



Are Cannabis Stocks Still a Thing in 2023?

Description

The year that was 2022 has provided the worst year for equity investors since the Great Recession. For those invested in cannabis stocks, last year was worse than for most investors in the market.

Cannabis stocks continue to be hit hard by this macro environment. Rising interest rates reduce valuation multiples for all stocks, but those [growth stocks](#) with earnings in further-out years have been hit harder than others. For companies like industry leader **Canopy Growth** ([TSX:WEED](#)), this has translated into a year-over-year decline of roughly 70%.

Now, given this significant decline, the question is whether cannabis stocks can regain their relevancy in 2023. After all, after being hit this hard, any sort of bullish sentiment could cause an impressive rally.

Let's dive into whether that may or may not be the case for this group in 2023.

Cannabis stocks still valued on uncertain catalysts

One of the key problems with cannabis stocks, from the outset, has been the valuation aspect of these equities. Canadian legalization of cannabis usage at the federal level has been helpful and boosted the sector significantly in 2017/2018. However, since then, investors have tried to factor in other catalysts, such as U.S. and international legalization, into these stocks' prices.

Trying to place a value on catalysts that may or may not materialize is a difficult task. It's really a question of probabilities. But for investors who are on the wrong side of the trade, 70% declines can be in order over a short time frame.

Considering the fact the Biden Administration did not prioritize legalization before mid-terms, it's unlikely any legislation will pass for at least the next two years. Thus, investors bullish on this catalyst need to think much longer term. And with interest rates where they are and so many other defensive options out there, this is a sector that doesn't look great right now.

Fundamentals matter more than ever

Using Canopy Growth as an example, its unprofitable nature has turned many investors off from this name. Right now, investors want to see companies with solid earnings paying dividends and distributing value to shareholders. Unfortunately, cannabis stocks are among the least likely to do so, at least for the next few years.

Accordingly, it's the view of many defensive investors that cannabis stocks aren't a place to be in 2023. Those with any sort of risk tolerance profile may want to look elsewhere, at least until growth becomes popular again. While Canopy and its peers may continue to grow their top lines at impressive rates, until this turns into sustainable profitability, the jury remains out.

Bottom line

I think the cannabis sector is one that's likely to be under pressure for the entirety of 2023, just as it has been in 2022. For those looking for diversification amid the growth portion of their portfolio and can handle the near-term pain for another year or two, perhaps these levels are enticing. But for me, I'm steering clear of this sector right now.

CATEGORY

1. Cannabis Stocks
2. Investing

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Author

chrismacdonald

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