Growth Stocks Down More Than 60% That Could Rally in 2023

Description

2022 was a brutal year for growth stocks. The NASDAQ-100, which contains many growth stocks, declined 33% from its level at the start of the year. Many individual growth stocks fell even more than that.

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The reasons why growth stocks declined in value in 2022 are manyfold.

First, central banks (e.g., the U.S. Fed and Bank of Canada) repeatedly raised interest rates. This took a bite out of growth stocks' prices because the higher interest rates go, the less valuable growth becomes.

Second, many growth companies reported disappointing earnings. Companies that had been reporting high double-digit earnings growth in 2021 slowed to a crawl in 2022. For example, **Meta Platforms,** one of 2021's top growers, actually saw its earnings decline in 2022. Its revenue declined in a few individual quarters, too.

It is what it is. But now, with growth stocks having become cheap, there is a real chance they'll turn around in 2023. In this article, I will explore three growth stocks down more than 60% that could rally in 2023.

Shopify

Shopify Inc (TSX:SHOP) is a Canadian stock that's down 76% from its all-time high set in November 2021. Currently trading for $40, it was once as high as $169.

The 2022 tech bear market wasn't kind to Shopify. Which is precisely why it's so promising right now. Shopify grew its revenue at 22% last quarter. Back when it traded at 60 times sales, its growth simply didn't justify its valuation. Today, things are changing. At today's prices, the stock trades at nine times sales, which is expensive, but not nearly as much as before. If Shopify can accelerate its growth, and the stock price stays the same, then its valuation will start to look cheaper. SHOP may do well in 2022. I'd personally wait on its fourth-quarter earnings before buying, though, because that growth rate will have to ramp up in order to justify the current stock price.

Alibaba

Alibaba Group Holding (NYSE:BABA) is a legendary Chinese tech company that is currently down 61% from its all-time high set in 2020. The story of how BABA got beaten down so badly is complex. The gist of it is that in 2021, China cracked down on “monopolist” tech companies like Alibaba, resulting in a $2.8 billion fine, among other things. Then, the country resumed its Zero COVID policy, which caused BABA’s revenue growth to slow. It took quite a beating. But now, China is actively promoting its biggest companies, hoping to stimulate growth. Just recently, a Chinese city signed a strategic partnership with Alibaba, the Chinese government invested $1 billion into the company, and the Zero COVID policy ended. Overall, things are looking up for Alibaba in 2023.

Pinduoduo

Pinduoduo (NASDAQ:PDD) is another Chinese e-commerce stock that I started buying recently. At one point, it was down over 70%. PDD has recovered significantly since then. Much like Alibaba, it got beaten down last year, resulting in a discount valuation. PDD has something that Alibaba doesn’t, though: truly superior growth. Recently, its App ‘Temu’ became the most downloaded app in the Apple app store, and it grew its operating cash flow (a cash-only earnings measure) by 40%. A solid growth name that could end up being the perfect way to play the China re-opening story.

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TICKERS GLOBAL

1. NASDAQ:META (Meta Platforms Inc.)
2. NASDAQ:PDD (Pinduoduo)
3. NYSE:BABA (Alibaba Group Holding Limited)
4. TSX:SHOP (Shopify Inc.)

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