Q3 2019 Earnings Call

Company Participants

- James Dimon, Chairman and Chief Executive Officer
- Jennifer A. Piepszak, Chief Financial Officer

Other Participants

- Betsy Graseck, Analyst
- Brian Kleinhanzl, Analyst
- Eric Compton, Analyst
- Erika Najarian, Analyst
- Gerard Cassidy, Analyst
- Glenn Schorr, Analyst
- Ken Usdin, Analyst
- Marty Mosby, Analyst
- Matt O'Connor, Analyst
- Mike Mayo, Analyst
- Saul Martinez, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Third Quarter 2019 Earnings Call. This call is being recorded. Your line will be muted for the duration of the call. We will now go live to the presentation. Please stand by.

At this time, I would like to turn the call over to JPMorgan Chase's Chairman and CEO, Jamie Dimon; and Chief Financial Officer, Jennifer Piepszak. Ms. Piepszak, please go ahead.

Jennifer A. Piepszak {BIO 19013293 <GO>}

Thank you, operator. Good morning, everyone. I'll take you through the presentation, which, as always, is available on our website and we ask that you please refer to the disclaimer at the back.

Starting on page one, the Firm reported net income of $9.1 billion and EPS of $2.68 on record revenue of $30.1 billion with a return on tangible common equity of 18%. Underlying performance continues to be strong with highlights including client investment assets in Consumer Banking up 13%, strength in our consumer lending businesses in particular on higher origination volumes in Home Lending and Auto and healthy growth in sales and outstandings in Card. Number one in Global IB fees year-to-date with over 9% wallet share and record growth IB revenues in middle market. And in Asset & Wealth Management, we saw record AUM and client assets. Overall, for the Firm, total loans were flat year-on-year, which includes continued mortgage loan sales. FE SC sales loans were up 3% on healthy growth in Card and AWM. Total deposits were up 5% with strength across wholesale and retail, and credit performance remained strong across businesses.

On to page two and some more detail about our third quarter results. Record revenue of $30.1 billion was up $2.2 billion or 8% year-on-year as net interest income was up $293 million or 2% on balance sheet growth and mix, partially offset by higher deposit pay rates. Non-interest revenue was up $1.9 billion year-on-year or 14%, driven by strong performance across Fixed Income Markets and Consumer Lending, which included a gain on mortgage loan sales of approximately $350 million. Expenses of $16.4 billion were up 5% on volume and revenue related expenses as well as continued investments partially offset by lower FDIC charges. Credit remained favorable with credit costs of $1.5 billion reflecting modest net reserve builds and charge-offs in line with expectations. And as we mentioned last quarter, we do not see any signs of broad-based deterioration across our portfolios both Consumer and Wholesale.

Now on to balance sheet and capital on page three. We ended the third quarter with a CET1 ratio of 12.3%, up about 10 basis points versus last quarter. The Firm distributed $9.6 billion of capital to shareholders in the quarter, including $6.7 billion of net repurchases and a common dividend of $0.90 per share.

Now on to page four for a look at our businesses starting with Consumer & Community Banking. CCB generated net income of $4.3 billion and an ROE of 32% with continued deposit growth and total loans down 4% year-on-year. Revenue of $14.3 billion was up 7% year-on-year. In Consumer and Business Banking, we saw strong deposit and investment growth year-on-year with deposit up 3% and client investment assets up 13%, reflecting continued growth across both physical and digital channels. Revenue was up 5% driven by higher NII on deposit growth and margin expansion as well as higher non-interest revenue on higher transaction volumes. And even though the deposit margin is higher year-on-year, not surprisingly, it is down 13 basis points quarter-on-quarter given the current rate environment. Home Lending revenue was up 12% on higher production volumes and margins, partially offset by lower NII on lower balances, which were down 12% reflecting loan sales.

With regards to these loan sales, it's important to note the net impact to Home Lending revenue is minimal with the gain on sale being offset by a funding charge from Corporate. And in Card, Merchant Services & Auto, revenue was up 9% driven by higher Card NII on loan growth and margin expansion as well as the impact of higher Auto lease volumes. Card loan growth was 8% with sales up 10% and merchant processing volume was up 11%. Expenses of $7.3 billion were up 4% year-on-year, driven by continued investments and higher auto lease depreciation, partially offset by expense efficiencies and lower FDIC charges.

On Credit, starting with reserves this quarter CCB had a net reserve build of $50 million, which included a build in card of $200 million largely offset by releases of $100 million in Home Lending and $50 million in Business Banking. The build in card was primarily driven by mix as the newer vintages naturally season and become a larger part of the portfolio. Net charge-offs were $1.3 billion, largely driven by Card and consistent with expectations.

Now turning to the Corporate & Investment Bank on page five. CIB reported net income of $2.8 billion and an ROE of 13% on revenue of $9.3 billion. Investment Banking revenue of $1.9 billion was up 8% year-on-year in a market that was down. It was a record third quarter for Investment Banking fees, driven by strong performances in debt and equity underwriting, partially offset by lower advisory. Year-to-date, we continue to rank number one in overall IB wallet and gained share across products and regions benefiting from our leadership position in the technology and healthcare sectors.

In advisory, we were down 13% year-on-year reflecting lower deal activity compared to a strong prior year. However, we continue to gain wallet share driven by our strategic investments. In debt underwriting, we were up 17% year-on-year in a market that was down. Here, we benefited from our participation in some large transactions and increased activity in investment grade bonds. In equity underwriting, we were up 22% year-on-year, significantly outperforming the market driven by our strong performance in IPOs and convertibles and for both the quarter and on a year-to-date basis we ranked number one in wallet share for overall ECM and IPOs.

We expect fourth quarter IB fees to be down both sequentially and year-on-year, driven by strong performances in the third quarter and prior year, however, the pipeline remains healthy as strategic dialogue with clients is constructive, equity markets remain receptive to new issuance and the lower rate environment has made debt issuance more attractive.

Moving to Markets, total revenue was $5.1 billion, up 14% year-on-year. Fixed Income Markets was up 25%, a good result, which also benefited from the comparisons with somewhat quiet quarter in the prior year. This quarter was characterized by strong client activity across the board with outperformance in agency mortgage trading and improved flows in rates and commodities. Equity markets was down 5% against a very strong third quarter last year. Equity derivatives performance was challenged by lower client activity and unfavorable market conditions, but prime remained strong and cash outperformed relative to the prior year.

Treasury Services and Securities Services revenues were $1.1 billion and $1 billion, down 7% and 2% year-on-year respectively. The rate environment remains a relative headwind, primarily from the funding basis compression we've been talking about, which is largely Firm-wide neutral and to a lesser extent, client specific repricing in treasury services. But importantly, the organic growth in fees and balances continues to be strong. Expenses of $5.3 billion were up 3% compared to the prior year with investments and higher revenue related expenses, partially offset by lower litigation and FDIC charges. And finally, credit costs were $92 million driven largely by reserve builds on select emerging market client downgrades.

Now moving on to Commercial Banking on page six. Commercial Banking reported net income of $937 million and an ROE of 16%. Revenue of $2.2 billion was down 3% year-on-year with lower NII driven by lower deposit margins, partially offset by higher non-interest revenue due to strong Investment Banking performance. Gross Investment Banking revenues were $700 million up 20% year-on-year on increased M&A and equity underwriting activity. And we saw revenues increase for both large deals and flow business with a record quarter in Middle Market. Expenses of $881 million were up 3% year-on-year as investments in the business were largely offset by lower FDIC charges.

Deposit balances were up 3% year-on-year on strong client flows. Loan balances were flat year-on-year across both C&I and CRE. In C&I, while we are seeing pockets of growth in select industries like financial institutions, technology and energy, it does continue to be significant runoff in our tax-exempt portfolio. And in CRE, although there was higher origination activity in Commercial Term Lending, it was largely offset by declines in real estate banking as we remain selective, given where we are in the cycle. Finally, credit costs were $67 million with a net charge-off rate of 9 basis points.

Now on to Asset & Wealth Management on page seven. Asset & Wealth Management reported net income of $668 million with pretax margin of 25% and ROE of 24%. Revenue of $3.6 billion for the quarter was flat year-on-year as the impact of higher average market levels as well as deposit and loan growth were offset by deposit margin compression. Expenses of $2.6 billion were up 1% year-on-year on continued investments in technology and advisors, partially offset by lower distribution and legal fees.

Credit costs were $44 million, driven by net charge-offs as well as reserve builds on loan growth. For the quarter, we saw net long-term inflows of $40 billion driven by fixed income and net liquidity inflows of $24 billion. AUM of $2.2 trillion and overall client assets of $3.1 trillion, both records were up 8% and 7% respectively, driven by cumulative net inflows into long-term and liquidity products as well as higher market levels. Deposits were up 4% year-on-year, driven by growth in interest-bearing products. Finally, we had record loan balances up 7% with strength in both wholesale and mortgage lending.

Now on to Corporate on page eight. Corporate reported net income of $393 million. Revenue was $692 million, up $795 million year-on-year, primarily due to higher net interest income, driven by higher balances and balance sheet mix as well as the funding offset from the mortgage loan sales that I mentioned earlier, all of which was partially offset by lower rates. This quarter also included small net gains on certain legacy private equity investments compared to approximately $200 million of net losses in the prior year. And expenses of $281 million were up $253 million year-on-year, primarily due to higher investments in technology and in prior year net legal benefit.

Finally, turning to page nine, and the outlook. Our full year outlook remains in line with previous guidance. We expect net interest income to come in slightly below $57.5 billion based on the latest implieds and adjusted expenses to be approximately $65.5 billion.

So to wrap up, the U.S. economy is on solid footing and while global growth is slowing, the U.S. consumer remains healthy. Despite continued macro uncertainty and headwinds from the rate environment this quarter showcases the diversification and scale of our business model. We remain well positioned to outperform in any environment and we'll continue to strategically invest in our businesses.

And with that, operator, please open the line for Q&A.

Questions And Answers

Operator

(Operator Instruction) Our first question is from Glenn Schorr of Evercore.

Q - Glenn Schorr {BIO 1881019 <GO>}

Hi, thanks very much. Curious your take on everything that went on in the repo markets during the quarter. And I would love it if you could put it in the context of maybe the fourth quarter of last year. If I remember correctly, you stepped in in the fourth quarter. Saw higher rates, threw money at it, made some more money and it calmed the markets down. I'm curious, what's different this quarter that did not happen? And curious if you think we need changes in the structure of the market to function better on a go-forward basis?

A - James Dimon {BIO 1484062 <GO>}

So, if I remember correctly, you got to look at the concept of we have a checking account at the Fed with certain amount of cash in it. Last year, we had more cash than needed for regulatory requirements. So repo rates went up, we went with the checking account, we paid IOER into repo, obviously makes sense, you make more money. But now the cash in the account which is still huge, it's $120 billion in the morning, it goes down to $60 billion during the course of the day and back to $120 billion at the end of the day, that cash we believe is required on the resolution and recovery and liquidity stress testing. And therefore, we could not redeploy it into repo market which we would've been happy to do. And I think it's up to the regulators to decide they want to recalibrate the kind of liquidity they expect us to keep in that account.

And again, I won't look at this as technical, a lot of reasons why those balances dropped to where they were. I think a lot of banks were in the same position by the way, but I think the real issue when you think about is what does that mean if we ever have bad markets. Because that's kind of hitting the red line in the Fed checking account, you're also going to hit a red line in LCR like HQLA, which cannot be redeployed either. So to me, that would be the issue when the time comes. And it's not about JPMorgan, JPMorgan will be fine in any event, it's about how the regulators want to manage the system and who they want to intermediate when the time comes.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

And it's worth noting Glenn that the overall impact to JPMorgan from the events of mid-September was not material one way or another to our third quarter results.

Q - Glenn Schorr {BIO 1881019 <GO>}

Yeah. I feel bad for whoever borrowed at 10%. Okay. Just a quickie on NII, I heard you on the full year '19 commentary and I don't think that's surprising, maybe even a little bit better. Have you done much repositioning on the balance sheet as we look forward in 2020, which is looking like an obviously lower rate backdrop? I want to ask you what your thoughts are on 2020 NII, but I'd rather hear the soft color because I know you're not going to give it to us.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Well, I'll try. So in terms of balance sheet positioning as you know, we have a negatively convexed (inaudible) balance sheet. We manage it in both directions. Some moves in interest rates are hedgeable and some are not in a quarter like we just had with the rally that we had, you would expect us to buy duration and we did. And so -- but in terms of 2020, the way I think you can think about it is, we've given you full year 2019, which implies the fourth quarter of just under $14 billion. Frankly, that's not a bad place to start, there will be some puts and takes. Obviously, you would have to get the full run rate of the October cut because of course this is all based on the implied. And then there is one more cut next year, but an offset to that, at least a partial offset to that would be balance sheet growth and mix. So we'll give you more color at Investor Day, as we always do, and we'll be in a better position then, but towards the fourth quarter of '19 in terms of run rate is not a bad place to start.

Operator

Our next question is from Betsy Graseck of Morgan Stanley.

Q - Betsy Graseck {BIO 4799503 <GO>}

Hi, good morning.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Hi.

Q - Betsy Graseck {BIO 4799503 <GO>}

Couple of questions. One on your GSIB bucket. I know as of the end of June, it showed that you had bumped up into the next GSIB bucket. And I wanted to understand how you're thinking about managing that as we go into year-end and is there a plan to get back down and how would you affect that?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. So as it relates to GSIB, we fully intend to be in the 3.5% bucket for year-end, as you know, most aspects of GSIB are on a spot basis. So, we will manage it like we do any scarce resource and fully intend to be in the 3.5% bucket for year-end.

Q - Betsy Graseck {BIO 4799503 <GO>}

Is there -- does that impact just your market position in general? Is there anything that you would be looking to doing to get there that might reduce your positioning in some of the businesses that you're involved in, for example things like derivatives, et cetera? Or is it really not? Is it going to be something that we're not going to see in the revenues because it's too small to matter to you?

A - James Dimon {BIO 1484062 <GO>}

You're not going to see.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Yeah. What we need to do across the various GSIB buckets will not be obvious in our fourth quarter results. Like I said, we will be managing and fully intend to be in the 3.5% bucket. It's more than just leverage.

Operator

Our next question is from Erika Najarian of Bank of America Merrill Lynch.

Q - Erika Najarian {BIO 17048573 <GO>}

Yes, good morning. My first question is a follow-up to Glenn's question. As you think about the cross current of resolution planning, LCR and liquidity stress testing, could you help us -- what is the level of excess deployable cash at JPMorgan?

A - James Dimon {BIO 1484062 <GO>}

We said we have $120 billion at our checking account at the Fed, and it goes down to $60 billion and then back to $120 billion during the average day. But we believe the requirement under CLAR and resolution recovery is that we need enough in that account, such that if there is extreme stress during the course of the day, it doesn't go below zero. You go back to before the crisis, you go below zero all the time during the day. So the question is how far is that as a red line with the intent to regulate between CLAR resolution to lock up that much of reserves in account to Fed. And that will be up for regulators to decide. Right now, we're going to -- we have to meet those rules and we don't want to violate anything we've told them we're going to do.

Q - Erika Najarian {BIO 17048573 <GO>}

Got it. And as my follow up Jenn, if -- you said something about the offset to the two Fed cuts that are in the forward curve would be balance sheet growth and mix. Could you give us a little bit more color on how you're expecting those dynamics to play out, particularly given slightly lower core loan growth this quarter and 22% increase in investment securities balances?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. I think -- well, I'll come back to investment securities balances, but in terms of balance sheet growth in 2020, you can think of that largely in deposits. And just as one example, obviously, the rate environment and the economy will matter a whole lot, but just in a declining rate environment, the higher yielding alternatives for consumers are less attractive. And so we do expect to continue to grow the franchise and we could see healthy growth in the deposit base. So that's what I was referring to. In terms of investment securities when you look at the increase this quarter, there's a few things going on. As I said earlier, we did buy duration, but importantly what you see in investment securities are also cash deployment strategies as well as actions we took on the back of the mortgage loan sales. So there's a few things going on in investment securities this quarter.

A - James Dimon {BIO 1484062 <GO>}

In some cases, securities at a higher return on standardized capital than certain mortgage loans did.

Operator

Our next question is from Mike Mayo of Wells Fargo.

Q - Mike Mayo {BIO 1494617 <GO>}

Hi. So you, I guess, lowered your guidance for NII, but also lowered your guidance for expenses. So how much of that lower expense guidance is due to the deployment of technology? Or just more generally, at every investor Day, you tell us you're going to spend, what, $12 billion on technology and we don't really have a lot of insight into the traction that those technology investments are getting. So what's working technology-wise, what's not working and how much of that can contribute to your improved expense guidance?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Okay. Sure. So I'll start, and if you want to add.

A - James Dimon {BIO 1484062 <GO>}

Go ahead.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

So I would say Mike the NII guidance is not lower. At the second quarter, we said $57.5 billion plus or minus. At the time, the implieds had three rate cuts, July, September and December and we said if there were two or more then it would be $57.5 minus, and if less than that perhaps $57.5 billion plus. And so we are kind of right where we said we would be and we're a little bit higher than what we said earlier in September at Barclays and that's because we got a little bit of a tailwind on the 10-year and some balance growth and one less cut in December. So I would say NII guidance broadly in line.

On expenses and technology, there is a few things you can think about. First of all, broadly speaking on expenses, I would say, we remain committed to what we said at Investor Day in terms of the cost curve flattening from here. But importantly, you have to look at the underlying story, which I know is what you're getting at, which is there are volume or revenue related expenses and we're always looking for productivity there and -- but they will be what they will be, they will come with top line growth. In terms of investments, we will continue with the discipline we always have around business cases and net present value and payback periods, but we will also always invest in the things we think we need to, even if they are table fix.

And so -- and then there's productivity, which is your point. And so we continue to realize productivity in our investments and we continue to think we have opportunity ahead. We haven't laid that out in terms of quantifying it, but some of the things you can think about are robotics replacing repetitive processes, you can think about machine learning or AI in frauds, so machine learning assisting us in decision-making processes. Our call centers are always getting more productive.As Gordon said at Investor Day, our cost to serve in the Consumer businesses are down 15% and then digital capabilities that we're rolling out to our customers in terms of self-service is not only better for them, but more efficient for us. And so we have realized significant productivity to date in -- not only in our technology investments, but other investments and think we still have room to run.

A - James Dimon {BIO 1484062 <GO>}

As you said merchant processing systems, API store for the CIB, the stuff we built to hooking you lot into our custody business. So you can go business by business and see the extensive amount of stuff we're rolling out. And it's pretty good.

Q - Mike Mayo {BIO 1494617 <GO>}

All right. Let me just have one follow -- let me have one follow-up then. So -- I mean, how many call center personnel do you have? Or how many data centers do you have? And how does that compare to the peak?

A - James Dimon {BIO 1484062 <GO>}

We're building brand new data centers as we speak. I've got the total number, but it's quite a few, the new one has been better, more efficient and more expandable and safer and more secure all that kind of stuff. And we have to build that infrastructure to have the best in the world. So we're not going to scrimp on something like that. And maybe at Investor Day, we could go a little bit more into how we try to manage the technology budget.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Yes. I'd like to -- and then on call centers, Mike, we don't necessarily think about it just in terms of the number of people, we think about the productivity of the people. So the number of calls that they are able to take because you may have more people because of more volume, but that's good healthy volume, the top line growth, but we're always making sure that the people in our call centers and the overall productivity of the call center is increasing.

A - James Dimon {BIO 1484062 <GO>}

Yeah. And with all the cyber stuff you read about, our fraud in card and consumer has come down, not gone up, because of some of these deployed technologies in call centers. I won't take you through all of them, but then we're telling the bad guys our secrets. But there are a lot of ways to stop some of the bad guys now.

Operator

Our next question is from Saul Martinez of UBS.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi, thank you. Good morning. Start off with sort of a broader question on just the macro outlook. I think Jenn you mentioned that you feel the economy, the U.S. economy is on sound footing, the consumer is obviously strong, but we are seeing some softening in the economic data. What are you hearing from clients? What are they telling you about whether they are concerned or whether there is increasing concern on policy, macro uncertainties and how you're thinking about that going forward?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. So on the client sentiment, I think it's fair to say that perhaps the marginal investment is being impacted by trade fatigue in terms of the uncertainty, but broadly speaking, while it's slower growth, it's still growth. As I said, the U.S. consumer is incredibly strong, consumer spending is strong, sentiment is strong. For the consumer, credit is good and it is true that if you look at the ISM surveys both manufacturing and non-manufacturing, they were recently disappointing. So I would say, no doubt, cautionary signs, but credit remains very good and there is still very healthy business activity.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Great. That's helpful. On NII, just going back to NII specifically in the CCB if you adjust for the 3.50, you actually grew sequentially, which was a pretty strong result. And I know guidance is at the consolidated level, but how do we think about the glide path in that business going forward and some of the puts and takes, deposit pricing came in a little bit at the consolidated level. I suspect some of that's commercial, but how do we think about that business and the NII trajectory? And is it possible that you can continue to grow that?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

So, I mean, there is no doubt that the business will be impacted by rate headwinds, if the implieds play out, we're not immune to that. But as I said earlier, there is at least a partial offset to that in growth. And so we still feel very good about the underlying growth that we're seeing there. And then just in terms of reprice, obviously there is very little movement on the back of the Fed ease, given there is very little movement on the way up. And in fact, quarter-over-quarter, we saw rates paid in the Consumer businesses tick up a little bit on slight migration that we continue to see into interest bearing, but we love the platform, the branch expansion is going very, very well, and so we feel great about the continued growth there, but we won't be immune to rate headwinds.

Operator

Our next question is from Gerard Cassidy of RBC.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Good morning. Can you guys give us some additional color on the Investment Banking backlog that you may have at the end of the third quarter? And then second, if you take a look at the success that you had in Investment Banking, grabbing more wallet share. Is it coming here in North America or in Asia? Can you give us some color there as well?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. So on the IB pipeline, I would say it's healthy, although we do expect to be down in the fourth quarter both sequentially and year-on-year on very strong performances in the third quarter as well as the fourth quarter of last year, but overall, it feels healthy. And I would say geographically, largely some strength in the U.S.

Q - Gerard Cassidy {BIO 1505265 <GO>}

And then following up in the Markets business, again you had good numbers. How important is the technology spending that you've been doing in Markets leading to grabbing more wallet share in both equity and FIC?

A - James Dimon {BIO 1484062 <GO>}

I think it's critical. If you walk on the trading floor today, the deployment of technology in automated trading algorithms and swaps and FX and equities, it's making it's way into corporate buying, but I think it's critical to keep up with the technology in a very competitive business where market share matters.

Operator

Our next question is from Eric Compton of Morningstar.

Q - Eric Compton {BIO 19549203 <GO>}

Great. Thanks for taking my question. So I just want to step back and real big picture here. I mean, net interest income, you're already starting to see some pressure there. Just I think the general commentary in the industry is the banks are just under pressure seemingly almost everywhere. I mean, you got to focus on expenses and yet you guys are still hitting returns on tangible to 18%. So, just stepping back, I mean you still have a couple of billion to play with before you even start getting to that 17% long-term goal level. Like, what worries you about potentially pushing you under that 17% level? It just seems like even with all the pressures in the industry, you're still even exceeding it. Other than one time credit events, really, I guess, stepping back, what worries you about pushing the bank to that or even below that from your perspective?

A - James Dimon {BIO 1484062 <GO>}

You're overdoing the pressures in the banking industry, okay, because we've had growth in the United States for the better part of 10 years. And I'd say that the credit is extraordinary good. So if you look at consumer credit, commercial credit, wholesale, it's extraordinarily good, it can only get worse if you have a cycle. So our 17% is -- we always try to plan this through the cycle. We're at the over-earning part of the cycle in credit today. At one point we'll be at the under-earning part on credit. And, of course, you have a recession it affects volumes and all these other things. So that 17% is through the cycle and frankly not that bad.

Operator

Our next question is from Marty Mosby of Vining Sparks.

Q - Marty Mosby {BIO 14008907 <GO>}

Thanks and good morning. I was -- wanted to ask you about two kind of different venues of questions. First is, if you look at the balance sheet, security yields came down pretty significantly this quarter. Just wondered, how much you had in premium amortization that was embedded in that? And then as you look at the interest-bearing deposit cost, we didn't get much traction on the first cut, but did you get a little bit more traction on lowering those rates as you went into the -- going into the fourth quarter?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Okay. Sure. So first on securities yield. So that did play a role Marty, but more importantly, the impact on securities yields came from mix and just lower rates overall. So predominantly mix and lower rates and then to a lesser extent your point on prepaid as well as a little bit of day count. And then on betas, broadly speaking, we say betas are symmetric. And so if you look at the retail side, as I said before, very little movement on Fed ease and we did see rates paid, even tick up a little bit there quarter-on-quarter. Wholesale, there's obviously more opportunity to reprice, but we do that client-by-client and we're not going to lose valuable client relationships over a few ticks of beta. And so what we saw there, as you might expect in CIB, rates paid down quarter-over-quarter and then we also saw rates paid down in both AWM and the Commercial Bank, but a little bit less so.

Q - Marty Mosby {BIO 14008907 <GO>}

And then would you see retail improving next quarter? And then Jamie I wanted to talk to you about liquidity. Two things, one we saw the repo market. And as you look at Volcker and the liquidity coverage ratios, you've kind of taken the big banks out of participating and being able to solve for some of those liquidity issues. So the Fed has kind of put a ring fence around just putting that all on their shoulders versus letting JPMorgan or Goldman Sachs or Bank of America jump in and help in those processes. And then, when you sold the loans this quarter, those mortgage loans, and replaced them with securities, was that related to liquidity or just the decisioning process on that? Thanks.

A - James Dimon {BIO 1484062 <GO>}

So the loan decision is because we are at standardized capital now, which I think by the way, risk weighted -- I think the advance is far more important and we should probably report more on that because that's 13%. But when you're -- when we're constrained by standardized, there are points in time when putting mortgage on your balance sheet just gives you very low return. And of course, you have a portfolio decision, you can sell it or put in your balance sheet. If you sell it, you're going to probably reinvest in securities. So it's a pure economic calculation of what would give you a better return and that's why I think you need some fixes in the mortgage market about securitizations. Because I think we've pointed out, if you had built the securitizations, you have a healthy mortgage market, you can keep some of that on your balance sheet, you can sell some of the risk and you wouldn't have to sell these mortgages per se. And I do think -- and the liquidity -- we focus a little bit on liquidity at the Fed account, where we have $450 billion of cash. The T-bills, repo, the deposit at Fed and there's all -- a bunch of sort of constraints and you want banks to have proper liquidity. But I should also point out that those things go into multiple GCIP calculations, multiple other calculations. So you try to calibrate, of course, all those things and optimize of course all those things, but I do think you're correct, the banks are at the point now where they will not be able to redeploy a big chunk of that $500 billion that we have in other markets when the time comes. It's not Volcker per se. Volcker is a slightly different thing.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

And then Marty, I think you asked about fourth quarter. We do think we'll continue to see deposit margin compression there on the retail side, we have come off the peaks in terms of CD pricing, but you still have slight migration there into interest-bearing products.

Operator

Our next question is from Ken Usdin of Jefferies.

Q - Ken Usdin {BIO 3363625 <GO>}

Hey, thanks. Good morning. Jenn, you had mentioned earlier just the point about that next year's earning asset growth will be led largely through deposits, but with all this mixing into your last point there about where the deposit margin pressure comes in, do you expect the constitution of deposit growth to change at all whether it comes from the consumer business, wholesale or the wealth management complex? Thanks.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. So look, I think it's difficult to know. I think in the declining rate environment, as I said, I think the higher yielding alternatives are obviously less attractive for consumers. We do still see good organic growth in wholesale as well in both treasury services and security services. So I think it's difficult to know the macro environment will be a big determinant.

Q - Ken Usdin {BIO 3363625 <GO>}

Got it. Understood. And the second question, the card revenue margin you mentioned, it's kind of flattened out. And I'm just wondering, can you first walk us through the NII versus fee components there? Any -- is it partially because of that obvious NII challenge, is there also any changes with regards to just the underlying card fee activity? Thanks.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Yeah, there it's really just timing, there is just seasonality there. So at Investor Day, we said that the card revenue rate would be 11.50 plus or minus. The fourth quarter is a seasonal high quarter for us. And so, we do still expect to hit that the 11.50 plus or minus for the full year guidance. So just seasonality.

A - James Dimon {BIO 1484062 <GO>}

And then (inaudible) it doesn't have the same compression that it does in deposits.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Yeah, very different dynamics there.

Operator

Our next question is from Matt O'Connor of Deutsche Bank.

Q - Matt O'Connor

Good morning. Just wanted to follow up on, you talked about the fourth quarter net interest income, just under $14 billion and that's not a bad place to start for next year. You highlighted balance sheet growth and mix then had some puts and takes. But it's probably not as bad as I think some would have thought, think about that $14 billion-ish as potential run rate plus or minus. I'm just trying to better understand like what's the rate assumption that you have and how much of a swing factor is the duration change that you did in the third quarter helping that?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

So I mean, we're doing that based on the latest implieds and it's obviously early days. We're working through our budget process as we speak. So it's based on the latest implieds, which have a cut in October and a cut in April and 10-year, call it 1.70 plus or minus. So relative to where we might have been just a couple of months ago, even weeks ago, it might have been a different outlook. So I think it's important to take it with a health warning that it's on the latest implieds because that is of course what we know.

A - James Dimon {BIO 1484062 <GO>}

And it's assuming some balance sheet growth.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

And it's assuming --

A - James Dimon {BIO 1484062 <GO>}

As opposed to all things being equal, that would be worse.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

That's right. It would be worse. The balance sheet growth is a partial offset to a larger impact from just rates.

Q - Matt O'Connor

And what is the rate sensitivity at this point and how is that split between the short and long end? Thank you.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

There, I would just say, you can look at the earnings at risk, that we'll have in the Q, I think that's probably the best way to think about it because that is not an NII sensitivity, but is an interest rate sensitivity. And so that will be out in a few weeks.

Operator

Our next question is from Mike Mayo, Wells Fargo.

Q - Mike Mayo {BIO 1494617 <GO>}

Hi, thanks for allowing my follow-up question. But, Jamie, this is the first earnings call we've had since the Business Roundtable came out with the new statement that it's not about shareholder driven capitalism, it's about stakeholder driven capitalism. And I was hanging out the New Yorker Festival over the weekend and your name came up and at least one author said he spoke to you. And the real question is, what is the political and regulatory risk to JPMorgan's earnings as we look out over a year? You're having the presidential debates. Over the weekend people talked about and the politicians talk about the wealth tax, the transaction tax, change in corporate tax, personal tax, basically flattening the pyramid and seems like a lot of people point their fingers at the banks, including JPMorgan. So my question to you is, what are you doing --

A - James Dimon {BIO 1484062 <GO>}

Pointing fingers at banks about what?

Q - Mike Mayo {BIO 1494617 <GO>}

I think part of the cause, part of the cause of inequality in America. Banks should be doing more to help out the situation. And again, it's a whole -- this is just one example. Mike, the way I saw this at the New Yorker Festival, this was kind of the intellectual underpinnings of a lot of the policies that are being introduced today. And so you're seeing that in the politician statements about wealth tax, changes to the bank business model, too much deregulation and it's just an environment. I mean, here we are 10 years after the financial crisis, where I would summarize it as very anti-bank. I don't know, JPMorgan has had proposals to help move the company and the country ahead, but how do you as Head of the Business Roundtable help the industry and corporate America manage these concerns about income inequalities and these other topics that come up in the presidential debates? I know it's a big question, but hey, you're in that role with the Business Roundtable.

A - James Dimon {BIO 1484062 <GO>}

Okay. So the Business Roundtable, didn't get rid of shareholder value, it basically said shareholder value and customers and employees and communities, which essentially has been how many of these banks were running for years. I think part of the statement was a lot of the world looked at shareholder value and they hear rapacious profit seeking. Whereas most CEOs are thinking pretty long term, building people, taking care of their employees and their customers and we can highlight all the great things we do for our employees. Huge training, health, wellness, retirement, sharing the wealth inside the company and we do do all of that and most of these companies do that. A lot of these larger companies, they are great community citizens when it comes to trying to participate and help with stuff like that.

So I do think -- so as a JPMorgan matter, we're going to grow our businesses and serve our clients as best we can whatever the environment is. That environment changes politically, it changes economically, it changes geopolitically, but we're going to navigate to do the best we can serving our clients as best as we can. And I do think that we try, and I'm speaking for a lot of companies, to try to do a tremendous amount to help the communities because there have been people left behind. The intercity schools are not failing because of banks. Okay? And infrastructure is not failing because of banks.

So I think we can help build infrastructure, help train people, get more skills, get involved with education systems, like all kind of stuff that a lot of us all do in Detroit, we can lift up society. And I think it's good for us to lift up the society. And when society does better, everyone does better. If you don't believe me, look at Venezuela, Argentina, Cuba, North Korea, et cetera, that doing well is a good thing for society and then we could share the wealth a little bit. So I'm not going to respond to specific political statements out there, but we'll do our part to be a great community citizen and serve our shareholders at the same time.

Q - Mike Mayo {BIO 1494617 <GO>}

All right. Well, thanks for that response. Can I put words in your mouth? I mean, doing well for the communities and employees and all the other stakeholders is good for the shareholders' long term, is that --?

A - James Dimon {BIO 1484062 <GO>}

Yes. And, Mike, I actually gave examples in the crisis about the amount of people that we financed at market's way -- at prices way below the market. Were we doing that to make rapacious profit seeking, no. And that included states, cities, hospitals, businesses, consumers, et cetera. And so you won't be able to pay, but our attitude is, no, we're going to help our clients get through this tough time. It wasn't about our profitability, our profitability dropped dramatically and we were fine. I think that was long term thinking, we never got sued over that. So -- and same for how we do employees. We are constantly investing in employees, in branches, in jobs, in training. That stuff will benefit three years out, five years out, 10 years out, 20 years out.

Q - Mike Mayo {BIO 1494617 <GO>}

All right. Thank you.

A - James Dimon {BIO 1484062 <GO>}

Yeah.

Operator

Our next question is from Brian Kleinhanzl of KBW.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Great. Thanks. Quick question on equity trading, I know you gave an update on where you thought the revenue will come in in mid-September and it looks like they came in worse than what you were looking for. Is there a way to kind of break out what was the impact of potential marks on investments versus true equity trading revenues?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. In equity derivatives, it was a combination of weaker client activity and some losses on inventory, but it wasn't meaningful. Those losses were certainly not meaningful in the grand scheme of things, but they were part of the equity derivatives story.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

But there wasn't any other additional investments in there that had marks on them impacting the numbers.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

No. No.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Okay. And then separately on CECL, I know you've been doing parallel runs as all banks have been. Are you at the point now where you can kind of give what the pro forma provision would be for CECL? Or do you plan on doing that prior to the adoption date?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

So as we said at Investor Day, the range is $4 billion to $6 billion, we've done a ton of work as you say and a lot of modeling. The range is still between $4 billion and $6 billion and we'll be able to be more precise, obviously, as we prepare for the January 1 implementation.

Operator

Our next question is from Betsy Graseck of Morgan Stanley.

Q - Betsy Graseck {BIO 4799503 <GO>}

Hi, thanks. One follow-up on the equity. I mean, I know DB books were in the market and I believe that you were a winner in some of that. Is that in these numbers in 3Q or that comes in in 4Q?

A - James Dimon {BIO 1484062 <GO>}

That was some prime balance, so I think you're referring to and I don't know the answer to that.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

It was not, it was not in -- it's not meaningful.

A - James Dimon {BIO 1484062 <GO>}

It's not meaningful. Yeah.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Whatever it is.

Q - Betsy Graseck {BIO 4799503 <GO>}

Okay. All right. And then separately, there has been some news obviously on discount brokers cutting commissions to zero. I know you have You Invest and that that's a recent launch, but how do you think about how that impacts your business model? Is it just something that you would consider is specific to You Invest or do you think that that's something that would have a bigger impact and potentially more optionality for your clients across your wealth spectrum?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

So the majority of our customers in You Invest already trade for free. And so we're pleased to see the market moving toward us. As we think about You Invest, it is one component of our broader investment strategy. And as I said, we're really proud of this quarter's results, with client investment assets being up 13%. It was an important product launch for us in terms of meeting an unmet need with our existing customers, but we're pleased to see the market moving toward us.

A - James Dimon {BIO 1484062 <GO>}

Yeah. And we're strengthening You Invest. We still are improving the product over time. We haven't done a tremendous amount of marketing, we kind of want to get it all right, both You Invest and You Invest Portfolios, and then we'll figure out all the exact specific pricing around it.

Operator

And we have no further questions at this time.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Thank you.

A - James Dimon {BIO 1484062 <GO>}

Thank you.

Operator

Thank you for participating in today's call. You may now disconnect.