Jackson Hole Selloff: These Growth Stocks Just Went on Sale

Description

The Jackson Hole meeting in the U.S. to discuss the economy and policy has brought back the anxiety to many beginner investors who thought that rate-hike woes would be left in the first half of 2022. Undoubtedly, this tightening cycle is unlike those of the past. Inflation is way too hot right now at just north of 8%. With few, if any, effective tools to combat such vicious price increases, central banks need to be aggressive if they're to avoid a repeat of the 1970s type of environment when inflation dragged on for many years on end.

The soothing transitory talk of inflation has come to an end. And nothing but aggressive rate hikes should be expected until the Fed is satisfied with the data that'll come trickling in.

At this juncture, nothing less than inflation that's lower than expected will cut it. Even after inflation begins to roll over fast at the hands of jumbo rate hikes, there's no guarantee the Fed will begin the process of rate cuts to give the economy a bit of a jolt again.

The Fed isn't even thinking about thinking about rate cuts!

Arguably, there's no reason why the Fed needs to boost the many fallen speculative and unprofitable growth stocks now that they're fallen from glory. Though investors may think the Fed has slammed the door on the possibility of rate cuts after inflation has plunged and rates have peaked, I think the Fed is wise to play things by ear, with a slight tilt towards aggression when it comes to rate hikes.

At the end of the day, inflation is a beast that cannot be slain without aggression. It's unlikely to go away without suffering some damage. With investors hitting the panic button on stocks once again, I think now is a great time to put one's contrarian hat on, with growth stocks, many of which are seeing "part two" of the chaos that unfolded in the first half of the year.

It's the same story all over again. Higher rates mean unprofitable and expensive growth stocks will take on a brunt of the damage. The further profits lie in the future, the greater the punishment. And for firms that may never reach profitability, Mr. Market is likely to be very unforgiving. As such, investors must be selective when it comes to growth stocks, as zero hopes of profits could mean shares could free fall endlessly into the abyss.

Looking to the stars for growth gems amid Jackson Hole plunge

Constellation Software (TSX:CSU) is a fine example of a high-tech growth stock that can hold its own as rates rise further. It's a profitable company that can actually take advantage of the recent slide in the tech sector. For those unfamiliar with the company, it's a software firm that's grown by leaps and bounds through mergers and acquisitions (M&A) in the small-cap tech space. The stock goes for north of 73 times trailing price to earnings, making it a pricy play that will stand to feel the market's shockwaves.

The stock is down 14% from its high, just shy of $2,400 per share. With a 0.82 beta, Constellation is less likely to fall in lockstep with the TSX Index. With a strong balance sheet and enough dry powder to throw at freshly sold-off bargains within the Canadian startup software scene, Constellation may end up walking out of the coming economic slowdown with a few pieces of quality merchandise in hand, perhaps at a fraction of their true worth.

M&A is the name of the game, and nobody does it better than Constellation in the Canadian software scene!

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