



TSX Tech Stocks: Brace for More Downside

Description

August 2022 brought some respite to the markets when inflation slowed somewhat and stocks rallied. However, the reprieve could be short-lived as central banks are likely to continue a hawkish stance going forward. Thanks to the aggressive hikes this year, the **TSX Composite Index** has fallen 7%, while tech stocks overall are down 40% this year.

TSX tech stocks and interest rate hikes

Although inflation last month was at 8.5%, marginally lower than June, it's still at a four-decade high. And this may prompt U.S. Fed Chair Jerome Powell to maintain the rate hike spree at a rapid pace.

Higher interest rates will likely provide a significant boost to the Treasury yields. The U.S. 10-year Treasury yield is currently trading at 2.9%, which could jump higher if policy tightening continues at a steady pace. This will inevitably not bode well for tech stocks.

Tech stocks and interest rates generally move inversely to one another. As Treasury yields climb higher, market participants dump risky assets like stocks. Plus, higher rates dent the cash flows of businesses that are in growth mode, ultimately hurting their reinvestments and growth potential.

Shopify stock is one of the biggest losers in 2022

Canada's once blockbuster growth stock **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) changed course late last year. Slower business growth, mainly after the pandemic, coupled with rapidly rising rates, pulled SHOP stock down by 80%. It's currently trading close to its three-year lows. Notably, there could be more weakness to come for this stock, due to imminent rate hikes and subdued earnings growth.

Amid rising interest rates, the discount rate to value of an asset increases, which lowers the present value of the asset's future cash flows. So, the stock's fundamental value declines, and we see lower price targets from analysts. That's why stocks have notably dropped in 2022.

Moreover, inflation could still climb higher, mainly due to higher energy prices. Crude [oil](#) is once again racing towards triple digits, and natural gas prices are already at a decadal high. The Russia-Ukraine conflict has triggered inflation this year, and sadly, there's no resolution in sight on that front.

Another tech stock **Nuvei** ([TSX:NVEI](#))([NASDAQ:NVEI](#)) has had a similar fate to Shopify. The stock has fallen 52% this year and is currently trading close to its all-time lows. On a brighter note, although these tech stocks have fallen due to macro issues, their earning prospects and fundamentals look great.

Nuvei management expects its revenues to grow by over 30% annually in the long-term, with adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) margins at 50%. Last year, the payment processing company showed handsome financial growth with healthy margins. It was in hyper-growth phase, with revenue up 93% and gross transaction volume up 121%. It also enjoyed a 120% rally from January to September 2021.

And Shopify is taking several steps in the right direction through strategic acquisitions, the tightening of operating expenses, and the continued adoption of products like Shopify Plus which now has over 10,000 customers, mostly celebrity-backed brands. Shopify anticipates that operating expense growth will meaningfully decelerate in both Q3 and Q4 on a year-over-year basis.

The Foolish takeaway

Only time will tell whether climbing inflation and aggressive rate hikes land us in a [recession](#). In that case, tech growth stocks like Nuvei and Shopify will likely underperform broader markets. But, if you're a long-term investor, diverting some of your cash to these growth stocks while they're down could pay off big time in the future.

CATEGORY

1. Investing
2. Stocks for Beginners
3. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:NVEI (Nuvei Corporation)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:NVEI (Nuvei Corporation)
4. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media

7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. agraff
2. vinitkularni20

Category

1. Investing
2. Stocks for Beginners
3. Tech Stocks

Date

2025/08/18

Date Created

2022/08/29

Author

vinitkularni20

default watermark

default watermark