



Why Canopy Growth Stock Has Been Very Volatile Lately

Description

Cannabis stocks in Canada have continued to underperform in 2021 from a [growth](#) perspective. It appears that the optimism that was there even a few years back for investors in **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) stock, among others, has waned.

However, looking specifically at Canopy Growth, this company is one that's been a volatile one. Two weeks ago, Canopy Growth stock hit levels not seen since September. However, since then, this stock has cooled off substantially, to put it mildly.

Is this volatility set to continue? Let's discuss.

Potential U.S. legalization boosting the sector

Leading up to the impressive rally in Canopy Growth stock through Nov. 12, investors appeared to be very bullish on the potential for U.S. legalization legislation to be passed. For Canopy Growth, such legalization would open up a massive market that Canopy Growth could certainly benefit from.

After all, this is a company that's been making partnership deals and looking at ways of entering the U.S. market for some time. Should legalization materialize, the entire cannabis sector would have another catalyst to rely on.

However, this past week, it appears sentiment in this regard is fading. Investors looking at Canada's cannabis market note annual growth of around 40% for the entire sector. However, the ultimate size of the Canadian market relative to the U.S. means American legalization could be a much bigger catalyst that investors may simply have priced in too early. If this is the case, investors may simply be getting ahead of themselves. At least, this is what many believe is behind the price action with Canopy Growth stock this past week.

Earnings drove volatility with Canopy Growth stock

Additionally, earnings season tends to provide significant volatility for most stocks. For Canopy Growth, this certainly appears to be the case.

The company posted its [earnings](#) for the quarter ended September 2022 earlier this month. These earnings generally appeared to disappoint investors, who were hoping for more in the way of growth.

Net revenue came in 3% lower — a surprise for many. Given how rapidly the Canadian cannabis market is growing, posting a revenue decline is a big deal. That said, Canopy Growth was able to narrow its quarterly loss to \$16 million, from \$96 million a year earlier.

Right now, it appears there aren't many catalysts that investors can jump on with respect to Canopy Growth stock. This company's revenue is stagnating. It's not profitable. And the outlook for U.S. legalization remains dim.

Bottom line

Canopy Growth stock is one I expect to be volatile, for quite some time. The valuation cannabis stocks have garnered in recent years have really come into focus from investors. I think as the sector matures, these companies will become more stable in this regard. However, that may take time.

Accordingly, those looking at cannabis stocks right now may want to take caution. This is a sector that's still going through some growing pains. Accordingly, I remain on the sidelines with this sector for the time being.

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