



Why Shopify Stock's Steep Upside Might Be Over

Description

The premier Canadian tech name and e-commerce frontrunner, **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) should have carried on soaring this week. Its record third-quarter profit beat smashed expectations and delivered year-on-year three-month growth of 96%. But instead, investors started selling, and by midday this name was sitting on a scant 0.9% five-day gain.

Why? The theories are many. But one culprit is looking particularly guilty right now. Look no further than Shopify's nemesis, **Moderna** ([NASDAQ:MRNA](#)). These two stocks have faced off before. In fact, the first significant tech stock selloff of the year was preceded by good news from Moderna. That time around, Shopify ditched more than 10%. And now? Friday saw Shopify negative by 9% for the week, in a post-earnings slump that coincided with a vaccine breakthrough.

The tech stock space has vaccine allergies

The news that Moderna is readying its COVID-19 vaccine rollout should be cause for celebration across the markets. The problem for tech stocks, though, is that an economic recovery doesn't jive with the "stay-at-home" thesis that launched certain tech stock names sky high. Chief among the tech stocks that has benefited from a lockdown is internet shopping outfit Shopify.

The fact that Shopify's steep growth in 2020 is fundamentally unsustainable only adds to the pullback trend in overvalued tech names. Investors should consider that other mighty names have also been faltering of late. From **Netflix** to **Microsoft**, it would seem no tech stock is safe anymore.

Of course, e-commerce is far from over as a growth trend. In the post-pandemic age, digitalization not only guards against the societal fallout of future outbreaks but also bolsters business efficiencies and facilitates easy at-home and on-the-move consumerism. The issue with Shopify, though, is that the exponential growth that it enjoyed during the early days of the pandemic is not replicable.

An asset type to trim and build

Looking for a stock to trim this fall? Consider selling shares in Shopify if you're bullish on a vaccine. We've seen a couple of times now that Shopify has [developed an allergy to vaccine breakthroughs](#). Investors should therefore expect a full recovery, an end to the pandemic, and the cessation of lockdowns to take big bites out of this overvalued tech stock's share price.

Friday saw tech stocks either side of the border serving up further signals of an upcoming asset class-wide correction. Buying opportunities might very well be in the making, with Big Tech tickers likely to flash red next month. This could help to weigh on the markets in a broader sense — consider the recent mini-crash preceded by the **Apple** and **Tesla** stock splits.

Given the potential for volatility already present in the markets, the overvaluation of tech stocks is therefore both a viability and an opportunity. Overvaluation is likely to add to the two-for-one volatility of an ongoing pandemic and a [hotly contested U.S. election](#). But the downside could allow investors who, up till now, have sat out the race to upside to gain entry points at more reasonable valuations.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:MRNA (Moderna, Inc.)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date

2025/08/16

Date Created

2020/10/31

Author

vhetherington

default watermark