



## Shopify and TD Bank: A Great Pair Trade for the 2021 Stock Market Rally

### Description

We've heard many gurus calling for a market correction over the past year. They've all been proven wrong, as the market rally continued going strong. While the recent Nasdaq 100 correction is a concern to some growth investors, I think that the growth-to-value [rotation](#) was a long time coming. If anything, this broadening out of winners makes this bull run's legs even stronger.

Although the stock market could end 2021 up big, I think growth has lost its steam. While I think the worst of the Nasdaq's correction is over, I certainly wouldn't at all be surprised if the action in the bond market caps the upside for some of 2020's biggest growth winners. But don't fret, growth investors, because that's a good thing. It'll keep bubbles in check, and that can only be good for the longevity of this stock market rally.

### Stock market rally: Don't fear the bond market

Higher bond yields mean higher-growth stocks that promise profits way into the future worth far less. The stocks of profitable growers will also be worth less, but the re-valuation to the downside is far less drastic. And for value stocks that are highly profitable over the near term, their stocks have been worth more amid the recent rotation.

As a result of the action in the bond market, I suspect the value-heavy TSX Index will have a low, perhaps even a negative correlation to the growth-heavy Nasdaq 100. Whether or not this means Canada will outperform the U.S. markets in 2021, though, remains to be seen.

### 2021: A year to be full of rotations and reversals

In any case, I think investors would be wise to spread their bets. By buying the most beaten-down growth stocks like **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) on the dip, while accumulating shares of plays like **TD Bank** ([TSX:TD](#))([NYSE:TD](#)) that will stand to rally further in the face of higher rates, investors can stand to win in either scenario.

So, stop watching the 10-year Treasury note yield and be ready for whatever happens next. Can the 10-year rise to 3%? Sure, but it could also plunge below 1.5% or even 1% if more bad news comes flowing in. For tech, it's a "bad news is good news" type of environment. And for beginners, that's nothing short of perplexing!

Such jitters have many investors sitting on the sidelines, and understandably so. It's a confusing time to be a beginner. That said, there's money to be made in this environment, as this market rally continues going strong. By positioning yourself to win, regardless of the trajectory of bond yield moves over the near term (even if they're noise), you're more likely to come out of this 2021 stock market rally as a winner.

Last week, we witnessed a steep reverse rotation back into the growth-heavy Nasdaq as the value-heavy Dow Jones Industrial Average dragged. And that's thanks in part to a nearly seven basis point move to the downside in the 10-year note's yield. Moreover, with coronavirus cases picking up in various provinces across Canada, count me as unsurprised if we witness a further rotation into COVID-19 stocks at the expense of the [reopening plays](#). Rotations and reverse rotations are going to pave the way for rampant volatility, and you've got to ensure you're prepared.

With e-commerce growth king Shopify, whose profits lie in the distant future, you'll want to own it in case we get reverse rotations back into growth or COVID-resilient plays. It's the ultimate Canadian reverse rotation play for the year, especially after its latest pullback.

## Shopify and TD stock: The ultimate pair trade in 2021?

On the flip side, TD Bank is the ultimate reopening or higher-rate trade. It's been a long time coming, but the Canadian banks are finally back in fashion, as inflation could bring forth rate hikes quicker than expected. Combined with the next economic expansion, the big banks could be ready to ride on the back of the next bull market.

With a Shopify-TD pair trade, you'll be less rattled by the bond market moves and will be more focused on what really matters: the individual businesses themselves and how they're performing in the current environment.

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### TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:SHOP (Shopify Inc.)
4. TSX:TD (The Toronto-Dominion Bank)

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