1 Top TSX Stock to Buy as Tech Makes a Rebound

Description

Tech stocks really turned a corner this year, with many of the hardest-hit growth plays climbing back the most over the past few weeks. Undoubtedly, central banks haven't committed to reducing interest rates (the biggest hurdle standing in front of the hyper-growth plays) quite yet. In fact, another rate hike or two could be in the cards for the U.S. Federal Reserve before it hits the pause button, as the Bank of Canada already seems to have done following its latest hike.

With signs of retreating inflation, interest rates no longer seem like they're headed past the 5% mark. Indeed, the bond market seems to be calling for rates to ease, as inflation continues to fall back to Earth. Whether or not the days of lower rates will return remains a mystery. I don't think it's wise to factor in 2020-esque rates when conducting a valuation of an unprofitable growth stock. Instead, I'd resist attempting to time rates and invest in the companies that have the means to increase their earnings and sales on the other side of a downturn.

Tech stocks turn a corner, as investors look for rates to stall

Indeed, it's hard to value those beaten-down tech stocks that used to be picked up by investors at any price back in 2021. Though higher rates have made high-growth tech stock valuations a fraction of what they were just over a year ago, innovation-driven sales growth is still worth something, even though most would ditch such names just because they're not willing to wait to see how things pan out in an era where money is no longer so easy.

It's tough to know where to draw the line, but for investors willing to brave the volatility, there are likely many opportunities to score respectable capital gains, as the growth trade finally experiences sustained relief.

In this piece, we'll take a look at **Shopify** (TSX:SHOP), a 2022 laggard turned 2023 top dog following its 41% year-to-date pop.

Shopify: One of the best ways to play a tech rebound?

Shopify stock shed more than 82% of its value during its violent crash. The company was forced to lay off a huge chunk of staff and make strategic moves to "temper" the overheated expectations it had during the strongest days of its pandemic tailwinds.

The e-commerce firm is still capable of high double-digit sales growth. And though a Canadian recession will weigh on the numbers, I think that long-term investors willing to look past 2023 could have a lot to gain, as Shopify's growth rate looks to normalize. Demand for digital goods will fluctuate over the years, as the economy experiences its ups and downs. In any case, it's important to account for the bumps in the road and look to the innovative endeavours a firm is undertaking.

E-commerce is fresh off one of its worst years in a while. Still, don't count on Shopify to be content with its current market share, as the economy pulls the brakes. The company still has innovation in its veins, and it will be interesting to see how the firm integrates recent acquisitions as it aims to become a one-stop shop for digital retailers.

Bottom line

Shopify's recent momentum won't last forever. However, I still think the stock has more room to run, given the name is still miles away from where it peaked more than a year ago. Further, Shopify's total addressable market (TAM) seems to be expanding with every new product it looks to add to its arsenal.

Yes, there are rivals and macro headwinds. But I'm confident management can make it through its first horrific selloff as a publicly traded firm. At 12.5 times price to sales, Shopify stock is still not as expensive as it used to be, even though the firm has arguably extended its long-term growth runway.

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