

The Horsch Business *Report*



Helping you grow your career, company, and economic wellbeing



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INTRODUCTION

We are facing a flareup of the long smoldering tensions in the Middle East along with a continuing Ukraine / Russia conflict, as the Federal Reserve eases off interest rate increases with inflation abating. We are also witnessing a stock market anticipating the long-delayed U.S. recession.

As usual, we encourage you to let your friends know about the free *Report*. Refer them to the website listed below if they would enjoy the *Report*.

THE ECONOMY

Overview

As labor markets soften and bank lending becomes more restrictive, we will see inflation come down even further. The wild card is various unions demands for higher pay sometimes involving a 40% increase over four years, which only feeds the fire of inflation. These labor costs, once established, never go down in bad times and makes the Federal Reserve goal of two percent inflation more difficult to achieve.

Consumers are gradually exhausting the excess savings that occurred during the COVID-19 pandemic.

With the Federal Government deficit at \$1.7 to \$2.0 trillion for the fiscal year ending September 30, 2023, and the total federal debt over \$33 trillion, our political system will have to focus more on this issue going forward. In a recent campaign speech in the 2024 presidential race, Nikki Haley noted that the last three presidents (Obama, Trump, Biden) have added more to the national debt than all the 42 presidents that preceded them combined – not a pretty picture.

With a rising unemployment rate and fewer new job openings, the struggle between workers wanting to work from home and employers wanting to have them in the office will tip in favor of the employers, which will have a favorable impact on the valuations of many large office buildings in metro cities, which have experienced a recent decline in value.

The U.S. Drug Price Issue

Historically U.S. drug companies distributing their drugs throughout the world have a convoluted market concept where U.S citizens pay a much higher price than those purchasing these identical drugs in Europe. This condition is partially caused because European countries budget for centralized healthcare costs and choose not to exceed them, whereas the U.S. does not have a centralized healthcare budgeted system, which allows drug companies to charge a much higher price.

The FDA has not helped in this matter. While it does a good job of protecting U.S. citizens from nonperforming drugs and dangerous drugs, it does little to assure that the drugs are affordable. In a recent press release, UnitedHealth Group stated that the drug, Ozempic, a recently approved drug by the FDA, is excessively overpriced and the U.S. is paying 10 times the price paid in Europe. They further indicated that drugs in these price ranges will bankrupt the system. Accordingly, they will not insure the cost of this drug.

Drug companies usually counter such discussions by indicating that lower drug prices will reduce innovation in the industry. Consider the following:

- In the U.S. a well-managed non-drug company often produces a 20% return on shareholder investment.

Eli Lilly and Merck, both leading U.S. drug companies, have an average return on shareholders' investment of 58%. They would still have a superior result

if they substantially reduced drug prices that would reduce their shareholders' investments return by half, resulting in a 29% return on shareholders' investment.

- Drug companies have powerful lobbying efforts in Congress that needs to be neutralized to change the situation.

The Biden administration is gradually decreasing the rules that force Medicare to purchase drugs at retail prices, even though they are the largest buyer of drugs in the world.

WASHINGTON SCENE

With needed funding for Israel and Ukraine, as well as the border issues and general funding to keep the federal government open beyond November 15, the House of Representatives has finally elected its speaker. Many believe he is the most conservative politician to hold the position in modern times. He will have about a 30-day honeymoon to get his thoughts together.

The gap between the speaker's concepts and the concepts of the Democratically controlled Senate and the Presidency is a very wide one. Let's hope somehow in the process some politicians put Americans first instead of their own political party.

ELSEWHERE

Israel / Hamas Fighting

Increasingly we are hearing about an old WWII phrase referring to the word "Axis." In WWII the Axis powers were Germany, Italy, and Japan fighting the U.S. and its allies. Today the Axis is China, Russia, Iran, and North Korea with the U.S. and its allies as a proxy for the Ukraine and Israel.

While Arab infighting dates back centuries, today's combatants are organized around the followers of Iran and the followers of Saudi Arabia, much related to religious differences.

Iran is currently financing several rebel groups in the Mideast, including Hamas (Palestine), Hezbollah (Lebanon), and the Houthis (Yemen).

A vicious raid by Hamas killed large numbers of Israeli civilians. As we go to press, Israel has positioned its personnel and equipment on the border with periodic attacks into Gaza and appears about ready to launch an invasion. Perhaps the old concept, "an eye for an eye," which has worked well for Israel for years, should be reviewed and a peace treaty should be initiated to stop the killing of innocent civilians on both sides.

Any peace treaty would have to include the following:

- The removal of Hamas in the Palestinian area and the resurrection of the Palestinian Authority as the leader of its people.
- The establishment of a multinational military force to maintain the peace while this is being sorted out.
- The immediate cessation of rockets being fired into Israel.
- The recognition by Israel that the Palestinians have a right to their own country.
- Support by the international community to assist the Palestinians with a better life and hope for the future.
- Israel must agree not to annex any more of the Palestinian land particularly in the West Bank.

All of this will not work very well unless we deal more directly with Iran's aggressiveness. Sanctions and other related activities are not working well enough.

The Ukraine-Russia War

The Ukraine-Russia war is not changing much, and winter is coming. The counter offensive by Ukraine has not gained much land, but new rockets and other armaments may allow them to destroy more distribution points supplying Russian troops and turn the

tide in their favor.

We continue to believe that after a successful Ukraine counterattack, we should have a peace treaty as follows:

- To allow a face-saving move for Putin, Russia gets to keep the land they invaded in 2014 and 2015. (The "Expeditionary Force" did its job.)
- The world regroups to help rebuild the Ukrainian destroyed properties.
- Ukraine is on the list to eventually become a part of NATO.

While the Europeans are still strongly supporting Ukraine, the U.S. support is beginning to lessen.

FTX Fraud

One of the interesting facts about the collapse of FTX in the crypto currency world led by Sam Bankman-Fried is that his parents were leading law professors at Stanford University, with his mother a known expert in ethics. Unfortunately, one of her concepts as a gifted theorist allows for the fact that if you are doing good you don't need to be bound by normal rules. So, in fact, the end justifies the means.

This is exactly what her son did in committing this great fraud. He repeated the idea of doing good while committing a giant fraud as though he was sprinkling holy water on the whole mess.

So much for intellectual superiority and immature management involving such a large amount of money.

MANAGEMENT

The COVID Rethink

A once-in-a-hundred-year public health crisis forced the government to shut down nonessential industries, which caused employers to allow people to work at home rather than in the office. In addition, the federal government added a supplement to state unemployment payments, with some unemployed people receiving more money than when they were employed. For those

working mostly from home instead of in the office, they witnessed a big change in their work routines. This gave them a lot of time to reflect on the home / work balance issue. It was a big philosophical moment for many employees.

After the COVID-19 pandemic subsided, the labor market remained tight with some employees still able to receive signing bonuses.

As the job market cools off and unemployment increases, the employers will have greater strength in resolving this matter. We believe that the new work agreements for office work versus home will have the following characteristics:

- If you have a job / job, you will argue for more time at home and less in the office with greater flexibility and convenience:
 - o Less expense for parking, lunches, and clothing.
 - o Less time in the car fighting traffic.
 - o Flexibility in handling crises at home, especially involving young children.
 - o Better control of your life in general.
- If you have a career / job you may like all the above advantages, but you realize you are not going to be promoted very much since you are simply "out of the action" when at home, missing the group dynamics in the office as well as general exposure to your boss.
- Some jobs have little to do with the office, such as computer programming, and would allow employees to continue to live almost anywhere.

INVESTING

The stock market is continuing to react to the competition from bonds as interest rates have increased and the anticipation of a long-awaited recession in 2024. High-flying stocks have been the most vulnerable since the evaluation placed on them initially does not allow

for any negative surprises.

Venture capitalism is a cyclical business and has slowed and new IPOs are struggling, which always occurs at the end of a big bull market. The Federal Reserve has taken a significant pause as inflation has been reduced by about 50% from its peak. Home mortgage rates on a 30-year loan are about 7.6% and are slowing the home construction industry.

It does not help general stock market psychology that the House of Representatives in Washington has been nonfunctioning and the new speaker, while being well meaning, is seen as a very conservative speaker.

PARTING SHOT

One of the most useful ideas developed over the years is the concept of gratitude. All of us have problems both large and small from time to time, which are just part of being on this earth. While the problems tend to make us discouraged, if you think about your situation versus others less fortunate, you are exercising gratitude, and it can make a big difference in your outlook.

The process can be enlarged if you look beyond your neighbors and your country. When you realize that the standard of living of the average American is about six times that of the average Chinese citizen, and the average auto industry pay rate in the U.S. is about 10 times the labor pay rate in Mexico for assembling BMWs, you realize that you are better off than most people in the world.

Take a deep breath and reflect on gratitude.

Respectfully submitted,



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