Are Canada’s High-Growth Stocks Still Worth Buying?

### Description

Canada’s high-growth stocks were rolling with the punches thrown by Mr. Market in the first half of 2021. The spike in rates, higher-than-expected inflation, Federal Reserve jitters, and all the sort weighed most heavily on the “growthiest” of Canadian stocks, many of which clocked in historic results in 2020.



The tides turned suddenly, and they turned in a big way. Now that the U.S. 10-year Treasury note is on the retreat (now in the 1.3% range), could it be off to the races again for Canadian growth and tech plays? Or is this a fake-out that could deal momentum chasers with a furious, potentially unforgiving round of pain?

## Just like that, the tides have turned in favour of Canadian growth stocks

As you’re now probably aware, higher rates don’t bode well for Canada’s high-growth stocks, especially unprofitable hyper-growth stocks with higher multiples.

Many such names have incredible growth behind them. Still, a higher-rate environment makes future profits worth less than in a sustained low-rate environment. Undoubtedly, the bond market had gripped the stock market in the first half. But if you stayed diversified across a wide range of names, not just hot growth ones, you probably didn’t notice the correction that played out underneath the hood of the **S&P 500**.

Heading into the second half of 2021, it’s tough to say whether the growth-to-value rotation is over. Ultimately, rates will decide the fate of the high-growth names. Pundits seem to be on both sides of the fence right now. Some are calling for lower rates due to deflationary forces, which could make today’s tech stocks take off much further.

Others seem worried about runaway inflation and the possibility of quicker-than-expected rate hikes. One camp will be right. Which one will be anybody’s guess. Regardless, I think it makes a tonne of sense to expose yourself to high-growth Canadian stocks if you can handle the volatility.

## Lightspeed POS and Shopify stock are surging again

Personally, I'm in the low-rate camp and would be inclined to side with the Fed on their views of inflation being transitory in nature. So, names like **Lightspeed POS** (TSX:LSPD)(NYSE:LSPD) and **Shopify** (TSX:SHOP)(NYSE:SHOP) seem more like buys than sells right here. Both names are currently at all-time highs, but I would throw them into the basket of stocks I'd look to buy high and sell higher, given both companies have demonstrated their disruptive potential in e-commerce.

Neither stock is anything close to cheap right now, though. In fact, both stocks trade at nosebleed-level valuations. Lightspeed POS stock is currently trading at over 52 times sales (that's sales, not earnings), with Shopify stock recently raising the bar on its price-to-sales (P/S) multiple to just shy of 53.

Undoubtedly, these multiples are high enough to make any traditional value investor cringe. But given their respective growth runways and competent managers (I'm a huge fan of Shopify CEO Tobias Lütke in particular), both names could easily continue marching higher on the back of lower rates.

Are either of them buys at today's highs? I'd have to say yes. But please do be prepared to add to a position on a pullback. Get some skin in the game now but have a backup plan in case rates rise again and the growth trade sours again in a potential repeat of what we witnessed in the first half of 2021.



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**TICKERS GLOBAL**

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2. NYSE:SHOP (Shopify Inc.)
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**Date**
2025/08/25
**Date Created**
2021/07/08
**Author**
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