

The Horsch Business *Report*



Helping you grow your career, company, and economic wellbeing



LARRY HORSCH

INTRODUCTION

As we move into the heart of the second quarter of this year, we see the U.S. economy cooling a bit, the Russian-Ukrainian War moving into the spring offensive for both sides, no significant progress on gun control in the U.S. despite continued mass shootings, and Donald Trump facing numerous possible indictments for his behavior.

On the brighter side of life, we see continuing progress on medical device and drug research, some improvement on U.S. border control, some improvement on police reform, and cancellation of college major fields of study that do not create enough income to service the associated student loans.

As usual, if you have friends who may be interested in the free *Report*, refer them to the website listed below.

THE ECONOMY

Overview

The U.S. economy is slowly moving towards a recession in late 2023 or early 2024, depending on which sector of the economy is being discussed. U.S. businesses remain cautious with some difficulties still present in the supply chain, particularly where a computer chip is involved.

Consumers in the U.S. are running out of money from the COVID money dump and are becoming more cautious in their purchases.

The Federal Reserve interest rate program has been moderated by two bank failures, but is still on track to address inflation, which is too high. The delicate balance of bankers investing in long-term bonds using short-term deposit money is under review even though banks are technically allowed to not book unrealized

losses in their bond portfolio if these bonds are designated as being “held to maturity.” Bank officers are being paid bonuses for performance, ignoring the large loss in their long-term bond portfolio. This is Alice in Wonderland accounting.

It is interesting to note that the Silicon Valley Bank went under just two weeks after the independent auditors gave it a clean bill of health, based on losses in the long-term bond portfolio. This has caused angst in the auditing community, the Federal Reserve and elsewhere.

As the economy slows and unemployment increases, it will be interesting to see if larger employers demand that more employees work in the office as contrasted to working at home. Currently, if most employees spend only one half of their time in the office, many metropolitan communities that have large office buildings could see these buildings reduced in value as their leases run out and the cities will find substantial reduction in their real estate tax revenues from this sector. On the other hand, if large employers win the battle and demand more attendance in their offices, the previous idea of working from home on a grand scale will be relegated to the historical dustbin.

Overall, we are in a no-man’s land between an economy gradually slowing and a looming recession.

WASHINGTON SCENE

The Federal Debt Limit

Little progress has been made in the struggle to extend the federal debt limit and to have a more bipartisan Congress. President Biden is refusing to even meet on this matter until the Republicans present their detailed version of a federal budget. Republicans have been slow to fill in the blanks. As we said in previous *Reports*, the increase in the federal debt limit should not be a negotiating item if the expenditures were already approved by Congress and there is no way to cover the expenditures with tax revenues at that time. On the other hand, the federal

budget is out of control and needs major revisions, but that should be done at budget time, not after the fact.

The Trump Situation

Donald Trump continues to raise money at his rallies to support his candidacy for President in 2024. Some of the big conservative money led by the Koch brothers of Wichita, Kansas have quietly dropped Trump and they are moving their financial support to Governor DeSantis of Florida who has been referred to by some as “Trump with brains and discipline.”

While Trump is facing one indictment and several other possibilities going forward, we should reflect on a statement made by former Senator Warren Rudman, who was a prosecutor early in life and believed as a prosecutor that he could indict “a ham sandwich.” The reason for his tongue-in-cheek pronouncement was that since the defense is not allowed to attend any grand jury hearing, the jury is only getting one side of the story.

As we look forward to the 2024 presidential election, we still see Trump’s legal baggage sidelining him at some point, DeSantis building a larger following, and Joe Biden running despite his age. Current polls report Democrats rejecting Biden as their candidate, and Republicans rejecting Trump as their candidate, a very odd situation for both frontrunners.

Conflicts of Interest

Congress needs to tighten its rules on its members using insider information from hearings to prevent them from trading stocks for personal gain. Someone also needs to tell Clarence Thomas of the Supreme Court that his objectivity is at stake if he continues to accept deluxe vacations from a major conservative political donor.

ELSEWHERE

The Border Control Issue

While we are trying to get the Mexican government to guard its southern border

to prevent the flow of illegal immigrants moving through Mexico into the United States, we are getting little assistance in this matter. Maybe a ten to 20% tariff on autos imported from Mexico might get their attention.

Several administrations of both political stripes in Washington D.C. have let this matter get out of control for many years. Since currently most of the illegals are very poor and will rely on welfare in the U.S. for some time, the Democrats know that they will vote for Democratic spending programs, and it appears they have not made a real effort to solve this problem. Vice President Harris was given the job to address this matter some time ago, and she has hardly been heard from on this issue.

Police Reform

As the federal government has become involved in misconduct by local law enforcement involving racial issues, some progress is being made on this matter. At the heart of this initial issue in Minneapolis was the murder of George Floyd. The federal government has been able to establish new rules in the Minneapolis area and ban the former police union official in Minneapolis from any involvement in law enforcement in three counties for 10 years. This person blocked many reforms over the years, and it is now being highlighted.

As the above occurs, a growing number of law enforcement personnel are being killed while on duty, which reminds us that these jobs are not for the faint of heart.

Gun Violence – Our National Embarrassment

As we see individual shootings every day in some states and mass shootings weekly across the country, many realize that the U.S. has a special problem compared to other advanced nations. While some states have made some progress on this matter, it is not controllable at the state level since a potential shooter can travel from a restrictive state and go to a less restrictive state and purchase a gun. The matter needs to be addressed

on a national basis, but the problem is that the U.S. Senate is deadlocked. We have outlined this issue in our January – February 2023 *Report* available on our website below. Essentially, all states have two senators regardless of their population. While some rural states that are often anti-gun control have two senators, some other states have a population 40 times larger and are often pro-gun control only have two senators, so there is a deadlock on this matter in the U.S. Senate even while the violence level increases. Politics aside, surveys show an overwhelming support for various forms of gun control.

Fox News

The paradox of Fox News is that the national news is very opinionated and supports most of Trump's thinking. At the same time the local Fox affiliates report the news in a more balanced fashion.

In the Dominion Voting Systems legal case, where the company has sued Fox for defamation and Fox claiming the voting machine were rigged to support Biden in the last election, the evidence is truly shocking that the news anchors were sending private emails to each other totally contradicting what they said in their news program. It is very telling that Fox paid Dominion \$787.5MM to settle the matter. Pink slips have been handed out at Fox News, starting with Tucker Carlson, with more to follow.

For many years, Walter Cronkite presented the evening news on CBS. He demanded his staff fully research the facts before he presented them. Today we have become sloppy with the facts and the news is part news and part entertainment.

It would seem that as the FCC reviews broadcasting licenses, they should be focusing more on the broadcasters getting the facts correct instead of allowing them to invent new "facts" to keep their viewership up and make more money.

MANAGEMENT

The China Issue

As China and U.S. relations deteriorate, management of U.S. companies serving the China market and/or manufacturing in China for the world markets will have to seriously consider using alternative nations such as other Asian countries and India. Many are exploring these options currently.

Keep in mind that if China makes its move on Taiwan, many Western companies involved in China could face the same fate as companies suffered in Russia when they left the country. Some suffered losses in the billions of dollars.

Silicon Valley

If we look at this area from a midwestern viewpoint, we see too much money handled poorly in venture capital firms (a very cyclical business), and tech companies offering excessive compensation, free lunches and free drycleaning. Layoffs of some consequence are occurring in many of these companies and lofty evaluations placed on early-stage companies backed by venture capital companies are melting downward. As money becomes more scarce, it won't be given out like candy.

INVESTING

Overview

We mentioned earlier that there are likely to be two legs down in the U.S. stock markets with the first having eliminated gross speculation (meme stocks, crypto money, and blank check companies) and the second leg responding to the business cycle downturn that reduces corporate earnings. We are beginning the second leg downward even though the stock markets at times seem a bit disconnected from economic reality.

If the Federal Reserve needs to keep raising rates to fight inflation with a strong labor market in place, the recession could be deeper and longer than normal.

Not all stocks are affected equally in the process but are vulnerable to a market psychology change from exuberance to disappointment. As we move into the last leg of the market downturn, we may see the best buying opportunities in good companies that have not been available in recent years. The emotional challenge is to stop grumbling about a market decline and get ready to start buying good companies at good prices.

PARTING SHOT

We focus so much on current events that we often lose our vision for the longer term. For example, the following positive events could occur by the end of 2024:

- The recession is over, and the recovery is on its way with the stock markets moving up nicely.
- The Russian-Ukrainian War is over, and the rebuilding of Ukraine is in progress.
- The Presidential election is behind us, and we are looking forward to a more bipartisan Washington.

These are not fairytales. These are likely events that will help stabilize our lives.

Respectfully submitted,



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