

ISSUE #3 · JULY 10, 2026

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 #3, 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 whether last week's chip selloff would spread, and instead we saw the opposite: semiconductors and the optical names that wire up AI data centers came roaring back, and the Nasdaq led the week. That's really about investors deciding last week's AI scare was a reset, not the top. But the headlines did not make it easy. The ceasefire with Iran was declared over midweek and oil spiked before fading, and the new Fed chair's first meeting minutes landed noticeably hawkish, with almost half the committee penciling in a rate hike this year.

So the market got hit with geopolitics and a tougher Fed in the same week, shrugged, and let the deals and contracts do the talking instead. A ten billion dollar biotech buyout, a Pentagon laser contract, and a grocery merger all hit the tape. Alright, let's get into it.

This Week in One Minute

Measured from the July 2 close through Thursday, July 9 (markets were closed Friday, July 3 for the holiday), the S&P 500 rose about 0.8% and the Nasdaq about 1.4%, while the Dow slipped about 0.8% and small caps were roughly flat. Chips and AI hardware rebounded from last week's selloff. The ceasefire with Iran collapsed midweek, spiking oil more than 4% before crude gave most of it back Thursday. The bigger story for the months ahead: minutes from new Fed Chair Kevin Warsh's first meeting showed nine of eighteen officials now expect a

rate hike in 2026, and the ten year Treasury yield touched its highest level since May. June hiring came in soft at 57,000 jobs. Next up: June CPI lands Tuesday, and the big banks kick off earnings season next week.

Market Risk Score

Market Risk Score: 54 / 100. Neutral, in a headline driven tape.

Bullish factors: the market absorbed a collapsed ceasefire, an oil spike, and a hawkish Fed surprise in the same week and still finished higher, which is real underlying strength. Breadth stayed positive, with far more new highs than new lows, and last week's chip selloff resolved upward rather than spreading. Volatility stayed contained, with the VIX in the mid teens.

Bearish factors: nine of eighteen Fed officials now pencil in a rate hike this year, a meaningful shift with the ten year yield already at its highest since May. The June jobs report was soft, with hiring well below expectations and prior months revised down. The Iran situation is unresolved and can move oil overnight, and Tuesday's CPI print plus the start of bank earnings give the market two fresh tests next week.

Put together, this is still a neutral tape that rewards specific, verifiable catalysts over broad bets. That is exactly what this week's winners had in common.

Sector Rotation Update

Strongest sectors this week

1. **Technology.** The chip and AI hardware complex snapped back hard from last week's selloff, with optical component makers and memory names leading the recovery.
2. **Materials.** The rotation into the real economy we flagged last issue kept working, helped by firm commodity prices.
3. **Consumer Staples.** A quiet defensive bid in a headline heavy week, plus deal activity in the grocery aisle.

Weakest sectors this week

1. **Health Care.** The broad group lagged even as deal news lit up individual names, a reminder that single stock stories and sector flows are different things.
2. **Utilities.** Higher Treasury yields make their dividends relatively less attractive.
3. **Energy.** Despite the midweek oil spike, the sector underperformed as crude faded into Thursday. Money wanted growth this week, not barrels.

Two of this week's five (Lumentum and nLIGHT) ride the strong technology tape, and Kroger sits in the firming staples group. Two picks fight their sector: Crinetics is a healthcare name whose move is entirely deal specific, and Diamondback is an energy name in a lagging sector, which we address head on in its bear case.

The Five

1. Crinetics Pharmaceuticals (CRNX) · Health Care / Biotech

Why it made the list: It nearly doubled this week, up about 98%, and unlike most triple digit biotech pops, this one comes with a signed contract instead of a hope. It is also this week's best classroom: watching a stock reprice to a cash buyout offer teaches you more about how markets work than a dozen ordinary rallies.

Catalyst: On Monday, July 6, Vertex Pharmaceuticals agreed to acquire Crinetics for roughly \$10 billion, at \$85 per share in cash, about double where the stock closed the week before. The stock immediately jumped to just below the offer price and has parked there.

Bull case: Cash deals from large, well funded acquirers close far more often than not, and the small remaining gap between the market price and \$85 reflects that confidence. There is also a modest chance another bidder emerges for a rare, profitable endocrine franchise, which would push the price above the current offer.

Bear case: The easy money has been made. From here the stock is a merger arbitrage position, not a growth story: the upside is capped near \$85 unless a rival bid appears, and if the deal breaks on regulatory review or a material problem, the stock likely falls back toward the low 40s where it traded before the offer. That is a small, capped reward against a large, low probability loss.

Premium teaser: *Premium members got our framework for when a merger spread is worth owning and when it is dead money.*

2. nLIGHT (LASR) · Technology / Defense Photonics

Why it made the list: Up about 18% this week on a real Pentagon award, not a rumor. nLIGHT makes high power lasers, and directed energy just moved another step from science project toward production program. It also extends a theme we have tracked for two issues: defense budgets turning into dated, signed contracts.

Catalyst: On Thursday, July 9, nLIGHT announced it was awarded the Joint Laser Weapon System agreement with the Department of Defense, with an initial award of about \$44 million and a ceiling of up to \$627 million. For a company around \$4 billion in market value, that ceiling is meaningful multi year revenue visibility if orders follow.

Bull case: Cheap drones have made expensive interceptor missiles a losing trade, and lasers flip that cost equation, which is why directed energy keeps moving up the budget priority list. If task orders under this agreement ramp toward the ceiling, nLIGHT's defense segment could grow for years, and this week's award makes it the named leader in that niche.

Bear case: A ceiling is not a backlog. Only \$44 million is committed today, and government programs can stretch, shrink, or stall with budget fights. The stock also just jumped 18% in a week, it is a mid cap that swings hard in both directions, and its commercial laser business remains cyclical and competitive.

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

3. Lumentum (LITE) · Technology / Optical Components

Why it made the list: Up about 8% in the strongest sector of the week. Lumentum makes the optical components that move data between AI chips, and as data centers scale up, the amount of optics per rack keeps climbing. This is the picks and shovels version of the AI trade rather than a bet on any one chipmaker.

Catalyst: The optical and photonics group rallied together this week as the AI hardware complex rebounded, with demand for high speed optical interconnects in AI data centers cited across the group. Lumentum was among the leaders of that move.

Bull case: Optical content per AI data center is rising faster than overall capex, and supply of high end components remains tight, giving pricing power to the few companies that can make them at scale. If AI infrastructure spending merely stays on plan, the optical layer grows into next year.

Bear case: Two weeks ago this exact corner of the market sold off hard on doubts about the AI spending payoff, and that question has been deferred, not answered. The stock has had an enormous run, expectations are elevated, and revenue is concentrated among a handful of hyperscale customers whose budgets can shift quickly.

Premium teaser: *Premium members got the levels we are watching after this run.*

4. Diamondback Energy (FANG) - Energy / Exploration and Production

Why it made the list: Up almost 6% in a week when its own sector lagged, Diamondback is one of the lowest cost oil producers in the Permian Basin, which makes it the cleanest way to think about what this week's geopolitics mean for energy. When crude spikes, the low cost producer captures the most of it.

Catalyst: The ceasefire with Iran was declared over on Wednesday, July 8, and oil jumped more than 4% on renewed fears about supply through the Strait of Hormuz. Diamondback, as a pure play producer with low breakeven costs, rallied with crude.

Bull case: If Middle East supply risk keeps a premium in oil prices, Diamondback's low cost barrels convert that premium into free cash flow faster than almost any peer, funding buybacks and dividends. Its capital discipline means it does not need high prices to work; high prices are upside, not a requirement.

Bear case: Energy was one of the weakest sectors this week despite the oil spike, and that headwind is the central risk here: the market is not rewarding barrels right now, and crude gave back most of the spike within a day. A real, durable ceasefire would unwind the geopolitical premium quickly, and this thesis leans on headlines that can reverse overnight.

Premium teaser: *Premium members got our risk framing for headline driven energy trades.*

5. Kroger (KR) · Consumer Staples / Grocery

Why it made the list: A quieter move, up about 3%, but it beat the market in a choppy week, sits in a firming defensive sector, and gives this issue its second lesson in deal making: what it looks like from the buyer's side of the table.

Catalyst: This week Kroger announced an agreement to acquire Giant Eagle, a large regional grocer concentrated in Pennsylvania and Ohio, adding density in markets where scale drives grocery economics.

Bull case: Grocery is a scale business, and buying a regional chain deepens Kroger's purchasing power, private label reach, and delivery economics in overlapping markets. The market nudging the acquirer's stock up, rather than down, signals investors think the price paid is sensible, and staples offer ballast if the macro turns.

Bear case: Regulators blocked Kroger's last big grocery merger, and a fresh antitrust review of this deal is a real hurdle with a public track record of failure. Grocery margins are thin, integration is hard, and if the deal is challenged the stock carries dead weight while it plays out.

Premium teaser: *Premium members got our take on how much deal risk is priced in here.*

Stock of the Week

nLIGHT (LASR). If you remember one name from this week, make it nLIGHT. Crinetics had the bigger move, but that gain has already been banked and its future is now a merger spread. nLIGHT is the pick whose story is still in front of it: a signed Pentagon agreement with a ceiling of up to \$627 million, in a directed energy niche where it just became the named leader, riding a defense spending theme we have now seen produce real contracts three issues in a row. We are clear eyed about the risks: only \$44 million is committed so far, and the stock already jumped 18% this week. But among this week's five, it has the best combination of a verified catalyst, forward visibility, and a theme with years of runway.

What Could Change My Mind?

A few things would shift our read. Tuesday's June CPI print is the big one: with nine Fed officials already leaning toward a hike, a hot number could send yields through recent highs and pressure everything, including this week's technology leaders. Bank earnings start next week and will tell us whether the real economy rotation has fundamentals behind it. On the picks themselves: our Diamondback thesis leans on a geopolitical premium that a durable Iran ceasefire would unwind quickly, and we would rather admit that now than pretend otherwise. Lumentum and nLIGHT are both photonics companies, and while their end markets are genuinely different (AI data centers versus defense), a broad tech selloff would likely hit both at once, so this basket carries that overlap knowingly. If the AI capex doubts that cracked the market two weeks ago resurface, the Lumentum thesis weakens first. And on Crinetics, any sign of regulatory trouble with the Vertex deal turns a quiet arbitrage into a fast loss, which is why we framed it as a lesson more than an opportunity. On the other side, if CPI comes in cool and breadth keeps expanding, this neutral tape starts looking constructive, and we would say so plainly next issue.

Scoreboard

We track every past pick against SPY, openly, winners and losers alike. Here is where things stand as of Thursday's close. The honest summary: it has been a rough start against a strong market, and we are not going to dress that up.

Ticker	Issue	Status vs SPY
CAT	#1	Underperforming
MU	#1	Underperforming
XOM	#1	Underperforming
WMT	#1	Underperforming
LIN	#1	Neutral
RTX	#2	Underperforming
JPM	#2	Neutral
LMT	#2	Underperforming
NUE	#2	Neutral
KMI	#2	Neutral
CRNX, LASR, LITE, FANG, KR	#3	New this week

Quick read on the record so far: SPY has been strong since Issue No. 1, and most of our early picks are trailing it. Micron and Caterpillar have lagged badly since going on the board, and last issue's defense names gave back some of their contract driven June run in week one. The Issue No. 2 basket is mostly holding near the market. Two issues is a tiny sample, and we would rather show you a losing scoreboard honestly than a winning one selectively. The picks stay on the board.

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.

The Friday Five is for informational and educational purposes only. It is not investment advice, and it is not a recommendation to buy or sell any security. Past performance does not guarantee future results. Do your own research.