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CalChamber

ALERT

Arbitrary Greenhouse Gas Target Passes Committee

Legislation establishing an arbitrary greenhouse gas target and identified by the California Chamber of Commerce as a 2023 Job Killer passed a Senate policy committee this week. **SB 12 (Stern; D-Canoga Park)** would require statewide greenhouse gas emissions to be reduced to at least 55% below the 1990 level by December 31, 2030. This would be a dramatic increase from the state's current goal of 40% during the same time frame.

The bill passed the Senate Environmental Quality Committee with opponents and even one supporter acknowledging the bill could hurt Californians by increasing costs.

"California businesses and residents suffer from an affordability crisis, created in large part by the state's escalating energy costs," said CalChamber Policy Advocate Brady Van Engelen. "At a time when Californians are suffering from nearly record high prices on many essential goods from groceries to gas,

See Arbitrary Greenhouse Gas: Page 5

Former Chief Justice Describes Parallels Between Attitudes of Past/Current Colleagues

Former Chief Justice Tani Cantil-Sakauye, now president and CEO of the Public Policy Institute of California (PPIC), draws comparisons between her past and current roles in a lively, engaging talk at the CalChamber Board of Directors dinner on March 9. She comments that the research attorneys with whom she worked at the Supreme Court are much like the researchers at the PPIC in their passion for "getting it right" and wanting the public to have the results of their work.

CalChamber Names Flexible Work Schedule Bill as Job Creator

Legislation making it easier to set up flexible work schedules has been named a **job creator** by the California Chamber of Commerce.

SB 703 (Niello; R-Sacramento) allows for an employee-selected flexible work schedule and relieves employers of the administrative cost and burden of adopting an alternative workweek schedule per division, which accommodates employees, helps retain employees, and allows the employer to invest these savings into growing its workforce.

Joining the CalChamber in supporting SB 703 is a coalition of employer groups and numerous local chambers of commerce.

California Process

California is one of the only states that requires employers to pay daily overtime after eight hours of work in addition to weekly overtime after 40 hours of work. Even other states that impose daily overtime requirements allow the employer and employee to essentially waive the daily eight-hour overtime requirement through a written agreement.

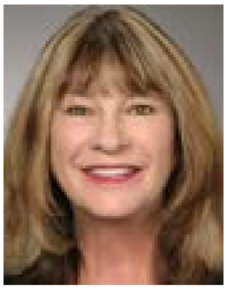
California, however, provides no such common-sense alternative. Instead, California requires employers to navigate a multi-step process to have employees elect an alternative workweek schedule that,

See CalChamber Names: Page 11

Inside

Labor Law Corner

Terminating Employee on Workers' Comp Involves Delicate Decisions



Dana Leisinger
Employment Law Expert

We are a smaller employer with only 16 employees, and we have an employee who has been on workers' compensation for more than eight months. Can we terminate his employment?

California Labor Code, Section 132a states, in part, that: "It is the declared policy of this state that there should not be discrimination against workers who are injured in the course and scope of their employment." This code section goes on to set forth penalties and increased compensation if an employer is found in violation of this policy.

Therefore, terminating someone on workers' compensation can be construed as the ultimate form of violation of this code. It can be difficult for a smaller employer to hold a job open for the months that might be needed for many injuries to resolve.

The employer is free to replace the injured worker on a temporary basis, but it can be difficult to find someone willing to take a job knowing that the injured worker could return at any time and get his/her job back.

'Business Necessity'

What employers can assert is a "business necessity" defense to termination. In other words, if it is burdensome to hold the job open and difficult to find a temporary replacement, the employer can state that due to business necessities, it must terminate the employee on workers' compensation.

This is a very delicate decision to make and should follow communication with the injured worker and an effort to resolve the situation differently, such as placing said worker in an alternative or modified position.

A small employer may find it easier to terminate the worker while larger employers have the ability to shuffle duties among other staff members. However, if the job is a critical one, even larger employers may need to terminate the injured worker and replace him/her.

Changes Over Time

There is no specific time frame for resolving a workers' compensation claim. The time required depends on the severity of the injury, the age of the worker, and how well the worker recuperates. A claim easily can take years to resolve, and situations can change during that time.

For example, an employer might lose a contract, therefore shutting down an entire department. In this situation, again — it is critical for the employer to maintain communication with the employee so that he/she knows what is going on, and realizes there is no job to which to return. Openness and clarity are important in these cases.

Because of the sensitivity of this kind of situation, it is particularly important to consult with legal counsel before terminating the injured worker.

Column based on questions asked by callers on the Labor Law Helpline, a service to California Chamber of Commerce preferred and executive members. For expert explanations of labor laws and Cal/OSHA regulations, not legal counsel for specific situations, call (800) 348-2262 or submit your question at www.hrcalifornia.com.

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CalChamber-Sponsored Seminars/Trade Shows

More at ***www.calchamber.com/events***.

Business Resources

California's Recycling Overhaul: A Breakdown of SB 54's Circular Economy. CalChamber. April 28, Online. (800) 331-8877.

California Privacy Rights Act (CPRA) Compliance. CalChamber and Mariner Strategies. May 24, Online. (800) 331-8877.

Labor and Employment

Leaves of Absence: Making Sense of It All Virtual Seminar, April 13–14, August 24–25, September 21–22, Online. (800) 331-8877.

Paying Employees in California, CalChamber, Online, April 20. (800) 331-8877.

HR Boot Camp Virtual Seminar. CalChamber. May 4–5, Online. (800) 331-8877.

International Trade

2023 Taiwan Trade Shows. Taiwan Trade Center, San Francisco. March 6–November 8, Taiwan and Online. (408) 988-5018.

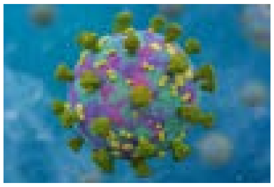
Panama and CAFTA-DR Trade Mission. Foreign Agricultural Service, U.S. Department of Agriculture. March 19–23, Panama City, Panama. *trademissions@fas.usda.gov*.

How to Sell into the Middle East and North Africa (MENA) Market via the Cross-Border Digital Sales Channels. International Trade Administration, Getting to Global and U.S. Commercial Service. April 13, Online. (800) 872-8723.

11th Annual Pan African Global Trade and Investment Conference. Center for

See CalChamber-Sponsored: Page 4

State Health Department, Cal/OSHA Update COVID-19 Order, Guidance



On March 3, 2023, the California Department of Public Health (CDPH) updated its COVID-19 public health order and guidance following the end of the COVID-19 State of Emergency on February 28, 2023. CDPH updates include changes to isolation and quarantine recommendations, effective March 13, 2023, and face-covering recommendations, effective April 3, 2023.

Isolation and Quarantine

The updated CDPH order revises isolation and quarantine recommendations to align with the federal Centers for Disease Control and Prevention (CDC) isolation recommendations.

Individuals who have tested positive for COVID-19 should continue to isolate for five days but may leave isolation after five days, if they are feeling well, symptoms are improving and are fever-free for 24 hours. Notably, COVID-19 cases do not need to test negative after day five to leave isolation.

The order revises the definition of "infectious period" to align with the updated isolation recommendations. Infectious period is now defined as:

• For symptomatic confirmed cases, two days before the confirmed case had any symptoms (symptom onset date is Day 0) through Days 5–10 after symptoms first appeared AND 24 hours have passed with no fever, without the use of fever-reducing medications, and symptoms have improved; OR

• For asymptomatic confirmed cases, two days before the positive specimen collection date (collection date is Day 0) through Day 5 after positive specimen collection date for their first positive COVID-19 test.

The California Division of Occupational Safety and Health (Cal/OSHA) COVID-19 Prevention Non-Emergency regulations specifically incorporate the CDPH's definition of infectious period, so this latest revision will impact employers' COVID-19 return-to-work policies — essentially making it easier for employees to return to work after five days if they have improving symptoms and are fever free.

Face Coverings

The CDPH also updated its face-covering guidance. The order specifies that individuals must continue to follow the requirements of CDPH's face-covering guidance through April 2, 2023, after which they will become recommendations. The general community recommendations are still based on the CDC's community level framework, but the new guidance will remove the face covering requirements for certain specified high-risk settings when it takes effect on April 3.

CDPH's new guidance also specifies that after ending isolation (no fever without the use of fever-reducing medications and symptoms are improving), confirmed COVID-19 cases may remove their mask sooner than Day 10 with two sequential negative tests at least one day apart.

Although the CDPH is relaxing its masking guidance, Cal/OSHA's COVID-19 regulation still specifically requires employees to wear face coverings in certain circumstances. For example, the regulation specifies that COVID-19 cases must wear a face covering in the workplace until 10 days have passed since the date symptoms began or their first positive test. While Cal/OSHA's regulation specifically incorporates the CDPH's definition of "infectious period," the new CDPH guidance allowing COVID-19 cases to remove their masks after two sequential negative tests doesn't appear to impact the regulation's 10-day requirement, meaning employers will likely need to continue to follow the regulation's current face covering requirements as written.

Cal/OSHA updated their COVID-19 Non-Emergency Regulation FAQs on March 13, 2023, to address the recent CDPH changes.

Cal/OSHA's revised guidance adopts CDPH's definition of infectious period, meaning COVID-19 cases can return to work after five days without a negative test, so long as they are feeling well, symptoms are improving and are fever-free for 24 hours.

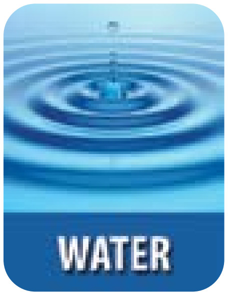
However, Cal/OSHA's guidance maintains that COVID-19 cases that return to work must wear a face covering for 10 days after symptoms first appear or their first positive test. Employers should review the revised guidance to ensure their COVID-19 prevention policies are up to date.

CalChamber members can use the *COVID-19 Prevention Checklist* on *HRCalifornia* to help develop and implement their written COVID-19 prevention procedures.

Not a member? Learn about the *benefits of membership*.

Staff Contact: James Ward

Executive Action Directs Storm Flows to Recharge Groundwater



California's recent storms have pounded the state, quickly moving the state from extreme drought to flood conditions. Since January, California has seen repeated flooding across the state and multiple feet of snow in the higher elevations as one atmospheric river after another dumps precipitation.

The fact that California has an abundance of precipitation but no way to store it has made national news. *The Wall Street Journal* recently highlighted the issue, noting that "enough [water] for between 1.7 million and 2.5 million people for one year, could be captured in Southern California and the San Francisco Bay Area," if proper infrastructure and procedures were in place.


Photo by California Department of Water Resources

Executive Order

A positive step last week was an Executive Order (EO) on groundwater recharge from Governor Gavin Newsom. This EO, number N-4-23, suspends several environmental permitting processes for projects that use excess floodwaters in 2023 to recharge groundwater. "California is seeing extreme rain and snow, so we're making it simple to redirect water to recharge groundwater basins. This order helps us take advantage of expected intense storms and increases state support for local stormwater capture efforts," said Governor Newsom.

The suspension of these permitting processes allows these time-sensitive projects to take advantage of high flows now so that water can be stored underground for later use. While the recent storms have alleviated most drought conditions across the state, groundwater basins have not recovered from the lengthy and repeated drought conditions over the last few years.

Recharging Groundwater Basins

In many areas, particularly the Central Valley, groundwater is the main source of water for both cities and industries. Agricultural operations in particular often rely on groundwater, especially in drought years when surface water supplies are limited or unavailable. Agricultural businesses have also long looked into ways to facilitate groundwater recharge. Removing barriers to recharge projects under present climactic conditions fills a key need to recharge overdrawn groundwater basins and create better water security across the state.

This EO comes on the heels of Newsom's earlier action on water that allows the state to capture and conserve more stormwater. Prior drought EOs similarly suspended the California Environmental Quality Act (CEQA) for water supply projects and have been used in the groundwater recharge context. This newest EO expressly focuses on groundwater recharge in a way that further facilitates using these permitting suspensions.

Water is the lifeblood of California's economy. It is the foundation upon which our way of life is built. Water underpins California's food security, is essential for building new housing, and is a basic human need. Without continued serious action to address our challenges with respect to storage and water reliability, businesses and residents alike will suffer. Common-sense solutions, like streamlining processes to harness unusually high flows for storage and groundwater recharge, are part of a larger need to ensure that our water system works predictably and reliably for all areas in the state.

The CalChamber works with our members to advocate sensible policies that provide a secure water future for California and its economy. We will continue to work with policymakers to ensure that California can build abundance in its water supply.

Staff Contact: Brenda Bass

CalChamber-Sponsored Seminars/Trade Shows

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African Peace and Conflict Resolution. April 26–30, 2023, Sacramento. *info@panafricanglobaltradeconference.com*.

The Stockholm Model — Creating Sustainable Impact for Society through Collaboration and Innovation. KTH Royal Institute of Technology. May 8–9, San Francisco. 46-8-790 65 50.

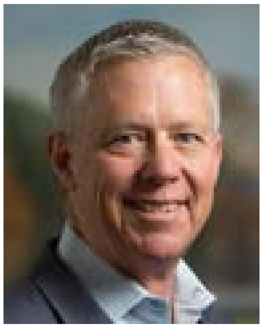
Annual Export Conference. National Association of District Export Councils (NADEC). May 9–10, Washington, D.C. *aburkett@naita.org*.

U.S. to EU: How to Sell into European Union via eCommerce. International Trade Administration, Getting to Global and U.S. Commercial Service. May 18, Online. (800) 872-8723.

NAFSA Annual Conference & Expo. National Association of International Educators. May 30–June 2, Washington, D.C. (202) 737-3699. *Early bird registration through April 14*.

Smart City Expo World Congress (SCEWC). Smart City Expo World Congress. November 7–9, Barcelona, Spain. (704) 248-6875.

How 'New Frontier' Tax Proposal Will Hurt California Revenues



Loren Kaye

To the delight of the tax and spending lobby, Assemblymember Alex Lee (D-San Jose) has again introduced a tax on wealth. Inspired by government union pressures, similar wealth taxes have been introduced in seven states, and are similar to proposals made by Senator Elizabeth Warren during the 2020 presidential campaign.

Tagged as a job killer by CalChamber, AB 259 (and its companion legislation, ACA 3) would impose a first-ever tax on the worldwide net worth of state residents, initially at a rate of 1.5% on worldwide net worth in excess of $1 billion, and then beginning in 2026 at a rate of 1% on worldwide net worth in excess of $50 million, but rising to 1.5% for the $1 billion bracket.

Highest Marginal Rate

Recall that California already taxes upper income taxpayers with the highest marginal income tax rate of any state: 12.3% on incomes over $677,000 and 13.3% on incomes over $1 million. All real property in the state (above a very small exemption) is taxed an average of 1.2% of assessed value. Together, income taxes and property taxes alone in California raised about $225 billion last year — mostly from upper income Californians and businesses.

Guest Commentary
By Loren Kaye

According to CalChamber advocate Preston Young, in a letter to Assemblymember Lee, "Not only is this proposed tax audacious in the amount of new revenue to be raised, estimated by some at $21.6 billion a year, it targets individuals who may have only a fleeting connection with the state — reaching across time and space to seize revenues from successful entrepreneurs and business owners."

Undermines Tax Base

To the surprise of almost nobody, this new frontier in state taxation would undermine California's tax base. Research from the Hoover Institution finds "significant out-migration effects caused by tax rate increases, refuting the flawed findings of other research, and it also shows that departure rates for top earners are accelerating."

Hoover researchers have also concluded that this may not be the worst of it: Those who remain in California "will alter their behaviors to avoid shelling out more in taxes than the state already demands from them — in the case of the wealth tax, possibly accumulating less wealth or making fewer risky investments."

Other researchers have found that high tax states have suffered a decade-long erosion of population and tax base. In the past 10 years, six of the seven high-tax states have had a net loss of population to other states, totaling nearly five million residents, and have lost almost a quarter-trillion dollars in cumulative taxable income.

Entrepreneurs/Investors

There's another term for "wealthy" Californians: entrepreneurs and investors who believe in the economic promise of the state. These are the individuals who play a central role in driving California's budget growth and providing the shock-absorbing revenue surpluses that the state will use to offset today's revenue shortfalls. Legislation designed to seize their wealth breaks that economic promise.

Loren Kaye is president of the California Foundation for Commerce and Education, a think-tank affiliated with the California Chamber of Commerce.

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increasing costs is the wrong approach to take. We support climate change laws and regulations that are cost-effective, technology-neutral and promote the use of market-based strategies. SB 12 does not take any of these into account and will lead to excessive costs, hurt California residents and businesses, and severely damage the state's economy."

California has some of the highest commercial and industrial electricity rates and highest gasoline and diesel prices in the country.

In addition to CalChamber, to date, 20 other organizations are voicing strong opposition to the measure. In a coalition letter sent to Senator Stern on March 13, the groups argue that SB 12 undermines the existing public and transparent process that the California Air Resources Board (CARB) recently adopted, where hundreds of stakeholders engaged in a months-long inclusive Scoping Plan review.

During that process, stakeholders made clear that the transition to a clean energy future will require a deliberate and thoughtful approach to ensure the state is appropriately balancing affordability with reliability.

According to data released by CARB, increasing the greenhouse gas 2030 emissions target from 40% to 55% below the 1990 level would require the state to remove an additional 17 million gasoline-powered vehicles from the road by 2030. CARB's own modeling of scenarios that mirror what is proposed in SB 12 have shown the bill will be "economically and technically infeasible due to the current lack of low-carbon energy infrastructure, unavailability of technology, large job loss and high implementation costs."

Staff Contact: Brady Van Engelen

China Influence Growing in Latin America; California Maintains Strong Trade Presence

The United States is Latin America's top trade partner, but China's influence and economic stake in the region is growing, a leading expert on the Americas recently told a California Chamber of Commerce gathering.

Richard Kiy, president and CEO of the Institute of the Americas, spoke at the March 10 breakfast meeting of the CalChamber Council for International Trade.

Thanks to the U.S.-Mexico-Canada Agreement (USMCA), California has a strong presence in Latin America, Kiy pointed out. In 2021, the Americas accounted for 29% of total California exports — $13.28 billion. USMCA partners accounted for 87.5% of that total and 25.7% of California's $155 billion in total global exports.

Similarly, Mexico and Canada made up the largest share of California imports from the Americas, with Ecuador in a very distant third spot with slightly more than a 10th the value of California imports from Canada.

Kiy highlighted California's importance as an export partner for what he called "otherwise overlooked countries." For example, California accounts for 15.72% of exports from Guyana, 11.52% of exports from Ecuador and 10.08% of exports from Chile.

Worth noting, Kiy said, is that Chile, Costa Rica and Uruguay are the only full democracies in Latin America.

Summit of the Americas

The first Summit of the Americas held in Miami, Florida in 1994, led to expanded U.S. trade and investment in Latin America and laid out a vision for free trade in the Americas, based on democratic governance, the rule of law and open markets, Kiy explained.

Although many U.S. companies benefited from some of the opportunities and jobs were created in the region, in the long term, that first summit failed to deliver on its promise.

Richard Kiy, president and CEO, Institute of the Americas, reviews trade, investment and geopolitical issues in Latin America at the March 10 breakfast meeting of the CalChamber Council for International Trade.

When the United States hosted the Ninth Summit of the Americas in Los Angeles last year, Kiy commented, attendance was smaller for a variety of reasons and the "Washington consensus" that free trade and open markets are going to lead toward greater democratic governance in the world was called into question.

The Biden administration was able to push forward the Americas Partnership for Economic Progress, an action plan for democratic governance and a declaration on migration protection, he noted.

And while the current administration is shying away from free trade agreements, it is trying to align with countries focused on supply chains, clean energy, labor rights and digital trade, without lowering tariffs.

China Influence

Pivotal events in the U.S. relationship with Latin America, Kiy said, were 9/11 and the subsequent shift in focus to the Middle East, and the market crash in 2007–2008.

While the United States was distracted in the Middle East and focusing on internal issues, China was investing in Latin America.

Kiy cited statistics showing that in 2000, China represented less than 2% of total Latin American exports. By 2010, China accounted for 31% ($180 billion) of Latin American exports and in 2020 $450 billion.

Today, China is the top export market for South America plus a major source of foreign investment and lending in energy and infrastructure projects. China also has free trade agreements with Chile, Costa Rica and Peru, and is negotiating an agreement with Ecuador.

Opportunities

In brief country-by-country assessments of opportunities for businesses, Kiy said he still is very bullish on Mexico for companies that retain awareness of reported challenges and work with the exchanges made possible by proximity to the border between California and Mexico.

He cited Chile as another promising market. Under a young, pragmatic president, Chile is working to encourage investment in the country and trying to promote itself as a center for green hydrogen.

Staff Contact: Susanne Stirling

High Inflation, Interest Rate Hikes of 2022 Not Reflected Yet in 2023 Economic Data

Recapping a Challenging 2022

Markets faced several challenges in 2022, including high inflation, historic central bank policy, the war in Ukraine, and COVID lockdowns in China. Inflation was a major factor in the markets throughout the year, with the headline consumer price index reaching a 40-year high of 9.1% in June.

High inflation prompted the Federal Reserve and its global central bank peers to aggressively raise interest rates, which caused stocks and bonds to trade lower. There was no place to hide as central banks rapidly tightened monetary policy.

The Standard and Poor's (S&P) 500 returned -19.4% in 2022, its worst annual return since 2008, and the Bloomberg U.S. Bond Aggregate produced its worst total return since 1976. This article reviews the fourth quarter, recaps a difficult 2022, and discusses what the market will be focused on in 2023.

2022 Interest Rate Hikes

The main story of 2022 was the reversal of monetary policy from extraordinarily accommodative levels during the COVID-19 pandemic. The speed and size of interest rate increases was evident as central banks worked to bring inflation under control.

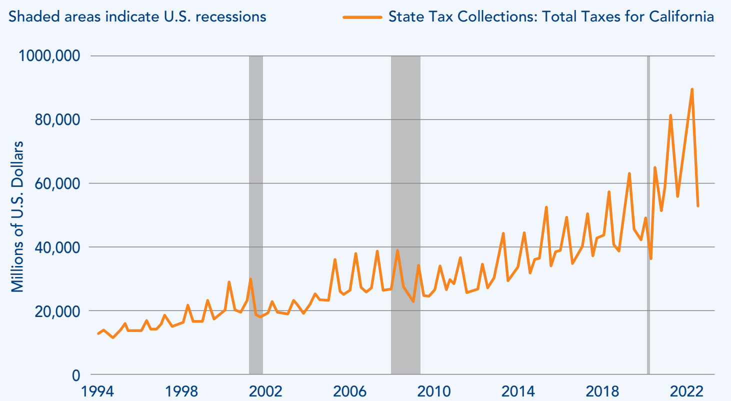
For example, central banks across the globe raised interest rates by a total of 68% from September to November 2022. In contrast, the total amount of interest rate cuts during that same period was only 4%. As the data shows, 2022 was the quickest, largest, and most imbalanced global tightening cycle since the late 1990s.

The pace of interest rate increases is forecasted to slow during 2023. Central banks continue to hint that they are approaching the end of their interest rate hike cycle, citing concerns that further tightening could push the economy into recession.

In addition, data suggests price pressures are easing. While the year-over-year headline consumer price index rose by 7.1% in November 2022, which is still high compared to historical levels, it was down from the 9.1% rate seen in June 2022.

As inflation and central bank policy return to normal, a new uncertainty is emerging — the unknown effects of 2022's rate hikes.

California Tax Collections Point to Deficit



Source: U.S. Census Bureau, fred.stlouisfed.org, Goldenstone Wealth Management, LLC

Data Lag

Markets Wait for the Lagged Effect of Higher Interest Rates to Show Up in Economic Data

The Federal Reserve's interest rate hikes occurred in 2022, but the full impact of its restrictive measures has not yet been felt fully in the real economy.

While the U.S. economy contracted during the first half of 2022, it expanded at a robust +3.2% annualized pace during the third quarter. Consumer spending remained strong throughout most of 2022 despite high inflation, and the U.S. labor market added more than 4 million jobs through the end of November.

The data indicates the U.S. economy has withstood tightening thus far, but the real test will come in 2023 as the cumulative impact of higher interest rates becomes clearer. While a recession is not a foregone conclusion, it is possible the economy could be tested in 2023.

An index of leading economic indicators shows the U.S. economy is already starting to slow as the impact of higher interest rates takes hold.

The Conference Board's Leading Economic Index tracks 10 economic components that tend to precede changes in the overall economy. Included in the components are the average weekly hours worked by manufacturing workers, new home building permits, and the volume of new orders for capital goods, such as equipment, vehicles, and machinery.

The Leading Economic Index has decreased every month since March 2022, an indication the economy is slowing after a period of strong growth during the pandemic recovery.

Corporate Earnings

Equity Valuations Are More Attractive, But Corporate Earnings Are An Open Question

Whereas inflation and central bank policy were the primary drivers of markets in 2022, economic data and corporate fundamentals are expected to play a larger role in determining the market's direction in 2023.

Two important S&P 500 metrics are:

• The next 12-month price-to-earnings ratio, which divides the S&P 500's projected next 12-month earnings by its current price. Valuation multiples

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expanded during the pandemic as interest rates were cut to near 0% before reversing lower during 2022 as rising interest rates weighed on company valuations.

While current valuations are at a more attractive starting point today than at the beginning of 2022, corporate earnings are an open question entering 2023 with the potential for an earnings reset as the economy slows

• The S&P 500's trailing 12-month earnings growth. There was a jump in corporate earnings during the pandemic.

Despite expectations for an economic slowdown, Wall Street analysts still forecast single-digit earnings growth for the S&P 500 in 2023. The positive earnings growth forecast is encouraging, but it creates a risk for the market. If actual earnings growth falls short of the forecast, stock prices could decline as markets price in lower actual earnings.

Equity Market Recap

Stocks Trade Higher in 4Q '22

Stocks traded lower during December but still ended the fourth quarter higher. The S&P 500 Index of large cap stocks returned +7.6% during the fourth quarter, outperforming the Russell 2000 Index's +6.2% return. The Dow Jones Index, which includes large companies such as Visa, Caterpillar, Nike, and Boeing, was the top performer, returning +15.9%, while the Nasdaq 100 Index of technology and other growth-style stocks produced a -0.1% return during the fourth quarter.

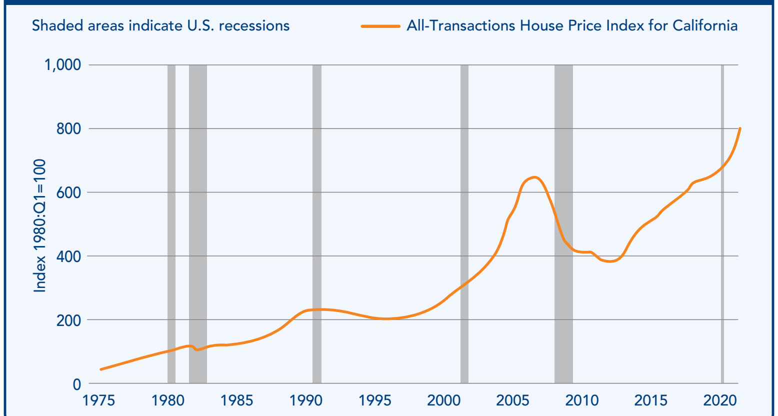
Energy was the top performing S&P 500 sector during the fourth quarter, followed by the cyclical sector trio of Industrials, Materials, and Financials. Defensive sectors, including Health Care, Consumer Staples, and Utilities, were middle-of-the-pack performers. Growth-style sectors, including Technology, Communication Services, and Consumer Discretionary, and interest-rate sensitive Real Estate underperformed as higher interest rates continued to weigh on valuation multiples.

International stocks outperformed U.S. stocks during the fourth quarter. The MSCI EAFE Index of developed market stocks returned +17.7% during the fourth quarter, while the MSCI Emerging Market Index returned +10.3%.

A weaker U.S. dollar boosted the returns of international stocks, with U.S. dollar weakness driven by a shrinking monetary policy gap as other central banks catch up with the Federal Reserve's aggressive policy.

Separately, China's decision to relax its COVID-zero restrictions raised the prospect of stronger global growth as one of the world's biggest economies reopens.

California Housing Hits New Highs Post-Pandemic; Affordability Severe Problem



Source: U.S. Federal Housing Finance Agency, fred.stlouisfed.org, Goldenstone Wealth Management, LLC

Bond Market Recap

The Great 2022 Yield Reset

The bond market experienced a significant resetting of interest rates during 2022, with yields steadily rising as the Federal Reserve pushed through large interest rate hikes. Despite posting positive returns during the fourth quarter, bonds produced significant losses during 2022 as central banks raised interest rates at a rapid pace.

The Bloomberg U.S. Bond Aggregate produced a -13% total return during 2022, its biggest negative total return since tracking began in 1976.

Examining the state of the credit market after 2022's rate hikes shows the 10-year Treasury yield sits at its highest level since 2007. Yields are now higher across most credit classes, and investors can earn a yield of around 4% to 5% on a portfolio of high-quality bonds, such as U.S. Treasury bonds and investment grade corporate bonds, without locking up capital for long periods of time.

In the corporate credit market, the high-yield corporate bond spread, which is the extra yield investors demand to loan to lower quality borrowers, is in line with its median since 1999.

The starting point for bonds, both in terms of yield and credit spreads, is now more compelling than it has been in a long time. However, there is still the potential for continued volatility in the bond market. There is still significant uncertainty regarding how high the Fed will need to raise interest rates and how long it will need to keep interest rates at restrictive levels to bring inflation down to normal levels.

There is a risk that inflation could remain above the Fed's 2% target, leading to an extended tightening cycle. At the same time, the economy is likely to start feeling the effects of 2022's rate hikes in 2023, which could make bonds more attractive. The crosscurrents of uncertain central bank policy and a volatile global economy could keep interest rate volatility elevated and test bond investors' nerves again during 2023.

California Update

• The unemployment rate for California stood at 4.1% compared to 3.4% nationally with 15 consecutive months of nonfarm job gains.

• Year over year, California job growth (3.6%) has outpaced the United States as a whole (3.0%) by 0.6 percentage points and the state has 70,000 more jobs than pre-pandemic levels in February 2020.

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High Inflation/Interest Rate Hikes of 2002 Not Reflected Yet in 2023 Data

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• Nine of California's 11 industry sectors gained jobs in December with Education & Health Services showing the largest month-over gains thanks to strength in Home Healthcare Services, Residential Care Facilities, and Individual and Family Services.

• Most recent data shows the state gross domestic product (GDP) at $3.6 trillion — perhaps ranking California now as the fourth largest economy in the world.

• The housing market keeps the state as one of the most unaffordable, although sales, permits and prices have seen a significant cooling off since the middle of 2022.

• California continues to lose population as people continue to move to more affordable states with more attractive taxes with the net negative migration being significant for four consecutive years. Those leaving are mostly at the lowest or the highest income levels. The top 1% of incomes account for almost half of the General Fund budget. The state Legislative Analyst's Office (LAO) is expecting a budget shortfall in 2023 exceeding $25 billion — a radical swing from the $95 billion surplus form last year.

• Businesses continued to leave the state with significant announcements from Tesla, Oracle, Hewlett Packard, McKesson, and Charles Schwab recently.

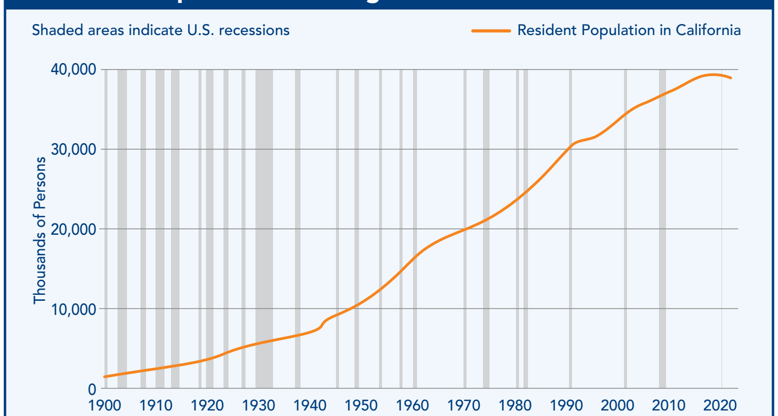
• Other challenges confronting the Golden State include rising crime, homelessness, higher cost of living, higher cost of energy, Bay Area impact from technology job layoffs, and loss of business confidence.

2023 Outlook

Turning the Page on 2022's Historic Tightening Cycle

2023 brings the next phase of the tightening cycle where the lagged effects of tighter monetary policy will be felt. It has the potential to be a year of two halves.

California Population Declining



Source: U.S. Census Bureau, fred.stlouisfed.org, Goldenstone Wealth Management, LLC

• In the first half, the focus is likely to shift from the number of future interest rate hikes to how much those interest rate hikes will slow the economy. Some data, such as the housing market, indicate that tighter monetary policy is being transmitted into the economy at a rapid pace. Home sales are slowing, and homebuilder confidence weakened every month during 2022 and now sits at its lowest level since 2012.

At the same time, consumers continue to spend, and employers continue to add jobs. There still is a wide range of possible outcomes, and the unique nature of the pandemic followed by rapid interest rate cuts and hikes makes the path forward less certain.

• The second half has the potential to be different depending on how severe the slowdown is in early 2023. Markets are based on forward-looking decisions, and investors will be watching closely for signs that the economy has bottomed and is recovering. Plus, there is an encouraging historical trend in the S&P 500 calendar year price returns. There have only been two instances of consecutive negative S&P 500 return years since 1950 — in 1973–1974 and 2000–2002.

This does not necessarily mean the S&P 500 will produce a positive return in 2023 or trade higher in a straight line from here, because it may not. However, it does provide helpful historical context in a volatile environment.

Staff Contact: Nicole Wasylkiw

This economic outlook report is adapted from the special report presented to the CalChamber Board of Directors by Dr. Sanjay Varshney, Ph.D., CFA, principal, founder and chief economist, Goldenstone Wealth Management, LLC.

Regulatory Sources of Housing Woes Get Airing at CalChamber Meeting

CalChamber Board member Greg McWilliams (left), chief policy officer of Five Point Communities, and Hasan Ikharta, CEO of the San Diego Association of Governments (SANDAG), speak at the CalChamber Board of Directors meeting in La Jolla on March 10. Appearing at the invitation of CalChamber Chair Greg Bielli (right photo), president and CEO of Tejon Ranch Company, McWilliams and Ikharta share comments and anecdotes about how the state's housing shortfall and homelessness crisis have been exacerbated by often-conflicting actions of unelected regulatory bodies focused on their own concerns. The entities include state and local boards governing air resources, water, planning and research, and even the California Department of Forestry and Fire Protection (CAL FIRE).

Nonprofit Relies on Employers for Success in Diversifying Workforce

Taylor Dunne, senior manager of Talent Initiatives for the nonprofit San Diego Regional Economic Development Corporation (EDC), describes for the CalChamber Board of Directors on March 10 the EDC's effort to diversify and strengthen the region's workforce. Dunne says the success of the latest effort to connect people with quality jobs comes from putting employers at the center of the talent pipeline management network and helping those employers look at potential employees in terms of the skills needed to do the job, rather than just listing an academic degree as the minimum qualification for applicants.

CalChamber Names Flexible Work Schedule Bill as Job Creator

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once adopted, must be "regularly" scheduled. This process is filled with potential traps that could lead to costly litigation, as one misstep may render the entire alternative workweek schedule invalid and leave the employer on the hook for claims of unpaid overtime wages.

Currently, there are 44,837 reported alternative workweek schedules with the Division of Labor Standards Enforcement. According to the Employment Development Department, California has about 1.6 million employers. Therefore, less than 3% of California employers utilize the alternative workweek schedule option.

Given that the information in the database is according to work unit instead of employer, it is likely that less than 1% of employers in California are utilizing this process.

Desire for Flexible Schedules

Surveys and studies show employees want flexibility in their work schedules:

• In response to a recent CalChamber poll, 88% of voters agreed (49% of them strongly) that the state's overtime laws should be changed to make it easier for employees to work alternative schedules, such as four 10-hour days.

• A survey by the Society for Human Resource Management revealed that 91% of human resources professionals agree that flexible work arrangements positively influence employee engagement, job satisfaction, and retention.

• According to Corporate Voices for Working Families and WFD Consulting, an in-depth study of five organizations that allow their nonexempt employees to have flexibility in their schedules found that employee commitment was 55% higher and burnout and stress decreased by 57%.

Women and low-income workers have suffered the most from the inability to have flexible schedules, feeling pressured to abandon career goals to care for children and fulfill household obligations.

Economic Recovery

As the economy recovers from the pandemic, the state should be doing everything possible to maximize opportunities for employers. California should allow employees to set hours that work for an employee's personal and family obligations rather than continuously trying to impose new mandates on employers, which burden their ability to afford to hire. This way, workers can continue to be employed and support themselves and their families.

Pursuant to SB 703, at the employee's request, an employer would be able to implement a flexible work schedule that allows the employee to work up to 10 hours in a day or 40 hours in a week, without the payment of overtime.

Employers should be able to provide their employees more flexibility and negotiate through a written agreement, revocable by either party, a daily/weekly schedule that satisfies the needs of both the employee(s) and the employer.

Promoting flexible policies that allow employees to continue to be employed and earn income is needed now more than ever.

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