Bubbles can occur in any traded commodity or financial instrument, such as stocks.

Easy monetary policy is a common factor behind bubbles. In an environment when cheap credit is readily available, buyers use this money to buy for investment rather than use, causing prices to inflate.

Investors can certainly relate the recent jump in technology stocks, that sent the tech-heavy NASDAQ to a record high this week to an extraordinary monetary stimulus that central banks are providing in North America.

## Shift to online shopping

Assuming that Shopify's price reflects some of that "irrational exuberance" that comes with cheap and easy money, it is still hard to believe that the e-commerce platform provider won't gain when people are shifting to online shopping globally.

When you look at the factors that are fuelling gains in [Shopify's stock price](#), it's hard to relate the company with an asset price bubble. The company is at the centre of a major shift taking place in the market; consumers are shunning mortar-and-brick retail stores to buy online. Here are some numbers to support that bullish case that were carried in a *Bloomberg* report:

"In the U.S. any purchase not made on **Amazon.com Inc.** is probably done via a website powered by Shopify. The company commanded the second-largest share of online retail sales in the U.S. Globally, it powers more than 1 million merchants across 175 countries, from Victoria Beckham's clothing line to megabrands such as Heineken and **PepsiCo**. All told, Shopify helped flog \$61 billion of goods in 2019."

That being said, Shopify's future revenue growth must justify the current market price of its stock; otherwise, this rally will fizzle out quickly. For now, Shopify is having success when it comes to satisfying growth-hungry investors, helped by the pandemic related boom in e-commerce.

Shopify suspended its 2020 financial guidance in April. Last month, it said it is closely monitoring the impact rising unemployment has on new shop creation on its platform and consumer spending.

## Bottom line

Shopify stock's meteoric jump in the past one year has been backed by earnings momentum and the company's potential for future growth. But after that massive rally, its stock has become vulnerable to a correction, especially when there is too much cheap money chasing growth stocks and fuelling their prices.

### CATEGORY

1. Investing
2. Tech Stocks

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**Date**

2025/09/17

**Date Created**

2020/06/12

**Author**

hanwar

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