The Reina Report - June's LEI, Powell Drama & Fed Tariff Risks

July 22, 2025

LEI Breakdown: Stock Market Propping Up a Fragile Index

The June 2025 **Leading Economic Index (LEI)** declined for the third straight month, triggering a recession signal under the **Conference Board's "3Ds Rule"** (duration, depth, and diffusion).

But the **headline number hides a deeper concern** — the stock market is doing all the heavy lifting:

- X Consumer Expectations: Deeply negative
- X New Orders (ISM + CapEx): Flat or falling
- X Initial Jobless Claims: Negative contributor
- X Building Permits: Flat
- Stock Prices (S&P 500): Only strong support

★ Interpretation: Without the S&P 500 rally, the LEI would likely be in freefall, reminiscent of the 2008–2009 collapse. With 7 of the 10 components showing weakness, the "recovery" narrative is growing increasingly fragile.

▲ Powell Under Fire: Independence, Tariffs, and Political Risk

Fed Chair Jerome Powell is facing mounting political pressure:

- Public calls for resignation (notably from Mohamed El-Erian)
- Senate inquiries over alleged "perjury" related to Fed building costs
- Trump-aligned voices suggest Powell could be fired if re-elected
- Real estate lens: A sudden Powell exit could trigger rate volatility, particularly in long-duration debt like 30-year mortgages. Markets would likely price in chaos not lower rates.
- ★ Strategic note: According to Deutsche Bank, Powell's removal could push the 10Y
 Treasury yield up by 50 bps or more driving borrowing costs higher across the board and potentially triggering a sharp correction.

Tariffs vs. Rate Cuts: Fed Stalls Despite Recession Signals

The Fed continues to delay cuts, largely due to uncertainty surrounding global tariffs:

- Proposed 10–30% baseline tariffs (higher for larger economies) seen as inflationary
- Fed insiders say cuts would've already happened if not for tariff risks
- Market odds of a July cut remain low (<30%), but September is increasingly likely
- ★ Interpretation: The Fed is in a bind. Forward indicators are softening, but headline inflation remains sticky and tariffs could reignite price pressures just as momentum fades.

Strategic Outlook

Recession Watch

- LEI: Third consecutive recession trigger
- 7 of 10 LEI components are negative
- Coincident indicators still stable, but cracks forming

m Policy Risk Landscape

- Powell's credibility under threat exit could spook markets
- Tariffs create a **stagflation scenario** risk
- Fed appears increasingly focused on forward-looking data

★ What to Watch Next

- August 1: Tariff deadline (especially with EU)
- August 21: Next LEI release
- Powell's Senate inquiry trajectory
- September FOMC: First likely cut unless markets break earlier

Final Note for Investors & Realtors

The **disconnect between markets and the economy** is widening. Real estate professionals should:

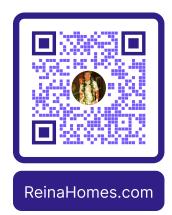
- Expect continued volatility in long-term rates
- Watch sentiment closely any reversal in equities could expose just how weak the real economy is
- Prepare for both outcomes: a September cut, or an earlier surprise if Powell bends to
 political or market pressure

Real estate lens: Don't count on affordability improving quickly. A sudden Powell exit or tariff inflation could spike rates. But if the Fed does pivot in time, Q4 could bring relief.

Sources

- Conference Board LEI (July 21, 2025)
- Meet Kevin YouTube (@MeetKevin, July 21, 2025)
- Anna Kelley Real Estate Commentary (@AnnaKInvesting, July 22, 2025)
- Federal Reserve Press Briefings
- Deutsche Bank Commentary (via Bloomberg, July 22, 2025)
- CME FedWatch Tool
- U.S. Senate Reports on Fed Oversight

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