



Why Shopify, Nvidia, and Roku Stocks Rallied Early Thursday

Description

What happened

A broad cross section of the stock market was firmly in rally mode on Thursday, resuming its upsurge from earlier this week. This helped many stocks gain ground, riding the coattails of the broader market indexes as they climbed higher. Many technology stocks have been beaten down over the past year, and investors are increasingly looking for bargains amid the rubble, particularly on the off chance that the worst of the bear market is behind them — and evidence suggests they may be right.

As a result, **Shopify** ([TSX:SHOP](#)) surged 8%, **Nvidia** ([NASDAQ:NVDA](#)) jumped 4.9%, and **Roku** ([NASDAQ:ROKU](#)) gained 4.4% as of 11:47 a.m. ET.

So what

A check of all the usual sources — earnings reports, regulatory filings, changes to analysts' opinions, etc. — didn't reveal anything in the way of company-specific news driving Shopify, Nvidia, and Roku higher today. Rather, in a continuation of the positive sentiment that prevailed on Wall Street earlier this week, investors appear to be viewing the economic glass as half full, hoping the market might be able to maintain its recent uptrend. This potential for long-term gains sent bargain hunters out in full force, in search of high-growth stocks dragged down by persistent economic challenges.

Technology stocks have been hit particularly hard since late last year, as investors moved into safer pastures to ride out the market downturn. This has pushed the tech-heavy **Nasdaq Composite** down nearly 33% from last year's high. Since then, cautious investors have forsaken high-growth stocks, docking in safe harbors and parking their cash until the economic storm subsides. Our threesome of stocks show how investor attitudes have soured on technology, as Nvidia has fallen 62%, Shopify is down by 82%, and Roku has dropped 85% from last year's highs.

This week, however, investors have been increasingly optimistic as evidence grows that the central bank's persistent battle with inflation *may* finally be yielding results.

In a virtual event this week, Federal Reserve Bank of Minneapolis President Neel Kashkari said the Fed could potentially pause its interest rate hikes next year if there's convincing evidence that core inflation begins to slow. While that might not seem like much, it's the first such admission by policymakers that the Fed's campaign of rising interest rates might be nearing an end. "My best guess right now is yes, I do think inflation is going to level out over the next few months, the services, the core inflation, and then that would position us some time next year to potentially pause," Kashkari said.

This helped fuel gains by the broader market indexes, with the **S&P 500** and the Nasdaq gaining 3.8% and 4.7%, respectively, so far this week and putting them back in positive territory for October.

Now what

While investors are optimistic this week, the prevailing mood can turn on a dime, so Nvidia, Shopify, and Roku shareholders should buckle in for a bumpy ride, as there's likely more volatility ahead.

Nvidia's livelihood depends on consumers and businesses buying its graphics processing units (GPUs) used in video games, cloud computing, and data center applications. If the downturn persists, demand could soften further. Likewise, Shopify has taken it on the chin as shoppers returned to in-store shopping, resulting in slowing adoption of e-commerce. Furthermore, Roku's streaming video platform has experienced slowing growth as viewers put down the remote and got back to their lives.

These factors and the broader economic upheaval have weighed on Shopify, Nvidia, and Roku's stocks, and expectations of further pain ahead have kept many investors on the sidelines, resulting in some compelling price points. That isn't to say these stocks won't fall further — they likely will. Yet calling a bottom almost never works and these stocks are currently trading at their cheapest valuations in years, so the time to act is now.

Still, these high-growth stocks aren't for everyone. Nvidia and Shopify still aren't cheap in terms of traditional valuation metrics, currently selling for 10 times and six times next year's sales. Roku has fallen into bargain basement territory, with its price-to-sales ratio hitting 2.

I own all these stocks and will happily add to any of them, but I think Nvidia is particularly compelling. In fiscal 2022 (ended Jan. 30), the company generated record revenue of \$26.9 billion, up 61%, while earnings per share also hit a record \$3.85, up 123%. These clearly aren't the metrics of a company on the brink, showing it's temporarily weighed down by macro factors beyond its control. As the old saying goes, "This too shall pass."

That said, for investors with a cast-iron constitution and a time horizon of three to five years, buying shares of the innovative companies while their valuations are lower than they've been in years represents a clear opportunity to generate big gains over time.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. TSX:SHOP (Shopify Inc.)
2. NASDAQ:NVDA (NVIDIA Corporation)
3. NASDAQ:ROKU (Roku)

PARTNER-FEEDS

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