Shopify Stock: Should TFSA Investors Buy Right Now?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) stock has been a tough one to hold for many TFSA investors, as shares fell around 82% from peak to trough. That's no small-scale decline; it's a full-blown crash. And it could get worse.

On the flip side, things could get a lot better, as well, given the market's reaction to the 75-bps rate hike delivered by the U.S. Federal Reserve on a rather calm Wednesday. As TFSA investors come to terms with rate hikes and an economic slowdown, could it be that tech stocks, especially those not yet profitable, are ready for a rebound?

It's been all about inflation lately

Of course, it's really hard to tell, given rates could rise much higher from current levels. Until inflation goes away, it's clear that central banks will continue hiking.

Indeed, persistent inflation hurts everybody, and it's arguably a worse poison than a near-term recession or a mere economic slowdown. Good news has been bad news and vice-versa. Clearly, TFSA investors don't mind fanning the economy if it also means getting inflation to back off from its multi-decade highs.

I've said it before and I'll say it again: I don't think former pandemic high flyers like Shopify will be able to move higher until there's more clarity with inflation. Fortunately, we got some clarity on Wednesday with the Fed's dot plot.

Could more clarity with rates and inflation induce a relief rally in tech stocks?

The Fed now expects rates to rise to peak at around 3.8% over the next year or so before pulling back to the low 3% range and settling back in the 2.5% over the long run. With the current 10-year note yield at around 3.2%, the projected worst-case scenario doesn't seem as bad as the market was expecting. If the current rate-hike schedule stomps out inflation by 2024, we could see rate cuts pushing the 10-year note yield towards 2.5% or even lower. That would bode very well for growth stocks over the next five years.

Those waiting for rates to come back down over the longer run will likely miss out on the bounce back in battered names like Shopify, however.

Could Shopify be a great bet today before the rest of the market has a chance to appreciate growth again?

Perhaps. However, it's worth noting that even the smart folks at the Fed can be wrong. They were wrong about inflation being transitory thus far, and there's some degree of error with their projections. In any case, I think the risk/reward is starting to get attractive, with SHOP stock plunging below $400 this week.

Further, for those unwilling to wait until longer-term rates settle below 2.5%, I'd argue that Shopify stock is a risky proposition. Traders could get hurt, as rates ascend to or even overshoot that 3.8% expected peak. Indeed, that would mean more damage to Shopify, as it grapples with an economic slowdown or even a recession.

Shopify: Best growth days behind it?

Shopify's best growth days may be behind it, with a consumer recession likely to worsen over the coming months. However, with the bar already lowered by so much, I'd say it won't take merely as much to cause Shopify's shareholders to breathe a huge collective sigh of relief.

That's how bad things have gotten in recent quarters.

CEO Tobi Lütke is keeping his founder is keeping his power with his founder shares, and he's ready to navigate his e-commerce firm through yet another economic hurricane. My bet would be that Lütke and his firm will come out on the other side without sustaining long-lasting damage.

Those with a long-term horizon have a lot to gain by stashing SHOP stock in their TFSAs at these depths. Just don't expect tides to turn next quarter, next year, or even the next three years.

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