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THE FRIDAY FIVE

The free weekly read on market conditions, sector rotation, and stock ideas.

What's going on, everybody?

I hope you all had a great week. We've got Friday Five, Issue #2, so let's get into what happened in the market this week and what you all can take away from it. We've been keeping an eye on the AI and chip trade, and we saw it come under real pressure this week, with a sharp, high volume selloff in memory and semiconductor names that also hit markets overseas. That's really about investors starting to question the payoff timeline on all the AI infrastructure spending, especially with the Federal Reserve sounding less friendly than it did a few weeks ago. But here's the part that matters. While the crowded AI trade wobbled hard, the broader market didn't. The Dow and the Russell 2000 both closed at fresh all time highs this week, and money rotated into financials, energy, industrials, and materials instead of leaving the market altogether. A soft June jobs report added a wrinkle too, with hiring coming in well below expectations.

So it was a rough week for the most popular names, and a broader, steadier one underneath for almost everything else. Alright, let's get into it.

This Week in One Minute

The headline this week was a sharp selloff in AI and semiconductor names. Micron fell hard in a single session despite strong earnings, and the pressure spread to Intel, AMD, and chipmakers overseas including Samsung and SK Hynix, on growing doubts about how fast AI data center spending will pay off. At the same time, the Dow and the small cap Russell 2000 both notched fresh all time highs, a sign the rally is broadening well beyond a handful of mega cap names. The Federal Reserve, now led by Chair Kevin Warsh, held rates steady last month but turned notably more hawkish, and futures markets are now pricing real odds of a hike rather than a cut. Thursday's June jobs report came in soft, with hiring well below expectations even as the headline unemployment rate looked steady. The takeaway: leadership is rotating into the real economy, but the tape is choppier and the Fed is less friendly than it was.

Market Risk Score

Market Risk Score: 52 / 100. Neutral, leaning cautious and selective.

Bullish factors: participation is genuinely broadening, with the Dow, the Russell 2000, and the equal weight S&P 500 all setting fresh highs even as mega cap tech wobbled. This week's rotation into financials, energy, and industrials came with real, dated catalysts (bank buybacks, contract awards, earnings guidance raises) rather than pure macro fear. Sentiment is fearful, not euphoric, which historically leaves more room to run than a market everyone already loves.

Bearish factors: the Fed's tone shifted meaningfully more hawkish, and futures markets are now pricing real odds of a hike instead of a cut. June hiring came in soft with prior months revised lower, a labor market crack that hasn't fully shown up in the headline unemployment rate. Inflation remains elevated on energy prices tied to the conflict in the Middle East, and a handful of mega cap AI names still carry an outsized share of index weight even as they come under pressure.

Put together, this is a neutral environment that rewards selectivity over conviction in either direction. It favors owning quality names in the sectors already leading, not chasing the AI dip or the crowded trade that just cracked.

Sector Rotation Update

Strongest sectors this week

1. **Financials.** Fresh off passing the Fed's annual stress test, big banks announced dividend hikes and new buyback programs, and higher for longer rates support net interest margins.

2. **Energy.** Still digesting a Middle East driven repricing in crude, with pipeline and midstream names increasingly tied to a second, structural theme: powering AI data centers.

3. **Industrials.** Defense primes landed a heavy run of contract awards this month, while the broader group keeps benefiting from reshoring and infrastructure spending. (Materials improved alongside it, led by steelmakers catching a tariff driven pricing tailwind.)

Weakest sectors this week

1. **Technology and Semiconductors.** The center of the storm. AI capex doubts and a sharp memory chip selloff hit this group hardest, with spillover into Asian chipmakers.

2. **Communication Services.** Dragged lower alongside the mega cap tech complex it trades closely with.

3. **Consumer Discretionary.** Softer fundamentals and a rate sensitive consumer kept this group out of favor.

All five of this week's picks sit in this week's leading or improving sectors. Two of them, Lockheed Martin and RTX, come from the same corner of Industrials (aerospace and defense). We kept both because their catalysts are genuinely different, a record interceptor backlog versus a munitions production ramp, but we want to be upfront that this basket leans on the defense theme twice rather than five fully independent bets.

The Five

1. RTX Corporation (RTX) · Industrials / Aerospace and Defense

Why it made the list: It has a dual growth engine most peers lack, a recovering commercial aerospace aftermarket alongside a genuine defense supercycle, and this week management raised full year guidance rather than just reiterating it. It also trades at a discount to its own peer group despite sitting in one of the week's leading sectors.

Catalyst: Late in June, Raytheon (an RTX business) was awarded a roughly $1.1 billion Navy contract for AIM-9X missiles, ramping production capacity toward 2,500 units a year, on top of a separate radar contract earlier in the month. The company's most recent quarter came with a raised full year sales and earnings outlook, not just an in-line print.

Bull case: Commercial aerospace traffic keeps climbing back toward pre-pandemic levels, feeding a high margin aftermarket business, while the defense backlog now stretches years out rather than quarters. A discount to peers despite raised guidance leaves room for the multiple to re-rate higher if the production ramp executes cleanly.

Bear case: A legacy engine inspection issue tied to an earlier defect continues to weigh on the aftermarket business over a multi-year window, and the stock has already rerated meaningfully this year, so the easiest gains may be behind it. Any slip in the production ramp on these new contract awards would be watched closely.

Premium teaser: *Premium members got our entry zone and risk plan on this one.*

2. JPMorgan Chase (JPM) · Financials

Why it made the list: It is the cleanest capital return story to come out of this year's bank stress tests, and it sits in the sector leading this week's rotation. Scale and funding cost advantages let it keep gaining share from smaller banks even in a choppier rate backdrop.

Catalyst: After clearing the Federal Reserve's annual stress test in late June, the bank announced a double digit percentage dividend increase alongside a fresh, multibillion dollar buyback authorization set to begin this quarter.

Bull case: Scale and funding cost advantages let JPMorgan keep taking share from smaller banks, and the freshly authorized buyback and dividend hike let it keep compounding book value even in a choppier rate environment. A clean stress test result also removes a regulatory overhang heading into next year's exam.

Bear case: The stock is trading close to its all time high, so a lot of good news is already reflected in the price, and the buyback and dividend news is now public and priced in. The bank reports earnings in about two weeks, which is a real, near term event risk given how little room for disappointment is priced in.

Premium teaser: *Premium members got our risk framing and the levels we are watching into earnings.*

3. Lockheed Martin (LMT) · Industrials / Aerospace and Defense

Why it made the list: A historically large multi week run of contract awards gave the market real, dated evidence of multi year revenue visibility. We are ranking it just behind RTX in this same theme because its valuation is less fresh after its own recent rally.

Catalyst: Over the back half of June, Lockheed was awarded a roughly $35 billion, seven year production contract for THAAD interceptors, plus a separate contract of roughly $3 billion for next generation radar, among several other awards in the same stretch.

Bull case: A historically large run of contract awards gives visibility into revenue for years, not quarters, and reshoring and defense budget tailwinds look structural rather than cyclical, supporting the case that this backlog keeps growing rather than being a one-time bump.

Bear case: The stock has already rallied significantly off its spring low, so the entry is less attractive than it was a few weeks ago, and analyst opinion on the stock is split rather than uniformly bullish. Its F-35 program has a history of surprise margin charges that can hit results even when the top line news is good.

Premium teaser: *Premium members got our entry zone and risk plan on this one.*

4. Nucor (NUE) · Materials / Steel

Why it made the list: It is a direct beneficiary of this week's rotation into Materials, and the company just gave the market hard evidence of an earnings inflection rather than a story about future demand.

Catalyst: Late in June, Nucor guided its current quarter earnings well above what analysts had expected, pointing to higher steel selling prices and tariff protected domestic supply as the drivers, alongside steady production volumes.

Bull case: Domestic steel pricing power, tariff protection, and Nucor's low cost mini mill model mean this earnings beat could mark the start of a longer upcycle rather than a one quarter blip, especially if infrastructure and reshoring capex keeps flowing.

Bear case: Steel is a cyclical commodity business, and the stock has roughly doubled off its low over the past year and sits near record highs, which is not a comfortable place to start a new position. Current margins may be closer to a cycle peak than a new normal, and a rate sensitive construction market is a real swing factor.

Premium teaser: *Premium members got the levels and sizing we used here.*

5. Kinder Morgan (KMI) · Energy / Midstream

Why it made the list: It is the clearest bridge between this week's two big energy stories, a structurally higher oil and gas price backdrop, and the physical infrastructure buildout that AI data centers actually need. Its cash flows are largely contracted, which offers more ballast than a typical energy name.

Catalyst: Late in June, the company highlighted a project backlog north of $10 billion, with more than half now tied to natural gas demand from data centers and power generation, and a major bank reaffirmed a positive rating on the back of it.

Bull case: Contracted cash flows reduce commodity price risk, and the data center driven natural gas demand story is a multi year build out rather than a single catalyst, giving the project backlog room to keep growing well beyond this quarter's headline.

Bear case: The stock already trades at a premium to its own history and to peers, leaving little room for error, and its debt load makes it more sensitive than most energy names to a Fed that is turning less friendly on rates. Consensus analyst opinion is closer to neutral than enthusiastic at the current price.

Premium teaser: *Premium members got our entry zone and risk plan on the energy and infrastructure trade.*

Stock of the Week

RTX Corporation (RTX). If you remember one name from this week, make it RTX. It captures the most important idea in the market right now: real, raised guidance and dated contract wins are what should earn a spot in this basket, not a good story about the future. RTX has both a recovering commercial aerospace business and a genuine defense production ramp behind it, it trades at a discount to its own peer group, and it just raised its outlook rather than merely meeting it. It sits in one of this week's leading sectors, and unlike Lockheed, its recent rally has not fully closed the valuation gap to peers. It is not without risk. A legacy engine inspection issue remains a multi year overhang, and the stock is no longer cheap in absolute terms. But as a way to play the market's actual leadership this week, real economy industrial strength over crowded AI momentum, it stands out.

What Could Change My Mind?

A few things would shift our read. The calendar brings a fresh inflation print in about two weeks, and with a Fed that just turned meaningfully more hawkish, a hot number could push yields higher and pressure nearly everything, including this week's leaders. We are also watching whether the semiconductor and memory chip selloff is a contained, healthy reset in the most crowded trade of the year, or the start of something that spreads into credit markets, which would be a much bigger problem. On the energy side, our Kinder Morgan thesis leans partly on elevated oil and gas prices tied to the conflict in the Middle East, and any real progress toward a ceasefire could unwind that tailwind quickly. We are also honest about the concentration in this week's five: Lockheed Martin and RTX both come from the same defense corner of Industrials, so a shock specific to that theme, a budget delay or a program cancellation, would hit two of our five picks rather than one. Finally, JPMorgan reports earnings in about two weeks, and with the stock trading near its highs, that print carries real weight for how we view the position afterward. On the other side, if the June jobs softness turns out to be noise rather than a trend, and the broadening rally in the Dow and Russell 2000 keeps including more of the market rather than fading back to just a few mega cap names, that is a healthier setup than the narrow market we had earlier this year, and we would lean into it.

Scoreboard

We track every past pick against SPY, openly, winners and losers alike. Here is where Issue No. 1 stands as of this Friday's close. SPY is up modestly since those picks went on the board, so each name below is judged on how it did relative to the market, not just up or down.

Ticker	Issue	Status vs SPY
CAT	#1	Underperforming
MU	#1	Underperforming
XOM	#1	Neutral
WMT	#1	Underperforming
LIN	#1	Outperforming
RTX, JPM, LMT, NUE, KMI	#2	**New this week**

This week's five (RTX, JPM, LMT, NUE, KMI) go on the board today as Issue No. 2, and we will start marking them against SPY next week.

Quick read on the record so far: it is still an early sample, just five names from Issue No. 1, but LIN is leading the pack, XOM is roughly in line with the market, and CAT, MU, and WMT are lagging. That is a good reminder that even sound picks can go through stretches where the macro backdrop works against them.

Go Premium

The free Friday Five gives you the market read, the rotation map, and the ideas with their catalysts and risks. Premium adds the part we hold back here: exact entry zones, stop levels, position sizing, price targets, options structures, and real time alerts when something changes. If this issue helped you think more clearly about the week, premium is where the ideas become an executable plan.