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The market is in a sweet spot between Fed rate hikes and cuts, and a lot can happen

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In this article

ARM -2.47 (-1.66%)

NVDA -3.29 (-0.46%)

F +0.02 (+0.15%)

PANW -1.67 (-0.45%)

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Every weekday, the CNBC Investing Club with Jim Cramer releases the Homestretch — an actionable afternoon update, just in time for the last hour of trading on Wall Street. We're no longer recording the audio, so we can get this new written feature to members as quickly as possible. Here's Monday's edition.

If history is any guide: "We are starting to see some bulls turn into bears because we are up 14 out of 15 weeks. I think you need to focus on individual stocks which indicate that things are quite good," Jim Cramer said Monday. Economic data has

A strong economy has given the Federal Reserve more time to ensure that inflation is squashed out before cutting interest rates. “Everyone seems to focus that the market has too much animal spirits, but the period between the Fed ending rate hikes to before they start cutting can be a bountiful period,” Cramer added. An “exhausted” rally is something to be mindful of, but at the same time, it is hard to argue against the sweet spot the market is in. Either way, our large cash position gives us the flexibility to swoop in and buy high-quality stocks should we see some broader decline.

What bears tell us: Short squeezes can be a sign that animal spirits have made their way into the markets. One of the more notable ones we’ve seen over the past couple of days is in the semiconductor design company Arm Holdings. “Arm is a short squeeze but it wouldn’t be able to go up like this if it weren’t for so much interest in semis,” said Jim. From last Tuesday’s close to this Monday, the stock has nearly doubled. “I think that Broadcom has lagged,” he added.

Stocks on the move: The AI trade always gets a lot of attention because Nvidia seemingly trades up every day, but the “broadening out” rally is what’s in favor on Monday.

- Energy is the surprise outperformer even though energy prices are lower. People are buying the group looking for the next win-win deal after Diamondback Energy and Endeavor Energy agreed to merge. But Cramer thinks there’s a better way to play increased oil activity without necessarily buying an oil

- Ford is having a good day despite more downbeat views about the electric vehicle market. But if we learned anything from Ford's fourth quarter, it's that the company wants to go back to being known as an ICE and hybrid first company. "Ford is front and center when it comes to hybrids and the EVs will not drag down profits as much as $5.5 billion," said Cramer. That would be the high end of management's $5 to $5.5 billion 2024 EBIT loss outlook for its Model e business.
- Home improvement chain Lowe's caught an upgrade at JPMorgan, even as the analysts said management's 2024 guide will be lighter than expectations. We're taking note of the call because Lowe's has much more exposure to the do-it-yourself customer than Home Depot, which caters more to pros. "Lowe's being pushed by JPMorgan tells me that the DIY person might be back and that's exceptional for Stanley Black & Decker," said Jim. "I think it will work."

What's down: A bunch of stocks that made new 52-week highs last week are seeing some profit taking on no new information. Eaton, Palo Alto Networks, Eli Lilly, and Salesforce all fit this description. Starbucks is a little lower but still higher from when it missed the quarter, a sign that the stock is cheap in the low $90s.

Earnings season rolls on: A lot of quarterly results on deck this week. After the bell, we'll see the quarters from a couple more AI winners: Arista Networks and Cadence Design Systems. Waste Management is another good one because when the economy's humming, especially construction, it produces a ton of trash.

Tuesday before the opening bell. Don't forget, it is CPI (consumer price index) day too. The index is expected to show an increase of 2.9% year over year and 3.7% when excluding food and energy.

(See here for a full list of the stocks in Jim Cramer's Charitable Trust.)

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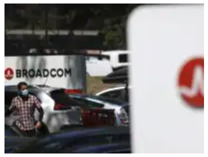

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