



What Should You Do if Lightspeed Commerce Stock Falls Below \$20 in June?

Description

Global institutions have issued a warning of stagflation and recession. **Lightspeed Commerce** ([TSX:LSPD](#))([NYSE:LSPD](#)) and other e-commerce companies have started feeling the effects of the slowing economy. Even though the U.S. inflation surged to a 40-year high of 8.6%, consumer spending remained resilient, as people used their pandemic savings. Moreover, a lot of pent-up demand kept consumer spending growth in green.

But in May, the U.S. savings rate dipped to the lowest level since September 2008, which means people are now living paycheck to paycheck. The effects of high inflation and rising interest rate are gradually affecting consumer demand. Retailers are feeling the pinch. More companies are revising their outlooks to reflect weakness in shopping activity, burgeoning inventories in consumer discretionary, and declining pricing power.

Retail industry and stagflation

[Retail stocks](#) like **Target** and **Walmart** fell 32% and 18%, respectively, since mid-May, as they saw a demand shift from discretionary to groceries. The e-commerce industry started feeling the effects of stagflation way before May, as they also faced a stock market selloff due to reduced investor confidence.

Amazon and **Shopify** stocks fell 40% and 70%, respectively, so far this year. They [reported losses](#) in the March quarter and gave a weak outlook. Although they do not face inventory issues and even cater to grocers, they have capital investment in fulfilment networks, which they scaled during COVID to cater to the demand surge. This capital investment will now feel the pinch of demand shock during the recession.

While other retail stocks continued to fall in May, Lightspeed stock saw a bump, and the stock started climbing on May 11. It rose 60% throughout May, as it reported its fiscal 2022 earnings on May 19. This short-term growth momentum is fading, and fear of stagflation is putting downward pressure on the stock.

Where is Lightspeed stock headed in June?

June could see a huge pullback in the stock, as the consumer discretionary industry faces demand shocks. Lightspeed's clients are discretionary retailers and hospitality companies. A slowdown in the client's industry will impact Lightspeed, which earns through subscription fees and per transaction.

The biggest risk for Lightspeed is an increase in churn rate, as clients can unsubscribe from the platform any time. At the same time, its biggest benefit is its asset-light model, which is easily scalable. As it has no fulfillment network, it doesn't have to pay for warehouse rent and staff. Lower fixed costs and over US\$900 million in net cash give it the flexibility to withstand stagflation.

Even though Lightspeed's business model is strong, it is not immune to stagflation. Its stock price has already dipped more than 10% in June. I expect the stock to dip another 30% to around \$20. If economic conditions worsen, the stock could breach its resistance of \$20.5 and make a new low, as low consumer confidence affects consumer spending.

What should you do with Lightspeed stock?

This is not the right time to buy the stock, but add it to your watch list. Make your first purchase when the stock dips below \$23 and the second purchase below \$20. Even a small hope of easing could push the stock up 40-50%, and that is your exit point. If you do not intend to hold the stock for five to seven years, sell the stock at \$30-\$32. Don't wait for it to grow any further, because the weakening economy has put Lightspeed stock in a downward business cycle in the short term.

The stock could recover in the long term, as inflation eases and consumer demand returns. Unlike 2020, the recovery would take longer, as the monetary policy is tightening. Stagflation takes years to recover. Economists compare the current scenario to the 1970s stagflation.

Amid all this uncertainty lies opportunity. Economists have not ruled out another wave of COVID. It happened in China, and it could happen elsewhere. And e-commerce stocks react positively to COVID, irrespective of the economic condition. And if another wave comes, the central bank might stall interest rate hikes for some time. But this window of opportunity would be short-lived. If you hold Lightspeed stocks at a higher price, a scenario like this could be a point to exit.

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