



Is it Time to Buy E-Commerce Stocks?

Description

Over the first half of the year, consumers struggled to keep up with the rising inflation numbers. This resulted in a major slowdown in consumer spending. As a result, retail companies saw their stocks decline, as investors worried about business outlooks.

E-commerce companies were perhaps hit the most severely. Investors wouldn't have to search very long to find an e-commerce stock that's fallen more than 50% from its recent highs. For example, **MercadoLibre** ([NASDAQ:MELI](#)) stock has fallen more than 54% over the course of this year, **Shopify** ([TSX:SHOP](#)) has fallen more than 76% since the start of the year, and **Sea Limited** ([NYSE:SE](#)) stock has declined as much as 82%.

Now, with inflation [seeming to have peaked](#), investors are starting to consider putting money towards e-commerce stocks again. In this article, I'll discuss whether I think it's the right time to start buying these stocks.

Think about the long term

If you look at the trend in e-commerce sales, there's no denying that the industry continues to grow each year. I believe that growth is possible because of the younger generation of consumers. Today's younger consumers are much more well versed when it comes to technology compared to the young consumers a decade ago. This means that today's consumers should be more receptive to the idea of online shopping. Indeed, certain studies have found that e-commerce sales tend to be driven by younger consumers.

With the proportion of tech-savvy consumers projected to increase in the future, I believe the sky is the limit for e-commerce companies. Companies like Shopify could benefit from two major trends. First is the aforementioned increase in tendency to shop online. Second, is the increasing number of individuals willing to start online businesses. We're seeing many people open up online stores to sell products and services these days, and Shopify could be a major beneficiary.

Today, online sales represent anywhere from 10% to 25% of the broader retail industry, depending on

which country you're analyzing. I firmly believe that those numbers could be closer to 15% to 33% by the end of the decade, given the trends we're seeing around the world. In that case, e-commerce stocks have a lot of room to grow from here.

Companies are starting to rebound

Over the past month, big-name e-commerce companies have held earnings presentations for the third quarter (Q3) of 2022. Shopify, for example, reported US\$1.4 billion in revenue. That's good for a 22% year-over-year (YoY) increase. Those results helped the stock gain more than 17% the next day.

MercadoLibre reported a YoY increase of 61% in Q3 revenue. That only boosted the stock about 8%, after the presentation. However, looking at the broader picture, investors can see that this stock has already gained more than 54% since hitting this year's low back in June.

Finally, Sea Limited may have the most impressive bounce back of these three companies. It reported a 32% YoY increase in revenue in its e-commerce business last quarter. Those numbers impressed investors so much that Sea Limited stock gained nearly 40% the next day.

Foolish takeaway

The e-commerce industry features some of the most promising [growth stocks](#) today. I think it's a great time to buy these stocks given the fact that e-commerce businesses continue to show growth and investors are starting to get interested in them again. By investing in the e-commerce stocks that dominate different [international markets](#), investors could lower some risk. I think the three stocks mentioned in this article could be a great place to start.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:MELI (Mercadolibre Inc.)
2. NYSE:SE (Sea Limited)
3. TSX:SHOP (Shopify Inc.)

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