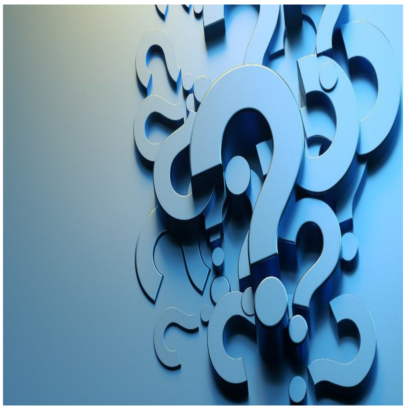

Should You Buy Tech Stocks in the Next Market Pullback?

Description

The world has changed for businesses. In 2020, the pandemic brought the world onto the cloud, driving tech stocks to new highs. In 2022, the age-old cold war between the United States and Russia reignited in 2014. After years of diplomatic talks, Russian president Vladimir Putin declared war on Ukraine. He warned any country that gets in the way of its military operations would face consequences.

Can businesses thrive in a war?

The United States, Canada, and the United Kingdom imposed severe sanctions on Russia, blocking Russia's access to international funding and technology. But several Asian and European countries that have significant trade relations with Russia maintained a neutral stance. These sanctions will disrupt global payments.

Such an environment is not conducive for businesses or the economy to grow. Countries are interdependent on supplies. In global conflicts, countries look for alternatives, which may not be cheap but at least would secure supply. This fuels inflation.

The Russia-Ukraine war impacts global tech stocks

The war has created uncertainty around oil and natural gas supply. Oil prices surged above US$100/barrel, and European natural gas prices rose as much as 62%. The pandemic has already escalated inflation rates, and now the war is accelerating inflation.

Tech companies are unable to pass on the inflation to customers. Tech stocks surged significantly during the pandemic, as the fiscal stimulus package left significant money at the disposal of Canadians. The after-effects of the stimulus were high inflation and a tech bubble. When the central banks decided to increase interest rates to curb inflation, investors rushed to book profits, and tech stocks fell.

As the war threatens oil and gas supply, inflation is increasing once again. And this time, the money is going towards energy and other essentials, leaving little in the hands of consumers for non-essential items. Hence, tech stocks took a plunge. Stocks like **Shopify** and **Dye & Durham** slipped 31% and 20%, respectively, in February. **iShares S&P/TSX Capped Information Technology Index ETF** fell 11%.

Should you buy tech stocks in the current dip?

In this war, the United States and Canada have imposed sanctions on Russia, and Russia has banned Facebook. This war could impact the tech links between the two parties, as more countries take sides. There are fears that any escalation in war could go digital. Hence, Western countries have kept their cyberattack teams on high alert.

Moreover, inflation and the economic impact of the war could pull down tech stocks. If you are thinking of buying tech stocks now, I would suggest buying in phases, as another decline is likely coming. Although Ukraine and Russia have agreed to hold talks, the environment will remain tense for some time. I cannot put a timeframe on it, but the market might remain bearish in March.

This is the time to stay updated with the war news. When you look to buy a tech stock, look for one that is making profits. Most software-as-a-service (SaaS) companies have been making losses for years, as they strive to achieve the scale. Companies with strong balance sheets and positive cash flows might survive the global crisis, and the rest may or may not survive. It is difficult to tell, as war outcomes are unpredictable.

Which stocks should you buy in these times?

In times like these, index funds, ETFs, essentials, and resilient stocks are good investments. They will fall in the short term, as the war environment impacts their businesses. But they tend to recover, rebuild, and return to growth over time. This is the time to adopt passive investing. **iShares Core S&P/TSX Capped Composite Index ETF** (TSX:XIC) gives you diversified exposure to Canada's economy. It has a high concentration in financials, energy, and materials stocks.

Financials perform well in a growing economy, whereas energy and materials outperform the market in a war-like crisis. Oil and aluminum prices are breaking records as the war creates supply uncertainty. When Ukraine rebuilds after the war, the demand for aluminum and oil could increase significantly. The XIC ETF gives you the best of both scenarios, making it a buy any time. That explains the 0.27% decline year to date against Shopify's 30%.

In a war-like situation, the priority is to safeguard your portfolio from long-term crashes.

CATEGORY

1. Investing
2. Tech Stocks

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