

The Horsch Business *Report*



Helping you grow your career, company, and economic wellbeing



LARRY HORSCH

INTRODUCTION

Volatility continues in the stock markets and economic difficulties are occurring in China, Europe, and the United States with more turmoil in the Russia-Ukraine war.

Possibilities for less political polarization in the U.S. are beginning to appear as outlined later in this *Report*.

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

Inflation is causing real economic problems for the lower half of the economic portion of the U.S. population. As usual, it also causes labor unrest as wages fall behind in real purchasing power. Consumers still have cash from the Federal Government money showered on them to avoid a panic during the key covid period, but business managers in the U.S. are becoming more cautious about the economic outlook.

In the political arena, Republicans taking over the House in Washington will likely slow fiscal stimulation by limiting spending. As we approach a recession it is not very helpful to have constrictive fiscal policy, but that is where we are right now.

With continuing determination by the Federal Reserve to bring inflation under control, we will see more rate increases in coming months that will eventually slow the economy in 2023.

We are currently witnessing a slowing of the service sector in the U.S. even in the

high-tech portion, which is an indication of things to come. The service sector is normally more stable in bad economic times even as the manufacturing sector becomes more volatile.

The spending on the Russia-Ukraine war will come under closer scrutiny by Congress to prevent it from being an open checkbook for the Ukrainians (more on this later).

WASHINGTON SCENE

Overview

As Republicans take over the House in Washington with a small margin and the Democrats take over the Senate with a small margin, there will still be outliers in each party that can impede progress if they have serious objections. It is likely that the Republicans will do what they can to get spending under better control.

With the midterm elections now history, the press is focusing on the 2024 presidential election. Our prediction on this matter is as follows:

- Florida Governor Ron DeSantis will replace Donald Trump as the leader of the far-right wing of the Republican party as Trump's legal issues become very real.
- The traditional wing of the Republican Party will rebuild itself but only slowly as they look for a new leader.
- President Joe Biden will not run in 2024. Even if he tries, he will not receive the nomination because of his age. The Democrats will also be looking for a new leader.

The U.S. House Select Committee to Investigate the January 6th Attack on the U.S. Capitol will be terminated on December 31, 2022 and will turn all its research and testimony over to the Department of Justice. It has recently recommended that the Department of Justice file criminal charges against Trump and four of his aides. The big issue here is a criminal citation for sedition, which involves a long prison term if one is convicted. This whole matter involves an

interesting set of facts, with the American public repeatedly seeing much of the January 6th events on television. It does not involve "he said, she said" type of evidence.

One of the interesting facts about the January 6th Committee is that Liz Cheney, as a Republican, has served as Vice Chair and has made it her goal to bring down Trump and take him out of politics. Since she will no longer be in Congress, it will be interesting to see what role she plays in the future in the traditional Republican Party.

Solving the U.S. Polarization Issue

In U.S. politics, we have experienced the retirement of many moderate Democrats and moderate Republicans, with an increase in far-left and far-right politicians that result in polarization. Polarization is caused mostly by:

- Primaries that have low voter turnout and are dominated by zealots of both parties
- Gerrymandering where the legislature gets to redraw the lines of a congressional district to fit its political views and, in the process, the person in Congress hears little opposition in his or her home district and goes to Washington with a deaf ear for opposing views
- Public participation on internet platforms that allow lies, hate, and chaos

The possible solutions are:

- More voters with a moderate political outlook participating in primary elections
- Independent commissions deciding congressional redistricting for a more fair political outcome should occur subject to judicial review. Today, politicians in a safe district don't worry about competition from the opposite party. They worry about others in their party who are greater zealots running against them in a primary election.
- Various internet platforms, such as Facebook, Twitter, YouTube, Instagram, etc. need Federal regulation just as we have for radio and television. Mark Zuckerberg, of

Meta Platforms and Facebook, said many months ago that he would prefer Federal regulation because, as a company, no matter what they do in rejecting participants, they receive wide criticism, and the Federal Government is the only entity that can play that role.

As we said in previous Reports, democracy can't function without consensus and very little consensus can occur with substantial political polarization.

When Trump suggests that we do away with the Constitution in his frustration for losing the 2020 election, he is pouring gasoline on the polarization fire.

ELSEWHERE

The Russia-Ukraine War

With Russian defeats in recent months and a desperate move to bring relatively untrained troops to fight on the warfront, Ukrainian confidence has gone up a notch. As a result, neither side has shown an interest in a peace plan.

While the U.S. has modified its long-range artillery given to Ukraine to limit the range of the equipment, Ukraine has received long-range artillery somehow and is now striking Russian military posts inside Russia.

This is a dangerous expansion of the war that the U.S. has tried to avoid.

We outlined a possible peace plan in the last *Report*. In addition, we'd like to add two observations:

- The U.S. and its funding partners should tell the Ukrainians that only a fixed amount of money is available to fight the Russians and rebuild their country that is continuously being destroyed. This would bring reality to the Ukrainians since they were the poorest nation in Europe before the war. If they try to rebuild their nation without our funds, it will take many generations to do so.
- We don't believe the U.S. and its funding partners have an obligation to drive the

Russians completely out of Ukraine. The actions that occurred in 2014 and 2015 involving Crimea and parts of eastern Ukraine are now part of history and should not be part of a new peace plan. Those areas are heavily populated by people favoring Russia since those favoring Ukraine left long ago.

MANAGEMENT

Overview

Many companies over the years in the U.S. have said, "Our employees are our most important asset." We all know that talk is cheap and slogan banners are inexpensive. The reality is that for publicly held companies trying to make quarterly earning goals, lower-level and mid-level employees often have become cannon fodder. The struggle to build the companies' long-term versus short-term objectives has often been resolved by favoring short-term objectives and adjusting the labor force accordingly. As we move into a recession, the problem becomes front and center.

It may be helpful to realize the following:

- In most well-managed companies, the top executives decide on a vision for the company and a related three- to five-year business plan.
- While the plan may be perfectly valid, to execute the plan the leaders need cooperation and enthusiasm of workers.
- Simply stated: If the workers can sense that the company doesn't care about them, then they are unlikely to care much about the company and its business plan.

For the benefit of building the company in the long term, it would be better to reduce the focus on quarterly earnings and the likely pink slips that would otherwise occur.

For those who believe that the above is just theory, the author has had a full P&L responsibility for over 25 years and believes the above can be helpful.

INVESTING

Overview

We are witnessing the last phase of a down market when it is more effective to see it as a market of stocks rather than a generic stock market. Outcomes can vary as the recession occurs.

The Federal Reserve is currently showing a strong desire to bring inflation under control regardless of the impact on the economy. If this policy continues, the economic decline will be sharper, but will have a shorter duration. Much depends on Chairman Powell's ongoing philosophy in handling this matter. The early pivot to a softer approach seems to have faded.

Higher interest rates caused by the Federal Reserve's actions have resulted in the housing industry declining sharply and corporations with heavy debt obligations struggling to refinance.

Bonds

The role of bonds with lengthy maturities in most portfolios is currently being challenged when we move from extremely low interest rates to more normal interest rates. Bonds with any distant maturity have lost almost as much value in the current market volatility as equities. This reduces their value as a relatively secure investment.

Historically we have not cared for bonds with any distant maturity. They may be fine for pension funds matching distant obligations, but for individuals we believe bond substitutes that have a decent current income and some growth are a better solution particularly during a high inflationary period. Examples of these substitutes are REITs, master limited partnerships, and some private real estate investments when liquidity is not an issue (avoiding office buildings and marginal shopping centers).

Institutions may stick with their historic preferences, but individual investors are not bound by these.

Stock Market Recovery Later

While 2023 may be a recession year for U.S. businesses, the stock market will anticipate recovery many months ahead of the recovery of the economy. If history is any guide, the early to mid-2023 recession will make 2024 a recovery year, and the stock market could begin recovering by mid-2023.

The equity values at the bottom of the stock market may turn out to be the best values we'll see in many years ahead.

Perhaps the great Wayne Gretzky knew what he was talking about after he was inducted into the U.S. Hockey Hall of Fame. His observation was, "I skate to where the puck is going to be, not where it is now." Anticipation is a key challenge.

PARTING SHOT

As we move into 2023, let's all focus privately on one big thing we could accomplish which will promote our own wellbeing or the wellbeing of those around us.

Here's to a thoughtful and prosperous New Year!

Respectfully submitted,



Larry Horsch
Founder and Editor
Minneapolis, MN
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