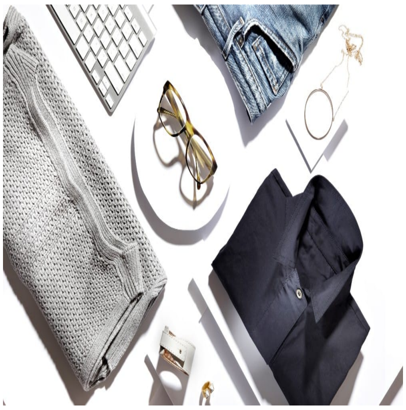

Tech Stocks Lost US$1 Trillion: Should You Dump Shopify (TSX:SHOP)?

Description

The NASDAQ 100 Index in the U.S. lost around US$1.6 trillion in market value in March 2021. High-flying technology stocks led the decliners amid a rise in U.S. Treasury yields. The NASDAQ Composite Index rose to 14,138.78, but the rally did not sustain. As of May 14, 2021, the tech-heavy index closed lower at 13,429.98.

The big tech reversal is common in recent days, primarily because of Wall Street's inflation jitters. The U.S. Federal Reserve might move to tighten its monetary policy sooner than later due to rising inflation. **Apple**, **Amazon.com**, Google-parent **Alphabet**, and **Microsoft**, all outperformers in 2020, are bringing the house down.

On the **TSX**, the technology sector is also the worst performer among the 11 primary sectors thus far in 2021. The year-to-date loss is 2.19% and the utility sector (-0.67%) is the only other sector in negative territory. Top tech names like **Lightspeed POS** (-20.74%) and **Docebo** (-62.02%) are underperforming.

The leader of the pack and TSX's tech superstar **Shopify** (TSX:SHOP)(NYSE:SHOP) is likewise underperforming (-8.55%). If the downward trend continues, should investors move to sectors that would fare better in an inflationary environment?

Find ideal hedges against inflation

The TSX started the week of May 10, 2021, strong before skidding in the next three trading days. Fortunately, the energy and financial sectors led a broad-based rally and enabled the index to climb 230.90 points to recover the losses. Philip Petursson, chief investment strategist at **Manulife** Investment Management, describes the week as a yo-yo of investor motions.

Again, it was the U.S. inflation numbers that scared investors. The Bank of Canada keeps interest rates at an effective lower bound until it achieves its inflation objectives. Meanwhile, investors seem to be taking profits and veering away from high-flying growth stocks, mostly constituents in the tech sector.

There could be a shift to cheaper value stocks in anticipation of higher inflation economies heal and recover from the COVID-19 pandemic. Many market analysts believe assets like gold, real estate, and even real estate investment trusts (REITs) are ideal hedges against inflation. The tech sector, however, is hardly mentioned.

Strength in numbers

You can't simply dump Shopify following its most recent quarterly results that showed stellar figures. For Q1 2021 (quarter ended March 31, 2021), the Canadian global commerce company reported a 110% year-over-year revenue growth. Its Subscription Solutions revenue grew 71% to $320.7 million versus Q1 2020 on account of more merchants joining the platform.

Because of the robust growth in gross merchandise volume, Shopify's Merchant Solutions revenue increased 137% to $668.0 million in the first quarter compared to the same quarter last year. The 62% year-over-year growth in monthly recurring revenue as of March 31, 2021, was also a sight to behold.

Shopify's platform undoubtedly makes commerce better for everyone — for both merchants and consumers worldwide. There's strength in numbers, particularly when you have more than 1.7 million businesses in more than 175 countries in Shopify's ecosystem.

Firing on all cylinders

As of mid-May 2021, **Royal Bank of Canada** has unseated Shopify as the largest publicly listed company on the TSX by market capitalization ($173.63 billion versus $163.5 billion). Nonetheless, the general tech weakness isn't a reason to ditch the top TSX stock. Shopify is firing on all cylinders and should deliver outstanding financials from here on out.

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