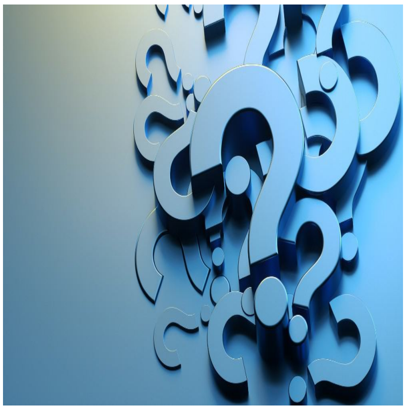

Stock Markets to Recover Tuesday: Will a Beaten-Down Canopy Growth Stock Recover, Too?

Description

Global stock markets traded significantly lower on Monday. The United States's **S&P 500** lost 75.3 points to close down 1.7%, while Canada's main stock market index, the **S&P/TSX Composite**, lost 335.8 points to close 1.64% lower, and the **CBOE SPX Volatility Index** (dubbed the fear index) surged by 19.5% for the day to levels last seen in May. Cryptocurrencies like Bitcoin shed as much as 10%.

Fear grips a jittery market

Some fears gripped the global stock market, as investors weigh the possibility of some contagion effects from a potential default on US$300 billion worth of loans by the **China Evergrande Group**, one of the Asian economic giant's major real estate developers.

It's yet to be seen if the Evergrande crisis could have a serious contagious impact on global financial markets, but affected lenders, customers who paid deposits, and contractors could feel the heat, with bankruptcy possible for some. Ultimately, the property developer's peers in the fragmented Chinese real estate market stand to pay increased costs of borrowing.

A lot more macro-economic issues could be associated with Monday's big market selloff though. These include potential catastrophic issues with the U.S. debt ceiling, uncertainty concerning the US$3.5 trillion Biden expenditure plan, and many more.

Good news for Tuesday

However, the good news on Tuesday is that a broader recovery was seen on major equity indices during early trade in Europe and in London (U.K.). The stock market's recovery could spread to the TSX and U.S. markets, too.

It's good to see stock markets recover. Actually, markets have always recovered from historical dips and crushes to record new highs. It's this 100% track record in market recoveries that supports my confidence in the Foolish buy-and-hold investing strategy. A long-term-oriented investor may keep holding stocks for the long term, no matter the cause for any market jitters, and hope to profit.

That said, investors shouldn't project the same confidence level on individual stocks. Some individual companies may face perennial operating challenges and persistently declining business prospects for years. Some may struggle due to below-average management quality.

It's important, therefore, that investors periodically review fundamentals on individual companies in their portfolios. Some positions could take longer to recover or persistently underperform the broader market.

Can Canopy Growth stock recover this year?

Canadian cannabis grower **Canopy Growth** (TSX:WEED)(NYSE:CGC) has been the worst-performing stock on the **S&P/TSX 60 Index**, an index that tracks the 60 largest companies by market capitalization in each sector in Canada.

Canopy Growth stock is down 44.70% so far this year to become the smallest component of the TSX 60 Index with a $4.3 billion market capitalization.

After a pot stock trading frenzy in February following heightened speculation for U.S. federal legalization, investor sentiment has cooled off on Canadian marijuana industry stocks. The company is struggling to deliver on desired high revenue-growth rates, yet a persistent cash burn threatens to wipe out **Constellation Brands's** $5 billion investment (made in 2018) before Canopy turns cash flow positive.

Slower growth, perennial losses, and negative cash flows aren't great attributes in a market that's demanding quick results.

Recovery potential is weak but still present

The potential for a near-term recovery in Canopy Growth stock lies more in a sweeping return of bullish sentiment on cannabis stocks than in the company's prospects to produce good quarterly earnings numbers.

Any positive news on tangible action towards the federal legalization of cannabis in the U.S. could trigger a strong return of bullish speculators on WEED stock. Unfortunately, President Joe Biden's administration seems seized with other matters right now.

A return to high double-digit revenue growth may lift Canopy Growth's stock price. However, Wall Street analysts currently project a low and disheartening 13.9% revenue growth for the fiscal year 2022, which ends in March next year.

Perhaps a projected 36% year-over-year revenue growth in the fiscal year 2023 could deliver desired capital gains (if it comes to pass) as analysts project a revenue growth to $942 million for 2023 will be accompanied by breakeven adjusted earnings before interest, taxes, depreciation, and amortization.

That said, analysts see the company still burning cash in 2023.

Investor takeaway

Global equity markets could recover from Monday dips during the week. However, Canopy Growth has a long way to go before investors recoup 2021 losses.

CATEGORY

1. Cannabis Stocks
2. Investing

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