

2025 Election: Cannabis Market Poised for Growth

Cannabis Capital Markets: Navigating Turbulence and Eyeing Opportunity

The marijuana capital markets have experienced a whirlwind over the past few years, with sharp highs and significant lows marking the path forward. This year's elections around the U.S., however, are showing little sign of altering the landscape for cannabis investments, regardless of the political outcomes. The industry's future hinges more on economic conditions, potential federal reforms, and investor strategies than any one election cycle.

Investors' High Hopes and the Shifting Cannabis Landscape

Historically, the cannabis industry has been buoyed by investor optimism, particularly as more states legalized medical and recreational marijuana. Yet, over the last two years, the capital markets for cannabis have transformed significantly. Once-thriving cannabis stocks have seen a dramatic decline, with the AdvisorShares Pure US Cannabis ETF (MSOS) down over 85% from its all-time high. Despite this setback, the regulated U.S. marijuana market is more robust than ever, expanding from \$27 billion in 2021 to an estimated \$32.1 billion by the end of 2024, according to data from the MJBiz Factbook.

The Reality of Cannabis Legalization and Investment Expectations

Nearly half of U.S. states have legalized regulated adult-use marijuana, and over 40 have some form of cannabis legalization on the books. Following the 2020 election, retail investors flooded the cannabis market, anticipating swift federal reforms under the Biden administration. However, progress on federal cannabis reform has been slow, and macroeconomic headwinds—such as inflation and rising interest rates—have further pressured cannabis capital markets. This shift impacted investor expectations, especially in markets that saw surges in marijuana consumption during the COVID-19 pandemic.

For the first time, five of the oldest U.S. cannabis markets reported year-over-year declines in sales in 2022 and 2023, marking a sobering new chapter for the industry.

Catalysts for Growth: Federal Rescheduling and Banking Reforms

While the industry has faced obstacles, recent developments could provide the spark cannabis markets need to rebound. One of the most promising changes is the potential rescheduling of marijuana from its current Schedule I classification, a move that could relieve cannabis businesses of the tax burden imposed by Section 280E. This tax reform would enable cannabis operators to deduct standard operating expenses, offering financial relief and potentially catalyzing new research and development efforts.

Another significant legislative proposal on the horizon is the SAFER Banking Act, which would open the door for cannabis companies to access traditional banking services. Should these changes materialize, the

cannabis industry could experience an influx of capital and growth opportunities, fostering healthier business valuations and more sustainable investment environments.

Investors Remain Cautious in a Volatile Market

Despite promising trends, the road ahead is lined with uncertainties. Investors in today's cannabis market are more discerning than ever, seeking well-managed businesses with clear growth trajectories. This selective approach contrasts sharply with the enthusiasm of past years, where rapid expansion and generous capital availability made it difficult to distinguish strong operators from those merely riding the wave of legalization.

In today's tighter market, profitability is a key differentiator. Mature states are experiencing consolidation, thinning the competitive field and making it easier to identify resilient operators with sustainable business models. Meanwhile, newer markets transitioning from medical-only to adult-use present substantial growth potential, attracting investors seeking emerging opportunities.

The Impact of Cannabis Beverages and Intoxicating Hemp

The cannabis beverage market is adding another layer of growth for the industry, with products tailored to health-conscious and alternative-minded consumers. Innovations in this segment have been bolstered by the intoxicating hemp industry, which has allowed for more creative and diverse cannabis-infused offerings. Brands with staying power, adaptability, and market share in this evolving sector are proving more resilient, establishing themselves as attractive candidates for investors interested in niche cannabis opportunities.

Investor Demand for Strong Fundamentals and Unique Value Propositions

Today's cannabis investors prioritize companies with solid management, experienced leadership, and clear competitive differentiation. Businesses that can secure a strong market position through intellectual property protections or proprietary business models stand out in a crowded field. Given the heightened competition and the evolving legal landscape, cannabis companies must build and maintain a lasting competitive edge to achieve long-term success.

Navigating Capital Raises in a Costly Market

For cannabis businesses looking to secure capital, the current environment necessitates a strategic approach. Investors are less inclined to fund high-risk ventures, favoring companies with a path to profitability. As capital becomes more expensive, only those with clear, sustainable growth trajectories should consider raising funds. Valuations should be triangulated using both public and private comparisons, with a keen awareness of market conditions.

Business leaders are advised to exercise financial discipline and prioritize profitability, as investors now seek enterprises that can demonstrate resilience and long-term viability. Raising capital will be challenging in this high-cost landscape, making it essential for companies to have a solid plan and measurable benchmarks for growth.

A Historic Opportunity for Cannabis Investors?

Despite the challenges facing cannabis businesses, the industry's investment outlook remains optimistic. The potential for federal reform, the emergence of promising new markets, and growth in ancillary sectors like cannabis beverages point to a bright future. For both seasoned investors and newcomers, the next few years could present a rare chance to shape and participate in one of the most dynamic industries in the U.S.

As the cannabis market matures, investors and businesses alike must navigate a complex landscape of regulatory hurdles, evolving consumer preferences, and economic pressures. With strategic insight and a disciplined approach, the opportunities in cannabis investment could indeed prove historic, offering a unique blend of challenges and rewards for those willing to ride the wave.

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