Shopify Stock: When Will Headwinds Subside?

Description

The Bank of Canada and U.S. Federal Reserve are ready to do away with inflation, even if it means sending economic growth into the negatives. Indeed, nobody wants the economy to fall into a recession again. The early innings of 2020 were brutal, and it took a considerable amount of stimulus to get things on the right track. Undoubtedly, all the stimulus applied was a significant reason why inflation got out of control. As central banks take away the punch bowl, marking the beginning of the end of easy money, investors may have to re-evaluate their long-term investment strategies.

From growth to value … what's next?

The growth mindset has been replaced by a focus on dividends and value. Still, as rates rise, stocks across the board could be challenged by the likes of fixed-income debt securities. You see, when bond prices fall, their yields climb. On Monday, the 10-year Treasury note yield swelled above 3%, applying negative pressure on stocks and taking a bit of steam out of what would have been an incredible single-day rally of around 1-2%. As yields on such bonds climb, their attractive versus dividend stocks increase, inevitably applying downward pressure to their share prices and upward pressure on dividend yields.

It's a tough situation to be in these days. And that's a major reason why the jitters may not end until the Fed is done raising rates. At this juncture, it's hard to imagine they'll take the foot off the gas until inflation is in a range that they deem under control. Whether that's the 2% range or slightly higher, investors must be ready for anything, including the possibility of 3.5-4% yields on the 10-year note.

Shopify stock's 80% fall from grace

The implications on stocks, including dividend payers, will surely be negative. For growth plays like **Shopify** (TSX:SHOP)(NYSE:SHOP), it could add even more selling pressure. Yes, shares of Shopify have already fallen so hard, shedding more than 80% of its value from peak to trough. The worst surely has to be in already, right?

Unfortunately, a stock that's fallen by 80% is not guaranteed to not shed another 20%, 50%, or even 80%. While another such decline in SHOP stock is less likely, those not comfortable holding onto a 20-50% loss in a matter of weeks should look elsewhere for growth.

At this juncture, profitable growth looks to be a far better bet than the fallen hyper-growth plays that were bid up to the sky only to set the stage for a horrific crash. It's not just higher rates hurting Shopify; it's the growth deceleration that has caused some the question the firm's growth profile. While the consumer slowdown is largely to blame, I think the stakes are too high for most investors, even at around $400 and change per share. The 289 times trailing earnings multiple is just not pretty at a time like this!

When will SHOP be ready to rally again?

It's hard to value Shopify stock here. However, it's hard to imagine that the name won't fall under the weight of the broader markets. Until inflation backs off such that the Fed won't need to hike at such a rapid rate, it may be too early to load up on those fallen shares of Shopify.

While I'm not against owning a partial position at these prices, investors should insist on profitability and low valuation metrics — just to be safe, as a recession looms.

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