2 Growth Stocks to Buy During This Selloff

Description

The stock market has been under some intense pressure of late. Among the groups of companies that are seeing the greatest selling pressure are growth stocks. This makes sense, given the macro environment we're in.

Indeed, the Federal Reserve is not making it easy to be a growth investor. With rising rates come greater discount rates, and a greater focus on balance sheet quality. Many top growth stocks don't have the kind of balance sheet quality many investors are looking for.

That said, there are some high-quality growth companies to consider in this environment. Among my top picks right now are **Shopify** (TSX:SHOP)(NYSE:SHOP) and **Constellation Software** (TSX:CSU). Here's why.

Top growth stocks to buy: Shopify

Shopify has been among the hardest-hit growth stocks in the market. On a year-to-date basis, this company's stock price dropped by more than 70%. Indeed, there are many who have been concerned about this company's valuation for some time.

Of course, other high-profile e-commerce stocks have retained high valuation multiples for a long time. In an expansionary environment, this makes sense. However, with valuations coming down, it's Shopify's valuation that has some investors concerned about continued downside potential.

There's something to this view. At $460 per share, Shopify currently trades at around 250 times earnings. Should earnings growth decelerate, there's concern that even profitable growth companies like Shopify could be hit hard.

This is a big valuation multiple. However, for those looking forward, and bullish on growth in this sector, this multiple could be justified. Shopify's balance sheet is loaded with cash, and the company has little debt. Additionally, smart investments and acquisitions could propel Shopify higher, should growth rates come down in this sector.

For now, Shopify is on my watch list. However, should this stock drop down to the $100-$200 level, I think it could be a screaming buy.

Constellation Software

Time and again, Constellation Software has proved to be one of the top tech stocks on the TSX. The company has a track record of posting incredible revenue growth. It does so through a strategy that has been fruitful over the years.

This strategy typically involves finding niche software firms, buying them, extending resources, and then watching them flourish. The company owns a host of platforms, from library tech services to subways. Surprisingly, none of these services were affected by the COVID-19 pandemic.

What's even more interesting is the breadth of Constellation's acquisitions. This software conglomerate has continued to acquire this year, as valuations come down. Should valuations take a further hit, I think this could set up Constellation well for future growth.

The company's Q1 FY2022 earnings were the cherry on top. Constellation's revenue grew by 22% year over year, reaching $1.43 billion. Meanwhile, the company posted a net income worth $111 million. Analysts expect this software aggregator to post even better numbers in the coming quarters. A stock this promising is worth hitting the watch list of investors during the selloffs.

All told, investors looking for top growth stocks may want to consider these two Canadian gems at these lower valuations today.

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