2 Growth Stocks That Could Soar if Inflation Retreats

Description

The selloff in technology stocks has reached a tipping point. Many investors rushed to the exits over the past two sessions of trade — not because the businesses they hold shares in have worsened in the past week, but because there's too much fear in the air. Selling tends to induce more selling, and with markets retreating rapidly, it seems like selling in May and going away is only wise. Though it feels like an eternity since stocks have sustained a rally, investors who've already taken on damage would be wise to cool down before hitting the sell button.

Like it or not, the best days in markets tend to follow the worst days. Though nobody knows when the big down days will be replaced by the big up days, long-term investors should relish recent levels of volatility. Why? Better prices across the board and better risk/rewards for investors who are finally looking to deploy capital.

Indeed, inflation is a nasty beast. Nobody knows when it will roll over. Given every month has revealed hotter inflation data, it seems like investors expect central banks to hike faster and by a great amount. It's really hard to tell how much firepower from the Fed it'll take to make inflation back off. That's what's scaring markets. Arguably, it's scarier today than it was in March of 2020. We've been on a steady downhill trajectory for most of the year. Eventually, it will turn a corner, but those seeking near-term gains will likely be left disappointed.

Consider **Shopify** (TSX:SHOP)(NYSE:SHOP) and **Constellation Software** (TSX:CSU) — two growth stocks that have done nothing but nosedive lately.

Shopify

Shopify stock has nearly lost 80% of its value, marking one of its worst crashes to date. When will it end? It's hard to tell. Regardless, the stock is finally starting to look somewhat cheap after Monday's big dip. Many of us who avoided Shopify over valuation concerns were right to do so. But those who told themselves they would have bought at more reasonable multiples now have the opportunity to do so. It took a big crash in the tech sector to bring SHOP stock's valuation back to Earth. But here we are. Unfortunately, many investors are likely too scared to be a buyer. And it's hard to blame them,

given dip-buying hasn't really worked out of late.

CEO Tobi Lütke recently took to social media, slamming analysts and demanding accountability on their part. Indeed, the Wall Street downgrades have come fast and furious, well after the plunge. Those who followed analyst price targets blindly were left hurting.

It's hard to tell when Shopify stock will bottom. Arguably, the $400 range is undervaluing the firm's growth profile. Until inflation cools off, I'm afraid to say that Shopify could continue its tumble into the abyss.

Constellation Software

Constellation Software is a cash cow of a software company that's flirting with a bear market, down around 19% from its peak. That's far better than most other tech companies, and it's due to Constellation's solid balance sheet and its Steady Eddie approach in M&A. As tech multiples retreat, Constellation may be in to scoop up some smaller firms.

Indeed, Constellation has held its ground far better than most other "sexy" tech stocks. Whether shares are in for more of the same is anybody's guess.

In any case, Constellation has strong managers and enough talent to overcome the worst macro storm that may be up ahead. So, recession or not, Constellation ought to be viewed as a more conservative way to play Canadian tech.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:CSU (Constellation Software Inc.)
3. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

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

PP NOTIFY USER

1. joefrenette
2. kduncombe

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/22
Date Created
2022/05/11
Author
joefrenette

PP NOTIFY USER

Footer Tagline