

The Horsch Business *Report*



Helping you grow your career, company, and economic wellbeing



LARRY HORSCH

INTRODUCTION

The U.S. and advanced countries are raising interest rates to combat excess inflation and turmoil continues in the equity markets. The good news is that the Ukrainian Army is doing well in the battle against the Russians, which may create an opportunity for a ceasefire down the road.

We encourage you to let your friends know about the free *Report* if they may find it useful. It is available on our website listed below.

THE ECONOMY

Overview

The U.S. economy continues to have a tight labor market that is loosening up a bit but will motivate the Federal Reserve to continue to raise interest rates, which eventually lowers inflation and slows the economy. A growing number of thought leaders in the U.S. are predicting increasing odds of a recession in early or mid-2023.

Retailers are forecasting a modest Christmas shopping season with consumers protecting their pocketbooks as inflation has squeezed their budgets, particularly in the lower economic half of the population. On the positive side, many retailers that had excessive inventory are now aggressively discounting products, creating better value for consumers. With central banks in advanced countries around the world raising interest rates, international trading is slowing.

The strong U.S. dollar will hurt U.S. exports in the near and intermediate future. This is a good time to take a vacation in a country like Britain with a depressed currency.

We discussed the issue of working from home versus the office, and with working

from home being preferred by a growing number of employees. For those in middle management hoping to be promoted, it seems unlikely that they can do so effectively by being away from the office where the action is taking place. Interaction with one's boss matters.

US Job Market

The statistics on the U.S. job market have been confusing to economists and investors as we anticipate a recession and have an historic low unemployment rate.

The unemployment rate is measured by those available to work during normal working years who are unemployed but seeking employment (if you are unemployed and not seeking employment, then you are not officially unemployed). In recent years, the percentage of people in the working age class has fallen, making for a tighter labor market. Today, some are still out of the job market because of lingering Covid-19 (e.g., heavy fatigue, brain fog, etc.), and a significant number of people in their early working years are still living in their parents' home with free rent, free utilities, and free food. What a life!

During the government bailout at the time of the Pandemic, some incentives to work were reduced by supplementary federal government unemployment payments, rent payment delays, and student loan payment delays. In addition, after working at home instead of the office during the Pandemic, many began to reset their philosophy on work / home balance in favor of less work. In the meantime, businesses were subsidized to keep payrolls in place, and job market statistics were suspect.

Our friends at Leuthold Funds have uncovered information on the job market that shows a sharp drop recently in the productivity of those working. This is being referred to as "quiet quitting." This reminds us of the old saying in management that, "the worst thing that can happen to a manager is not someone quitting and leaving but quitting and not leaving." Apparently, the

working at home experiment is not going as well as many had hoped.

WASHINGTON SCENE

The Trump Quagmire

While former President Trump still controls a large voting block in the Republican Party, it is doubtful that he will remain in that position as we focus on the 2024 Presidential election. He simply has too much legal baggage. A portion of his support will eventually come to grasp the above and the following:

- His commercial philosophy before becoming President was often not to pay his bills and negotiate discounts after the fact from suppliers who provided the goods / services in a satisfactory manner. James Mattis, the former Secretary of Defense, said as he resigned, "President Trump has no moral compass."
- He was quite unsuccessful in businesses outside the New York real-estate development market, with several projects failing financially. In 1991, he would have had to declare personal bankruptcy in not being able to make a \$46MM note payment if his father, Fred Trump, had not bailed him out financially. (Confidence Man by Maggie Hagerman, Penguin Press 2022, page 117.)
- In losing the 2020 Presidential election, Trump is still maintaining that he won by a landslide and was cheated out of being President for a second term, despite losing sixty-one consecutive lawsuits on this matter, many decided by judges whom he appointed.
- In mishandling confidential government reports by transporting them to Mar-a-Lago, he still maintains that he declassified them simply by saying so or by thinking so, all of which is enormously contradicted by the formal rules of handling confidential government reports and declassifying them. This is not just confusion about a paperwork shuffle. Human lives are at stake in the intelligence

community around the world. (Your author had a Top-Secret military clearance years ago and has a high regard for the process involving such clearances.)

Other politicians who are after Trump's political base (example: Ron DeSantis, Governor of Florida) will wrestle away the leadership of the Trump wing of the Republican Party. In the meanwhile, the traditional Republican Party will begin to rebuild itself. We have two years to see this evolve before the 2024 presidential election. Some clarification of this matter will take place in the 2022 midterm congressional elections since Trump has backed a number of candidates.

ELSEWHERE

The Russia-Ukraine War

When the Arab nations surrounding Israel in 1967 decided to attack Israel, they had much larger armies and they declared that they would "drive the Israelis into the sea." Some of you may remember what happened. Israel won the war in a matter of days because of the determination not to be driven into the sea and a disciplined military. It appears that each Israeli soldier equaled three or four Arab soldiers in effectiveness on the battlefield. We believe there is a repeat of this in the Russian-Ukrainian War. Ukrainians are highly motivated to defend their nation from the Russian invaders and have been strongly backed financially by the U.S. and E.U. nations. We are learning that the Russian military has a significant number of troops who are only partially motivated and lacking sufficient supplies. They have recently retreated in a panicked fashion, leaving large amounts of military equipment and ammunition behind.

Because of these recent defeats, Putin has called up reserves that include up to 300,000 men who have some training but limited motivation. Many young men have fled the country and others have been stopped at the borders, only to suddenly find that they are in the military.

Putin, as we know, has threatened the usage of tactical nuclear weapons. He has caused everyone, from the President of the U.S. to the Pope, to criticize him for even thinking about such an idea. Increasingly, Putin is being cornered by negative world opinion. He is beginning to see his future in doubt if he is not victorious on the battlefield.

Our take on a possible solution (we are sure it is being discussed confidentially in the U.S. and NATO Headquarters) is getting a national leader, like Macron of France, or Erdoğan of Turkey, who has Putin's ear, to support a ceasefire and negotiate a settlement, which would include the following:

- Lines would be drawn where the territory held by Russia in Ukraine would become part of Russia. The U.N. would monitor this situation.
- Ukraine would become part of NATO.
- The world would avoid a possible nuclear incident.

This conclusion is driven by several realities:

- Putin needs a face-saving deal to get out of his cornered position.
- The U.S. and E.U. need relief in not funding an indefinite war.
- The Ukrainians and Russia must stop the killing and maiming of troops and civilians.
- The Ukrainians need to stop the Russians from bombing what is left of their country.

Stay tuned.

Police Reform and Rebuilding

While reformers would like to wave a magic wand and change police attitudes, the process unfortunately is a slow one.

General lawlessness continues and will not change until reforms are concluded and police departments are rebuilt after a large number of retirements and depletions. In a time period in this country where there is a general lack of interest in service to law enforcement, recruitment bonuses will be needed, and stronger leadership will be required to boost recruiting. In Minneapolis, where George Floyd was murdered, the

whole concept has been reorganized and a new police chief has been recruited from outside the ranks, the first time in 16 years. As we learn from corporate turnarounds, major change is often best led by new outside leadership.

While much attention must be paid to shootings, carjackings, etc., we suggest that you keep your eyes on simple driving courtesies as a daily indication of progress or lack thereof. Without adequate police, we are allowing drivers to exceed speed limits, drive dangerously in heavy traffic, and occasionally ignore red lights. When you see this changing, you will know the power of better policing is succeeding.

MANAGEMENT

Overview

While management of U.S. corporations always has the traditional challenges of developing a valid business plan, motivating employees, and controlling expenses to the budgetary objectives, today it has several special challenges:

- Pivoting away from China as a major source of goods as the U.S.-China relationship grows more tense
- Getting ready for a recession while managing heavy inflation and supply chain issues
- Adjusting to a work schedule where employees often spend substantially less time in the office

Since the world is always short of mystics who can predict the future, the mere mortals running U.S. corporations must have a reasonable view of the near-term and intermediate term to address problems and opportunities as they evolve. This vision skill is often what separates “builders” from “maintainers” (everyday administrators). There is usually a shortage of builders and an abundance of maintainers.

Hooray for the visionaries. They do wonders in building their own careers, building the careers of those they manage, as well as building the economic well-being of others.

INVESTING

Overview

We published an Interim *Report* on October 4, 2022, exclusively on this topic, so we will be brief here.

The last leg down in the stock market is being interrupted with wild short-term swings, but recession-reduced corporate earnings are only beginning to occur. The general mood on Wall Street is becoming predictably gloomy.

While it is difficult to change from being gloomy to being positive on the stock market as prices are lowered and good values appear, that is the challenge at hand for those who have fresh cash to invest.

PARTING SHOT

We all have experienced the fact that the daily news from TV, internet, or published materials, is slanted toward bad things happening (wars, murders, rape, traffic accidents, fraud, etc.). This has been true for a long time.

Despite the above, good things are happening quietly at nonprofits helping people in need, research progress in science and medical treatments extending life and reducing suffering, and courageous acts in the streets by complete strangers. We simply don't have enough spotlight on good news to offset the negative items in the daily news. Be an agent of positivity.

We would suggest that the antidote for all of this is for you to limit your intake of the daily news and think about one good thing that happened today, and one good thing that you want to be part of this week. It may improve your outlook on life.

Respectfully submitted,



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