



Why Canadian Cannabis Stocks Could Lag the Market in 2021

Description

The legalization of cannabis in Canada has been a game-changing move for the industry. Cannabis stocks took off in an epic surge in 2018 and 2019, the likes of which Canadian stocks rarely see.

Recently, we've seen yet another surge in cannabis stocks take hold. This time, from expectations of U.S. legalization from the Biden administration.

Could this time around turn out to be different than the last pre-legalization spike followed by a slow-and-steady decline?

Let's take a look.

Risks abound with U.S. legalization efforts

The whole idea that cannabis will be legalized in the U.S. is based on the premise Democrats can push legislation through. With a Democrat majority in the House and Senate, cannabis investors seem to be pricing this eventuality in as a done deal.

However, there are two key risks with such an assessment.

The first is that Biden is a well-known opponent to cannabis legalization. He's not friendly to the cause and hasn't made any explicit public declarations favouring cannabis legalization legislation as of yet.

That said, Senate Majority Leader Chuck Schumer is. He's put forward a plan to legalize marijuana but is being met with bipartisan opposition at the moment. Accordingly, it looks to be a one-man show at the moment.

Now, it's possible that Schumer could feasibly get this done in short order. However, it appears there's simply not enough votes to get a bill passed, if it's presented. Thus, there's likely to be a lot of politicking involved in trying to wrangle the votes to make this happen in the coming months (and perhaps years).

Right now, the COVID-19 pandemic is the key focal point of President Biden and his team. In many ways, cannabis legalization is likely viewed as a distraction to more pertinent goals. Whether or not cannabis legalization gets passed in Biden's first term is up for debate at the moment.

What this means for investors

Investors in cannabis stocks such as **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) who are betting on a surge in U.S. demand to drive such stocks higher ought to be careful right now.

Yes, Canopy is [making headway](#) in the U.S. via the CBD market. The company's line of CBD-infused beverages saw 25% growth this past quarter and represents a growing market share. These are good things.

However, the U.S. THC markets may lock out Canadian producers for some time. This is a possibility investors need to factor in today.

Right now, I think Canadian cannabis producers need to be valued as if they're domestically focused. There's a lot of U.S. legalization hype factored into these stock prices today. Growth investors should be wary of this key risk.

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