



Here Is Why You Should Trust Cannabis Stocks in a Recession

Description

Before this month started, investors were scrambling to react to a volatile month of May. Trade tensions between the United States and China stoked economic anxiety, and oil plunged into a bear market to start June. Economists have warned that slow growth will be the reality in 2019, but the [threat of a recession](#) still looms large. Yield curve inversions have done little to alleviate those concerns.

I want investors to forget about income-generating equities for a moment and instead consider another option in a recession: cannabis stocks. Yes, you read that right. Cannabis stocks have soared over the past several years, passing through significant volatility along the way. However, these equities may be one of the best options to own in dangerous economic times.

Canopy Growth ([TSX:WEED](#))(NYSE:CGC) and **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) are the top two Canadian cannabis stocks going by market cap. These equities are a good place to start considering both companies have already carved out an enormous production footprint that will grow into the next decade. Canopy Growth stock had climbed 55% in 2019 as of close on June 19, while Aurora had increased 46% year to date.

What makes cannabis a good play in difficult economic times? For one thing, “vice” has historically been robust in the face of broader turbulence. So-called sin stocks like alcohol and tobacco are solid targets in tough periods. In some cases, [earnings have received a boost](#). Alcohol sales in the United States and Canada increased in 2008 and 2009.

A new industry like cannabis also has the potential to lift other sectors. Take the massive construction projects required at Canopy Growth and Aurora in order to support the ramp up in production capacity. Aurora Sky, Aurora Cannabis’s new 800,000-square-foot greenhouse facility, is expected to be able to produce 100,000 kilograms of cannabis annually at full capacity. The project cost over \$150 million and created many jobs in the Edmonton area.

Cannabis stocks are new to the market, so investors have yet to see how these equities will behave in a recession. However, consumption trends during the last financial crisis may give us some insight into

how the industry would fare in a pullback. Cannabis consumption has been on the rise in the 21st century. Drug use rates did drop among the unemployed during the last recession, but the crisis was not enough to upend the broader trend for the recreational cannabis market. Reliable data is admittedly hard to come by, as the industry has only recently come out of the shadows due to new legislation.

The cannabis market has staked a reputation as a lucrative but volatile sector for investors. Economic turbulence could see the cannabis sector emerge as a safe spot if the industry can prove as robust as other sin stocks. Large producers with an established footprint like Canopy Growth and Aurora Cannabis will be the safest plays in such a scenario.

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