Q3 2021 Earnings Call

Company Participants

- James Dimon, Chairman of the Board and Chief Executive Officer
- Jeremy Barnum, Chief Financial Officer

Other Participants

- Andrew Lim
- Betsy Graseck
- Charles Peabody
- Ebrahim Poonawala
- Gerard Cassidy
- Glenn Schorr
- Jim Mitchell
- John McDonald
- Ken Usdin
- Matt O'Connor
- Mike Mayo
- Steven Chubak

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Third Quarter 2021 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'd like to turn the call over to JPMorgan Chase's Chairman and CEO, Jamie Dimon; and Chief Financial Officer, Jeremy Barnum.

Mr.Barnum, please go ahead.

Jeremy Barnum {BIO 15409544 <GO>}

Thanks, operator. Good morning, everyone. The presentation is available on our website and please refer to the disclaimer in the back.

Starting on Page 1, the firm reported net income of $11.7 billion, EPS of $3.74, on revenue of $30.4 billion and delivered a return on tangible common equity of 22%. These results include a $2.1 billion net credit reserve release, which I'll cover in more detail shortly, as well as an income tax benefit of $566 million. Adjusting for these items, we delivered an 18% ROTCE this quarter.

Touching on a few highlights; it was another strong quarter for Investment Banking, including an all-time record for M&A. And while loan growth remains muted, we see a number of indicators that suggest it has stabilized and maybe poised to begin more robust growth across the company, and particularly in Card. And, consistent with last quarter, credit continues to be quite healthy. In fact, net charge-offs are the lowest we've experienced in recent history.

On Page 2, we have some more detail. Revenue of $30.4 billion was up $500 million or 2% year-on-year. Net interest income was up 1% with balance sheet growth and the higher rates primarily offset by mix and lower CIB Markets NII. And NIR was up 3%, driven by solid fee generation across Investment Banking and AWM, largely offset by net securities losses in Corporate versus gains in the prior year, and lower revenue in Home Lending.

Expenses of $17.1 billion were up 1% year-on-year on continued investments and the higher volume and revenue-related expenses, predominantly offset by lower legal expense and the absence of an impairment in the prior year. And credit costs were a net benefit of $1.5 billion, driven by the reserve release, but it's also worth noting that net charge-offs of just over $500 million were approximately half of last year's third quarter number.

Let's cover reserves on the next page. We released $2.1 billion this quarter, driven by less severe downside scenarios, as the macro environment continues to normalize. Reserves stand at $20.5 billion, which still accounts for elevated uncertainties surrounding COVID and the current labor market dynamics, including the expiration of expanded unemployment benefits.

Now moving to balance sheet and capital on Page 4; we ended the quarter with a CET1 ratio of 12.9%, down modestly, primarily on higher RWA. The firm distributed $8 billion of capital to shareholders this quarter, including $5 billion of net repurchases, and the common dividend was increased to $1 per share.

With that, let's move on to our businesses; starting with Consumer & Community Banking on Page 5. CCB reported net income of $4.3 billion, including reserve releases of $950 million on revenue of $12.5 billion, down 3% year-on-year. Deposits were up 3% quarter-on-quarter, indicating some deceleration as excess deposits are stabilizing. Notably contributing to this growth, we ranked number one in retail deposit share based on the FDIC data, and we're the only large bank to show meaningful share growth, up 70 basis points year-on-year.

Similarly, client investment assets were up 29% year-on-year, and while market performance was a driver, retail flows in both advisor and digital channels were strong.

Touching on spend, combined credit and debit spend was up 24% versus the third quarter of '19, and in line with last quarter. Within that data, travel and entertainment spend was up 8% versus 3Q19, and very closely tracked the patterns of the Delta variant within the quarter, softening in August and early September, and re-accelerating in recent weeks.

Card outstandings were up 1% year-on-year and 4% quarter-on-quarter, benefiting from higher new account originations, and while the payment rate is still very elevated, it's come down from the highs and revolving balances have stabilized. And when we look inside our data, we see evidence of excess deposits starting to normalize in segments of the population that traditionally revolve. So as a result, we're optimistic about the growth prospects of revolving card balances.

Moving to Home Lending; average loans were down 6% year-on-year, but up 2% quarter-on-quarter with portfolio additions now outpacing prepayments. It was another strong quarter for originations, totaling nearly $42 billion, up 43% year-on-year, reflecting record purchase volume and share gains in the refi market. And in Auto, we had $11.5 billion of originations, second only to last quarter's record. So overall, loans ex-PPP were up 3% quarter-on-quarter on the growth in Card and Home Lending, I just mentioned.

Expenses, $7.2 billion, were up 5% year-on-year, driven by investments in the business, including marketing. And more generally, we continue to see that the acceleration in digital adoption during the pandemic has persisted with active mobile users up 10% year-on-year to almost 45 million.

So with that, looking forward, we are encouraged by our household growth and balance sheet trends. However, we expected to take some time for revolving credit card balances to return to pre-pandemic levels, given the amount of liquidity in the system. In the meantime, credit losses and delinquencies remain extraordinarily low. In Card, on a year-to-date basis versus 2019, low charge-offs more than offset lower NII.

Next, the Corporate & Investment Bank on Page 6. CIB reported net income of $5.6 billion on revenue of $12.4 billion. Investment banking revenue of $3 billion was up 45% versus the prior year, and down 12% sequentially. IB fees were up 52% year-on-year, driven by strong performance in advisory and equity underwriting, and we maintained our number one rank with a year-to-date wallet share of 9.4%.

In Advisory, it was an all-time record quarter benefiting from the surge in M&A activity, and we almost tripled fees year-on-year in a market that doubled. Debt underwriting fees were up 3%, driven by an active leveraged loan market, primarily linked to acquisition financing. And in equity underwriting, fees were up 41%, primarily driven by our strong performance in IPOs.

Looking ahead to the fourth quarter, the overall pipeline is healthy and the M&A market is expected to remain active, and if so, IB fees should be up year-on-year, but down sequentially.

Moving to Markets; total revenue was $6.3 billion, down 5% compared to a record third quarter last year. Notably, we were up 24% from 2019, driven by the continued strong performance in equities and spread products. Fixed income was down 20% year-on-year, due to ongoing normalization across products, particularly in commodities, as well as an adjustment to liquidity assumptions in our derivatives portfolio.

Equities was up 30%, a record third quarter with strength across regions and reflecting higher balances in prime, strong client activity in cash, as well as ongoing momentum in derivatives.

In terms of outlook, keep in mind that it will be a difficult compare against the record fourth quarter last year, but the current environment continues to challenge our ability to forecast revenues.

Wholesale Payments revenue of $1.6 billion was up 22%, or up 10% excluding gains on strategic equity investments. And the year-on-year growth was driven by higher deposits and fees, partially offset by deposit margin compression.

Securities Services revenue of $1.1 billion was up 9%, primarily driven by growth in fees on higher market levels. Expenses of $5.9 billion were flat year-on-year as higher structural and volume and revenue-related expense as well as investments, were offset by lower legal expense. And credit costs were a net benefit of $638 million, driven by the reserve release I mentioned upfront.

Moving to Commercial Banking on Page 7; Commercial Banking reported net income of $1.4 billion. Revenue of $2.5 billion was up 10% year-on-year on higher Investment Banking and Wholesale Payments revenue. Record gross Investment Banking revenue of $1.3 billion was up 60%, primarily driven by increased large deal activity with continued strength in M&A and acquisition-related financing across both corporate client and middle market banking. Expenses of $1 billion were up 7% year-on-year, predominantly due to investments and higher volume and revenue-related expenses.

Deposits were up 4% sequentially, mainly driven by higher operating balances. And loans were down 1% quarter-on-quarter. C&I loans were down 3%, but up 1% excluding PPP, driven by higher originations. And it's also worth noting that consistent with the last quarter, we are seeing a slight uptick in utilization rates in middle market. And those among larger corporates seem to have stabilized, albeit at historically low levels. CRE loans were flat with modestly higher originations in commercial term lending, offset by net payoff activity in the Real Estate Banking.

Finally, credit costs were a net benefit of $363 million, driven by reserve releases with net charge-offs of 6 basis points.

And then to complete our lines of business, AWM, on Page 8. Asset & Wealth Management reported net income of $1.2 billion with pretax margin of 37%. Record revenue of $4.3 billion was up 21% year-on-year as higher management fees and growth in deposit and loan balances, were partially offset by deposit margin compression. Expenses of $2.8 billion were up 13% year-on-year, largely driven by higher performance-related compensation as well as distribution fees.

For the quarter, net long-term inflows of $33 billion continued to be positive across all channels, asset classes and regions, with notable strength in equities and fixed income. AUM of $3 trillion and overall assets of $4.1 trillion, up 17% and 22% year-on-year respectively, were driven by higher market levels and strong net inflows. And finally, loans were up 3% quarter-on-quarter with continued strength in custom lending, securities-based lending and mortgages, while deposits were up 5% sequentially.

Turning to Corporate on Page 9; Corporate reported a net loss of $817 million, including $383 million of the $566 million tax benefit that I mentioned upfront. Revenue was a loss of $1.3 billion, down $957 million year-on-year. NII was a loss of $1.1 billion, down $372 million, primarily on limited deployment opportunities as deposit growth continued. And we realized $256 million of net investment securities losses in the quarter compared to $466 million of net gains last year. Expenses of $160 million were down $559 million year-on-year, primarily driven by the absence of an impairment on a legacy investment in the prior year.

On the next page, let's discuss the outlook. Our full-year outlook for 2021 remains largely in line with our previous guidance. We still expect NII to be approximately $52.5 billion, and adjusted expenses to be approximately $71 billion. But as you'll see on the page, we've lowered our outlook for the Card net charge-off rate to around 2% as delinquencies remain very low.

So, to wrap up, we're pleased with this quarter's performance as we approach what we hope is the tail end of the pandemic. The strengths of the company, both in terms of our diversified business model as well as our fortress balance sheet, talent and culture, have enabled us to perform well through this difficult period, while continuing to serve our clients, customers and communities. As we look ahead and the environment normalizes, new challenges will undoubtedly arise, but we feel confident with the position of the company and the strategy going forward.

With that, operator, please open the line to Q&A.

Questions And Answers

Operator

(Question And Answer)

And our first question is coming from John McDonald from Autonomous Research. John, please proceed.

Q - John McDonald {BIO 21440002 <GO>}

Good morning, Jeremy. I wanted to ask about the net interest income guidance for the year. It seems to imply a nice step-up in NII for the fourth quarter, to roughly $13.5 billion. Was wondering, what do you expect to be the drivers of that sequential step-up and would you see the fourth quarter NII as a good starting point for us to think about our 2022 NII forecasts?

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes, John. Good question and good catch there. It's true. That is quite a bit of sequential growth. If you do the math, it adjusts about $350 million. And in reality, if you think about what we've been saying about the outlook for increased revolve and deployment and so on, the increase is non-intuitively high. And so, just to explain, within that, there are a couple of factors. So one, there's actually a meaningful amount of market's NII growth between the third and the fourth quarter, which in general we would sort of encourage you to ignore. And there's also some sequential increase in NII from PPP forgiveness contributing to the fourth quarter number.

So if you strip those two out, you still see a little bit of modest growth, which is a little bit more consistent, I think, with the overall story that we've been telling, which is that the real acceleration in NII, especially from higher card revolve is a 2022 item. In that context then, if you take that sort of lower number and think about annualizing that, I think it's fair to assume that that would be a sort of lower end estimate for the 2022 number in light of what we believe will happen in terms of, especially card revolve. But obviously, we'll give you a little bit more color about 2022 next quarter.

Q - John McDonald {BIO 21440002 <GO>}

Okay. And as a follow up, your cash balances continue to grow and you've been conservative on liquidity deployment. Could you update us on your thinking around liquidity deployment, pacing that and what factors you're balancing?

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes, totally. So at the highest level I would say that nothing's really changed. Meaning we're still, all else equal, happy to be patient. We still believe in a robust global recovery. We still are a little bit concerned about inflation, I think, relative to the consensus. And all of that contributes to a willingness to be relatively patient about deployment. But it's also fair to say that relative to last quarter, rates are obviously higher. We start to see central banks around the world normalizing their policy stance a little bit. So, the market implied rates are coming a little bit more in line with our view, and given that, it wouldn't be surprising if we saw some more opportunities for a front-end deployment, cash and cash-like activity, as well as possibly some duration management.

Q - John McDonald {BIO 21440002 <GO>}

Got it. Thank you.

Operator

Our next question is coming from the line of Jim Mitchell from Seaport Global Securities. Please proceed.

Q - Jim Mitchell {BIO 1877338 <GO>}

Hey, good morning. Just first on loan growth, as you noted, Auto has been strong, and Card's starting to show signs of life, but it looks like outside of acquisition, finance, C&I still seems a little weak and we've got ongoing supply chain issues. So I don't know as we think about the big picture, how are you seeing I guess, loan demand trends playing out and what are you expecting as the next 12 months progresses?

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes. So let's go through loan growth because obviously that's one of the areas that everyone is interested in. So if we start with Card, which is obviously the one that's going to matter the most in terms of NII impact, as you said, we see some signs of life and we believe that recovery is strongly underway and it seems, hopefully, like Delta is really fading. So that's going to help. If you just look forward, just to the holiday season, we would expect to see normal seasonality and normal growth there. And the question really for Card, as we've talked about a lot, is whether that growth in spend and in card outstandings translates into revolve.

But as I noted in the prepared remarks, when we look inside the data and we look at the customers who have both deposit accounts with us and our Card customers, and we look at those who would typically be the ones that are most inclined to revolve, we actually do see slightly faster spend-down of the excess deposit balances there. So that makes us relatively optimistic about both the potential for card outstandings to grow with higher spend, but also for increased revolve and lower pay rates as we go into next year. It's going to take time obviously, but that is the core view.

In Home Lending, broadly, we expect that this quarter's trend with portfolio additions outpacing prepayments to continue. And then in C&I which you mentioned, just a reminder right, that as you go to the higher end of the spectrum in terms of the size of the C&I customers, we're eager to lend to them, it's a key part of the franchise, but from a financial performance perspective, that's more of an outcome rather than a goal.

But we do, as I noted upfront, see a little bit of an uptick in utilization rates among smaller corporates. So that's kind of consistent with the theme that we've been seeing, which is that the smaller you are and the less likely you are to have had -- to have benefited from the wide open capital markets, the more likely you are to be borrowing. We do hear a lot about supply chain issues from that customer segment. So it's going to be interesting to see how that plays out.

And then in CRE, we see quite a robust origination pipeline, as we've sort of fully removed any pandemic-related credit pullbacks, and we're leaning into that and we do expect to see a little bit of net loan growth going forward. And then finally, I would note that we do see some loan growth in markets actually and we generally discourage you from focusing too much on NII and loan growth within markets. But it is an indicator that there are some opportunities there that we're taking advantage of in the usual kind of nimble way that you would expect us to do in markets.

Q - Jim Mitchell {BIO 1877338 <GO>}

Okay. That's all very helpful and maybe just a follow-up on the expense side. You and your peers have all seen higher expenses this year, higher capital markets and incentive expense, and increased investment spend. But as we think about going into next year, if capital markets activity normalizes as many expect, can we start to see expense growth slow or are there other considerations to think about whether it's investment spend or inflation pressures that we should think about?

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes. So it's a little bit of an all-of-the-above story I would say. So first of all, we're still in the middle of budgeting and it's sort of a little early to be giving you 2022 expense guidance. We'll do more of that next quarter. But realistically, expenses are going to be up next year. Now to your point about capital markets related expenses, it's obviously true that we pay for performance and in light of the very strong performance over the last couple of years, in both banking and markets, we have seen increased compensation expense on the way up. And therefore, as a function of the amount of normalization that you see in 2022, you're going to see that come down in line all else equal.

Obviously, I would point out that I think that the amount of growth in that number that we've seen through the pandemic is less than a lot of people would have expected actually. And therefore, on the way back down, you would also potentially expect less participation, not to mention just the timing dynamics associated with the treatment of stock-based compensation vesting. So all of that aside, at the same time, we are still investing, we still see significant opportunities, we still see marketing opportunities in card. And yes, labor inflation is a question. You saw us raise wages in parts of the U.S. at the entry level that just came into effect this September.

And as we look out, we see a lot of churn. And as Jamie was saying, it's good stuff. It's normal. It's understandable in this environment. But labor inflation is definitely a watch item for us. So when you put all that stuff together, as I say, we'll update you more next quarter, but that's sort of how we see the expense outlook for next year.

Q - Jim Mitchell {BIO 1877338 <GO>}

Okay. Great. That's helpful. Thanks.

Operator

Next question is coming from Mike Mayo from Wells Fargo Securities. Your line is open. Please proceed.

Q - Mike Mayo {BIO 1494617 <GO>}

Hi. There are a couple of events during the quarter that I wanted to ask about. And specifically, how has the tech strategy evolved? One, you made the announcement that you're changing the retail bank core system entirely to the public cloud and that's a big change. And Jamie, I would love to hear your comments on that. And then second, your expansion in the U.K. with digital banking, what metrics are you shooting for? And third, your recent fintech acquisitions, to what degree are there synergies among the acquisitions in addition to JPMorgan? Thanks.

A - Jeremy Barnum {BIO 15409544 <GO>}

Okay, Mike, hang on. I'm writing down your questions because I don't want to lose track. Okay, so let's start with the cloud first. So yes, you will have seen some press coverage around our partnership with Thought Machine. At a high level, there's actually nothing new here. We have actually been committed to the cloud for a long time. And by the way, when I say cloud, I think we're talking about both private and public cloud. Our core strategy involves really leaning into both and being very nimble across both. And I think that's very important for us as a regulated institution from a resiliency perspective, but the reasons -- and that's all part of our overall tech modernization road map and a lot of the investments that we're doing that you've heard all the leadership of the company talk about.

When it comes to Thought Machine in the consumer space, there are five main reasons why we did that and it's all the normal reasons why you do cloud stuff and you do tech modernization. We want to be able to innovate quickly and bring products to consumers faster. We want to be able to run multiple products on the same platform. As I mentioned, resiliency is critical. Increasingly, we want to be able to run the bank much more in real time rather than based on batch processes. And obviously, APIs are central to the entire strategy in this environment. So that's what I would say about that. Now -- yes, please, Jamie.

A - James Dimon {BIO 1484062 <GO>}

Thought Machine is basically the core general ledger. It's not all the other stuff around consumer. And when you do these conversions different than conversions in the past, you can do them -- you can schedule pieces -- do part at a time, not all at once like a big bank, which we used to have to do and we did a big merge and stuff like that. So I put it as a lower risk for the company, but the core strategy hasn't changed at all.

Q - Mike Mayo {BIO 1494617 <GO>}

Yes.

A - Jeremy Barnum {BIO 15409544 <GO>}

Okay. And then Mike, international consumer and acquisitions, I think you asked about. So in terms of international consumer, you will have seen that we launched, it's obviously early days to give meaningful updates on that. But you will have noted actually that we just rebranded Nutmeg as a JPMorgan company just a couple days ago. So all that's proceeding at pace, and it seems to be pretty well received. I think the offering is seen as differentiated and innovative, so we'll have more to say about that over time. Generally --

A - James Dimon {BIO 1484062 <GO>}

I just -- again just -- this is a 10-year game plan. This is not -- they're going to worry that much about metrics in the next month or two. And this is a long-term work to try to get this thing right because if we ever going to be retail overseas, it's going to be digital and so we're going to be very patient. And at one point, Mike, we will report some metrics that you can see them, but they're not going to be material to the firm's numbers for years.

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes. That's going to take time for sure. So but just more generally in terms of the acquisition strategy, we've talked about this a little bit before. We're not claiming that we have some overarching top-down acquisition strategy. I think broadly, we're just doing things that make sense. But there are some themes that you can detect around bolt-on and adding capabilities. Just for the sake of argument, if you start with AWM, you see a pretty consistent theme in there of ESG-related capability additions. You've mentioned already international expansion and the potential for growth and it'll be a long game, as Jamie says.

And then, yes, there's definitely a fintech narrative a little bit in terms of some of the stuff that we've done in the CIB. And then within consumer, most recently, the collection of things that we've done I think is unified by the theme of providing more integrated and holistic experiences to our customers. We've always been very proud of the value proposition that we offer, especially in the card product. But we think we can take it up even another notch with some of the stuff that we're doing around lounges and cxLoyalty and stuff like that. So I think I touched on everything there, Mike.

Q - Mike Mayo {BIO 1494617 <GO>}

You certainly did. And just a follow-up. I mean, we see the results, the marginal efficiency in the businesses where you're growing has improved and we just don't have the why. So how much of that is tech driven versus other reasons? I mean, I guess, you have metrics internally that we just don't have, but your marginal efficiency is what or your unit costs are going down or any additional color as to the why the marginal efficiency is improving?

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes. So I mean I think reasonable people can differ on how you talk about this stuff, especially in terms of what parts of the expense base you see as a little bit more fixed versus a little bit more floating. I would have said that in reality, marginal expense increases as a function of most types of marginal revenue are actually lower than a lot of people think. So the sort of operating leverage that you see, especially in the type of environment that we've had with really big increases in revenue in the capital markets areas on the NIR side is actually relatively consistent with what I would have expected. But a little bit to your point, Mike, what is also true is that we're a big organization, there's a scale play here. We have a big fixed cost base and a lot of the modernization agenda is about making sure that, that doesn't creep and that it's as expensive as possible so that it can be as nimble as possible and that marginal efficiency over time is as good as possible. But that's a long play there.

A - James Dimon {BIO 1484062 <GO>}

And Mike, one of the things you think about, one is you -- people worried about the forecast for next year and stuff like that. We're playing the game for 10 years here. So we're going to -- and we're not going to disclose something like margin by product or something like that because it's competitive information. But the long game, we are competing with some very large talented global players who are not even in banking today. And we are going to compete in that. So even some of these acquisitions are more around that than around just what I consider traditional banking. And so -- and my whole life, just so we've been modernizing technology. Every year of every month of every quarter, that's like a permanent state of affairs. And obviously, now it's to the cloud and stuff like that. Those things are critical to do to be competitive going forward. That was true, by the way, 20 years ago.

Q - Mike Mayo {BIO 1494617 <GO>}

Got it. Thanks.

Operator

Next up, we have a question from Ken Usdin from Jefferies. Your line is open. Please proceed.

Q - Ken Usdin {BIO 3363625 <GO>}

Thanks. Good morning. I wanted to ask if you can expand a little bit more upon card fees and card revenue rate. We all certainly expected the marketing expenses to kind of go up inside that line. And just wondering if you can help us understand how much of that was captured in the third quarter and just what your general outlook is for the fee line and the underlying overall revenue rate. Thank you.

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes. Thanks, Ken. You're right. Part of the drop in the revenue rate this quarter is a function of higher card marketing spend, which you would have expected. As a result of what we said last quarter in terms of the importance of getting our fair share of the growth and spending as we emerge from the pandemic and the fact that we're out in the market with a lot of offers that are seeing good uptake, and we're seeing nice growth there. So that's expected. And I think that card marketing number will actually remain elevated, and if anything, tick up a little bit sequentially, just based on how the amortization there works. So you should expect to see that continue.

But in addition, this quarter we have just an adjustment to the rewards liability, which is contributing to the drop this quarter as well. So that is not something that we see continuing. So that should come out of the run rate as we look forward.

Q - Ken Usdin {BIO 3363625 <GO>}

Can you help us understand like what the magnitude of that is and what you think about overall card revenue rate going forward?

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes. I mean, we don't really manage the card revenue rate, so it's not a number that I'm eager to guide to. But I think the -- if I remember correctly, I think the rewards liability adjustment this quarter was of the order of something like $180 million, so we'll confirm that, but I think that's right.

Q - Ken Usdin {BIO 3363625 <GO>}

Okay. Thanks. If I might just ask Jamie, you made a comment yesterday about the supply chain, hopefully, easing by next year around this time. What are you just hearing from your partners around the world in terms of the logjams and the potential for that to open up from here?

A - James Dimon {BIO 1484062 <GO>}

Yes, I'm not hearing much different than you're hearing. I'm just -- I know that the over focus over time is so extraordinary sometimes in the press that people forget the big picture. The economy is growing 4% or 5%. What people are buying has changed, which has also hurt supply chains a little bit. There's not one company now that's not working aggressively to fix the supply chain issues. Sales are still up, credit card, debit card spend still up, consumer is in great shape. And capitalism works. I doubt we'll be talking about supply chain stuff in a year. I just think that we're focusing too much is simply dampening a fairly good economy. It's not reversing a fairly good economy.

Q - Ken Usdin {BIO 3363625 <GO>}

Got it. Thank you.

Operator

Next up, we have a question from Betsy Graseck from Morgan Stanley. Please proceed.

Q - Betsy Graseck {BIO 4799503 <GO>}

Hi. Yes, two questions. One, just following up on the card discussion that we just have regarding the fees and the $180 million on the -- roughly $180 million on the rewards adjustment. I mean it still leaves us with a pretty big decline Q-o-Q and I'm just trying to think through that a little bit because I know marketing, rewards, et cetera is up. But was there anything in particular that would have driven a one-timer that is unlikely to persist or not? I realize that cash back is a little more expensive, so maybe that's a piece of it and it's a one-time move? Or is it more a function of, hey, we're going to be ramping our offerings here and so you should expect that the forward look is a step-down from what you had been seeing in 2Q?

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes. So Betsy, in short, it's really the latter. So the only thing that is onetime-ish in nature, for lack of a better term, is the rewards liability adjustment and the rest of it really is marketing spend and we see that as a critical investment in this moment. It's a moment of high engagement with the product and we're very committed to making those investments. And so that is going to remain elevated, and if anything, tick up a little bit as we look forward.

Q - Betsy Graseck {BIO 4799503 <GO>}

Okay. Thanks. And then separately, I think today is the last day of the Vice-Chair of Supervision Randy Quarles term as Vice Chair of sup and reg. And so the question is, how should we be thinking about how you are positioning for an environment where maybe these rules don't change, right, like the LCR, the SLR, the things that we had been hoping might have some changes in them. Should we be anticipating that in order to help deliver the growth that you're looking for that we should anticipate more pref issuance going forward?

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes. So I think, obviously, we're a little disappointed that we haven't seen some of the changes on the non-risk-sensitive size-based constraints that we'd expected, but we're still hopeful that, that will come soon. We know the staff is hard at work on the Basel III endgame and that's complicated stuff and it may be the case that some of those things are connected. And our strategy on pref issuance has been to try to balance giving ourselves the capacity that we want to deal with the SLR constraint without over-issuing, and therefore, being stuck with a high-cost pref that aren't callable for five years. So that's part of the reason why we're operating a little bit above our CET1 target right now and we're just going to continue to be nimble in that respect.

Q - Betsy Graseck {BIO 4799503 <GO>}

Thanks.

Operator

Next up, a question from Glenn Schorr from Evercore ISI. Your line proceeds.

Q - Glenn Schorr {BIO 1881019 <GO>}

Hi, thanks very much. So in the spirit of your thought on not overly focusing on the. I heard your comments on payment rates and cards, 4Q seasonality, optimism about revolving card balances. So is there an implicit comment within there about buy now pay later and the impact it may or may not have? I mean, I'd love to get your perspective on hand this old, but I guess new payment option might have on the card industry overall. Thanks.

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes. Thanks, Glenn. So yes, BNPL, everyone is talking about it. It is funny how layaway is back in the e-commerce checkout lane. But -- and obviously we're looking at it, everyone is talking about it. And at the moment for us as a company where even though for any given thing that's emerging, you can easily convince yourself that it's kind of not a threat. We are in a moment of taking all types of potential disruptions, especially fintech-y type disruptions quite seriously. And in the case of BNPL, it's obviously particularly high profile because of the growth that we've seen, although, it's a relatively small portion of the overall market.

I'll remind you that we have our own very compelling offerings that speak directly to the installment payment experience in the form of MyChase Loan and MyChase plan, which we get really good feedback on the customer experience there in terms of the kind of post purchase experience, you can select eligible purchases on the app and then move that to installment plan if you want. But yes, we acknowledge that it is downstream of the point of sale, which potentially raises some questions about whether we should be looking at moving a little bit more upstream there.

But even more generally when you take a step back, what we're really trying to do in the consumer business here is think about what is the actual customer need that is driving the growth in BNPL and how can we respond to it in a strategic, holistic way across all of our customers and not sort of too narrowly and too reactively just respond to BNPL. But it's obviously a thing that we're looking at and it's quite interesting.

A - James Dimon {BIO 1484062 <GO>}

I think it's another example of a fintech company because you saw a firm come out, and it's no longer just about BNPL. They're going to have a debit card and attached banking account. So these are all different forms of competition, which we have to respond to. And so that's why when we talk about like expenses, we will spend whatever we have to spend to compete with all these folks in our space.

Q - Glenn Schorr {BIO 1881019 <GO>}

I appreciate all that. Maybe one other comment or to get your thought on the right perspective to think about China and Evergrande. And what people care about most is, is there an expansion of cross border, meaning, is this contained within their market? Is the funders that will have some marks within their market? Or do you see any domino effect in crossing borders? Thanks.

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes, so look, obviously, everyone is looking at Evergrande. Let me start by just saying that for us, in terms of direct Evergrande exposure is absolutely de minimis. So that's one piece. As you would expect, we have also looked at sort of more indirect exposures in terms of the broad China property sector as well as exposures of financial institutions that we deal with through the China property sector. And in general, those exposures are all very modest. So we're obviously watching it closely and continuing to look for read across and do what you would expect us to do. But we're not terribly concerned right now about the impact on us.

I think in terms of cross-border contagion, I don't hold my own opinion on this in particularly high regard, but it does seem like this was pretty well telegraphed by the Chinese authorities when they talked about their three red lines. So it's a process that's being managed and I would say the better view right now is that it will be contained. But, of course, it's the market so we'll see what happens.

Q - Glenn Schorr {BIO 1881019 <GO>}

Thanks for all that, Jeremy. Thanks.

Operator

Next up, we have a question from Ebrahim Poonawala from Bank of America Merrill Lynch. Please proceed.

Q - Ebrahim Poonawala {BIO 17612305 <GO>}

Good morning. I guess just wanted to follow up on two these that we discussed, one around fintechs and the regulatory changes, a lot of focus on the change in leadership at the regulatory agencies. Jamie, you've talked about in the past in terms of the regulatory arbitrage when you look at big tech nonbank players. I think BNPL is a good example of that. Do you think as we have new leadership at the regulatory agencies, they are alert to this arbitrage and do you think we see a clampdown? Or is it too late for really them to create a framework that would level the playing field?

A - James Dimon {BIO 1484062 <GO>}

I don't expect that there will be beneficial changes that help banks. And I think that we just have to compete with what we're the hand we're dealt and not expect anything like that. And I think you're going to have some people clamp down more in banks and maybe some people regulate fintech based on products or service, something like that. But I'm not expecting any relief.

Q - Ebrahim Poonawala {BIO 17612305 <GO>}

Got it. Yes, and I was just wondering if there would be increased scrutiny of the nonbank players relative to the banks, but point noted. And I guess, just on a separate question, Jeremy, we didn't see any build in the CET1 when I look at the numerator. Anything going on there this quarter that impacted it? And with the stock where it is at 2.4x tangible book, just remind us of how important are buybacks here as opposed to just keeping some dry powder as the economy gets better.

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes. So I mean the answer to how important buybacks are is that they're at the end of our capital hierarchies, we often say, right? So organic growth, including acquisitions, sustainable dividend and only then do we look at buybacks and in light of the SCB environment that we're in, where we don't have a Fed approved buyback plan anymore and we just simply have to comply with the minimums and BAU, that gives us quite a bit of nimbleness, which is an important thing to preserve in light of a world where we do hope for loan growth next year and where acquisitions are still potentially on the horizon. So nothing really going on this quarter other than a little bit of RWA growth and the denominator and we're just really going to stay nimble there.

Q - Ebrahim Poonawala {BIO 17612305 <GO>}

But is there a case to be made, Jeremy, in terms of just holding some dry powder and excess capital given your macro outlook as opposed to buying back stock at current valuations?

A - James Dimon {BIO 1484062 <GO>}

Yes. I think the valuations -- as the stock goes up, you're going to -- you should expect this maybe one day buy less. And we don't need dry powder, we have an extraordinary amount of capital liquidity. I mean, extraordinary and we earned $40 billion pretax a year. I mean how much dry powder do you need? We have $1.6 trillion of cash and marketable securities. We have 200 -- well over $200 billion of equity. We can issue preferreds, we can issue debt. We can issue stock if we had to do something. So I don't think we need dry powder, I think our capital run it over where it is.

Q - Ebrahim Poonawala {BIO 17612305 <GO>}

Got it. Thank you.

Operator

Next one is from Steve Chubak from Wolfe Research. Please proceed.

Q - Steven Chubak {BIO 18457976 <GO>}

Good morning. So Jeremy, you provided some helpful detail on the drivers of loan growth by category. Just looking ahead, is your expectation that loan growth begins to keep pace with GDP or economic growth? Or is there anything that would actually justify more meaningful acceleration, lending activity, whether it's just greater pent-up loan demand, normalization of the card payment rates or something else?

A - Jeremy Barnum {BIO 15409544 <GO>}

Good question, Steve. But I think you're sort of potentially leading me into giving fairly detailed loan growth guidance for 2022, which I am not really in a position to do. But let me see if I can answer this at a high level. I mean, we've talked a lot about spend, which we believe in, driving card loans higher. So that's one piece. And the revolve story within that as a function of the spend down in cash buffers, especially in our revolver -- the revolving segment of our customers.

And obviously, as you know well, if you kind of think about our NII as the sum product of the NIM and the outstandings in the various loan categories, it is really disproportionately card that drives things. In the meantime, if you move a little bit away from consumer to the larger wholesale system, in a world where even if tapering starts relatively soon, if that plays out over roughly eight months at $15 billion of decrease a month, you still, if you do the math, wind up with another $0.5 trillion of QE. So we are dealing with a system that has a lot of surplus liquidity. And so in that context, realistically, it's hard to imagine seeing a lot of wholesale loan growth at a minimum. But frankly, that's not really a big driver of performance for us. So I don't know if that helps, but it's a good question.

Q - Steven Chubak {BIO 18457976 <GO>}

Thanks, Jeremy. It absolutely helps. And just one clarifying question on the FICC commentary. You noted this quarter's results included an adjustment to liquidity assumptions in the derivatives portfolio. I'm assuming you could help unpack what that adjustment actually entails? What prompted it? And could you help size the impact in the quarter?

A - Jeremy Barnum {BIO 15409544 <GO>}

I could help unpack it, but it would take another 20 minutes, which we don't really have. It's just BOG standard liquidity evaluation type stuff in the derivatives book in terms of as we revise our assumptions about what the potential transaction cost would be associated with transferring certain types of positions. It's normal course stuff that just happen to be a little bit bigger. I think fixed income was down 20%, and I think without that it would have been down 15%. So hope that helps.

Q - Steven Chubak {BIO 18457976 <GO>}

Very helpful. Thanks for taking my questions.

Operator

Next question is from Matthew O'Connor from Deutsche Bank. Please proceed.

Q - Matt O'Connor

Hey, guys. I was hoping to follow up on the capacity to deploy liquidity, and I guess just to kind of leave it a little bit if we look at the growth in deposits, and I know some of them are kind of considered noncore but take out the loan growth and the growth in the securities book since COVID. You've got about an extra $500 billion of deposits and how much of that do you think can be deployed into securities and understanding that you expect loan growth to pick up, so that will go to some. But is there a way to size that $500 billion capacity in terms of buying securities?

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes. So I think there's a lot of factors that play into what the deployment decision is in any given moment. Obviously, as you said, loan growth, but also we always make these decisions on the long-term economic basis, not for the purpose of generating short-term NII. And so when you do that, you have to think about capital volatility, drawdowns, and frankly, whether or not you see value and that, if anything, is probably the biggest single factor right now, as I talked about earlier, it is true that the market has come a little bit more in line with our views at least from a rate perspective and that may lead to a little bit more deployment all else equal right now.

But when you start talking about spread product, for example, in light of the liquidity environment that we're in and the QE numbers that I mentioned a second ago that remains very, very compressed and there's just not a lot of value there. So we always try to be long-term economically motivated there, considering all the scenarios, considering risk management, considering the convexity of the balance sheet and looking at value and being tactical there. So that's really how I would think about that.

Q - Matt O'Connor

Yes. I mean I understood on the near-term basis, but I think a lot of investors are sitting here saying if the 10-year or really any part of the curve hits that magic point for you, what is just the capacity. So for example, if the 10-year gets to say 3% and your confidence not going to go to 5%. Do you have $100 billion of capacity, is it $300 billion, just any way to frame it longer term appreciating that it's not what you're looking to do at this moment, at these levels?

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes. I got the question and --

A - James Dimon {BIO 1484062 <GO>}

We can easily do $200 billion.

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes. I mean I got the question. I get why you want to know. I guess I just think like for a company of our sophistication and given how carefully we think about the stuff, the idea of a particular target at which we would deploy a particular amount. Of course, Jeremy's right, but it's always going to be situational. It's always going to be a function of why the rate is where it is? I mean in your question, you alluded to it, it's like if the 10-year notes are at 3% and we're sure it's not going to 5%, but then where is the rest of the yield curve, what are the other options, what's going on in that moment. So it's -- there's -- we're always going to be situational and tactical about it.

Q - Matt O'Connor

That's helpful. And then can I just squeeze in, you've announced the bunch of kind of what most of us would characterize as relatively small acquisitions, some this quarter and obviously looking back for the full year. Is there something -- is there a way you can kind of size the capital impact of that? I know most of the terms weren't disclosed individually, but anyway to frame kind of the capital and financial impact? And then just lastly, remind us like what is the driving force when you look for a deal because some of the deals you kind of look at and you're like, how that fit into broader JPMorgan Chase? Thank you.

A - James Dimon {BIO 1484062 <GO>}

Yes, the capital impact in total isn't that big a deal, and we're not going to disclose any more nor the immediate financial impact. And each one is different. So consumer, Jeremy already said, it's more about lifestyle, travel, lounges, millennial, stuff like that. In asset management, it's products. There were tax efficient products, ESG products, timber products, stuff like that. And then between Nutmeg and C6 and stuff like that, that is the longer-term view about us trying to get positioned into retail overseas over 10 years, if we can.

Q - Matt O'Connor

Great. Thank you.

Operator

Next one is coming from Gerard Cassidy from RBC Capital markets. Please proceed.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Thank you. Good morning. Jeremy, you were saying that when we were talking earlier about the potential SLR changes and such and we haven't seen anything and Quarles is leaving today, but you mentioned about maybe the Fed is focused on the Basel III endgame that's coming very soon here. Can you share with us from your guys' perspective what are you focusing on with the Basel III final rules and regulations that could affect your growth going forward?

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes. So I think, I mean, the thing about the Basel III endgame is that you need to essentially deal simultaneously with the Basel floors, the Basel standardized floors and the columns floor. So you need to simultaneously -- so from the perspective of the staff that's working on this stuff, they have a tough challenge to simultaneously put in place a U.S. rule, which is Basel compliant, while also complying with the columns floor standardized RWA minimum. And so that's complicated and it's hard and it's quite technical and that sort of explains why it's taking a little bit longer than we might have otherwise thought.

In terms of the impact of that on our long-term growth, I mean at a high level, it's unlikely to be significant. I think that related point is whether or not there are some changes as part of that or contemporaneously with that to these sort of non-risk-sensitive size-based constraints like G-SIB and SLR, where obviously, most prominently in the case of G-SIB, it's really getting pretty extreme in terms of the growth in the score for reasons that really have nothing to do with what the original design of the metric was and to a very significant degree are driven by the expansion of the system that we've seen in the last 18 months.

So that's why we believe that, that should be addressed as was contemplated in the original rule. And so across all of those potential changes, you could see us doing a little bit of optimization in response to those. You can imagine that Basel III endgame in terms of standardized in advance and the impact on different products might make some things a little bit more capital efficient and others a little bit less capital efficient at the margin. But we're a big diversified company, we're pretty good at navigating this stuff. So when we have clarity, we'll make the necessary tweaks.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Very good. Thank you. And then, obviously, you and the industry have seen really good deposit growth on a year-over-year basis. I think your deposits are up 20% all in. You talked specifically about retail being the number one market share in retail deposits. When the FED ends QE, assuming it does some time by the middle of next year and I'm not asking you guys to forecast what your deposits are going to be, but just higher level. Should we anticipate that deposits could actually decline or know that they are going to be so sticky even with the liquidity that everybody carries that we shouldn't really see a decline in deposits after QE and, let's call it second half of next year?

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes. So I think there's a couple of factors in here. So let's for the sake of argument set RFP aside for a second and hold that constant. If you just look at the impact of QE on system-wide deposits, we talk about tapering, but as I said earlier, tapering still involves another $0.5 trillion of system expansion between now and the end of tapering or rather between the start of tapering and the end of tapering. If the Fed follows the same type of trajectory that it followed last time, there would be an extended pause between the end of QE and the beginning of QT. And again, setting RFP aside for a second, it would only really be with the beginning of QT that you would expect the size of the system deposit base to start shrinking. And I think the timing last time, if I remember correctly, was something like 22 months between the end of QE and the beginning of QT. Now, of course, RFP could bounce around and there could be other factors, but at a high level that's how we're thinking about it.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Thank you.

A - James Dimon {BIO 1484062 <GO>}

I would just add my two cents. I think they'll have to go quicker than that and they'll have to reverse some of it. So you're talking about we're still going to increase deposits for a year, and then there'll be a fairly large reduction over two or three-year period, which we should be prepared for.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Thank you.

Operator

Next question is from Charles Peabody from Portales Partners. Please proceed.

Q - Charles Peabody {BIO 2346511 <GO>}

Yes, good morning. I wanted to sort of get a progress report on your new headquarter building. Specifically, what's the move in -- projected move-in date or has that been affected by the pandemic? Secondly, are there costs -- noticeable costs running through 2021 expense structure for that build-out? And does that tick up noticeably when you move in? And then thirdly, what's the plan for unloading the properties that you'll be locating and how has that being affected by the current real estate market? Thank you.

A - James Dimon {BIO 1484062 <GO>}

So the plan is on schedule, move-in date I think 2025. There are no material expenses, of course, there's duplicate expenses and we have to sell the building and stuff like that. But there's nothing material to our shareholder that we need to disclose.

A - Jeremy Barnum {BIO 15409544 <GO>}

Operator, any other questions?

Operator

Yes, sir. That is coming from Andrew Lim from Societe Generale. Please proceed.

Q - Andrew Lim {BIO 15232581 <GO>}

Hi. Good morning. Thanks for taking my question. So you quote, Jamie, about how you're focusing on inflation. Just wondering if you could outline what you're looking at exactly metric wise across your businesses to signal to you that inflation is actually materializing was as a concern and how would that pan out versus your expectations? And in terms of like how we deal with it, if it does materialize as a concern, is there anything that you can do to try and protect the bank against inflationary forces?

A - James Dimon {BIO 1484062 <GO>}

Yes. Well, I mean, I think we should look at the big picture here, which I think it's always important. I mean, two-years ago, we were facing COVID, virtually a great depression, global pandemic and that's all in the back mirror, which is good. So by hopefully year from now, there will be no supply chain problem. The pandemic will become endemic and I think it's very good to have good healthy growth, which we have. And I think it's good to have unemployment at 4%, it's good that their jobs are open, I think it's good the wages are going up along. And I think there's too much focus on -- and none of this changes how we run the business, which we get clients all the time, consumer, card, auto, deposits, real estate, small business, large companies and stuff like that, which is really the underlying thing to drive JPMorgan.

It's not whether they take the revolver from 25% or 27%. So having said all that, yes, and I'm not focused on inflation, we simply are pointing out -- well fortunately, you have inflation, it's 4%. It's been 4% now for the better part of a couple of quarters and it's in my view unlikely to be lower than that next quarter or the quarter after that. Now the question is, does it start to ease after that with supply chains and wages, more people looking for work or does it continue to go up? And of course, we prepare for probabilities and eventualities and one of those probabilities is that it might go higher than people think that they'll have to camp down. I doubt that'll happen before late 2022.

In the meantime, I think it's unbelievable that we're getting out of this thing and going to have 4% unemployment and you can have good growth with some inflation and that's okay. I think the people are always focusing too much on immediate concerns. If you have inflation of 4% or 5%, we're still going to open deposit accounts, checking accounts and grow our business. I also should point out because it's always in the back of my mind, of our $30 billion of revenues, $20 billion is subscription revenues, asset management, commercial banking, consumer banking, which is pretty good. Wholesale payments, security services, custody. And so we're pretty proud with the people who have accomplished all this. If you look at the actual underlying numbers, we're getting earnings per second, more customers, more counts, more share. And at the end of the day, that is what drives everything.

Q - Andrew Lim {BIO 15232581 <GO>}

Okay. That's great. So it seems like you're taking a benign view that it's a manageable -- it's not going to get out of hand.

A - James Dimon {BIO 1484062 <GO>}

No. It's the opposite. I'm telling you I don't -- it's the opposite. I'm telling you, I don't know. We're prepared all eventualities. There may be a Fed Gelb inflation. And one of the things about our balance sheet, you guys talked about liquidity and stuff like that. One of the fact tails that banks should be worried about is high inflation, high rates. And we have been very liquid, protects us more against that than other things.

Q - Andrew Lim {BIO 15232581 <GO>}

Got it. Thanks for the clarity on that. And just a short follow-on question for Jeremy. Could you update us on the amount of excess provisions you've got versus your base case economic scenario? You've given that number in the past and perhaps a bit of color and also on how that base case has changed over the quarter if it has indeed?

A - Jeremy Barnum {BIO 15409544 <GO>}

Yes. So I think that the base case, the central case is probably actually gotten a tiny bit worse quarter-on-quarter in light of the revisions in GDP outlook. But as you know, the framework also involves looking at probability weighted scenarios. And as I said in the prepared remarks, the sort of less extreme downside scenarios contributed a bit to the release this quarter.

In terms of sizing the overall balance, again, as I said in the prepared remarks, they remain a little bit elevated relative to what they would be if we had this type of economic performance with none of the COVID-related unusual features i.e., uncertainty about the virus as much as we are optimistic about that right now or uncertainty about labor market conditions or the fact that even though a lot of the -- essentially all the federal level unemployment assistance has now rolled off and most of the states have too. There's still some forms of assistance, the mortgage foreclosure moratorium, student loan stuff, rent moratoria, stuff like that, that don't roll off until later in the year. So there's a number of factors in the environment that are still unusual, which do contribute to slightly elevated reserves relative to what we would otherwise have. And as things play out, those will develop.

A - James Dimon {BIO 1484062 <GO>}

And Jeremy, just to interrupt real quickly, I got to go because I'm out of town. I have meetings I have to go to, but you guys should continue and folks thanks for listening to us and we'll talk to you all soon.

A - Jeremy Barnum {BIO 15409544 <GO>}

All right. Thanks, Jamie.

Operator

And by that, we have no further questions waiting.

A - Jeremy Barnum {BIO 15409544 <GO>}

Okay. Thanks very much.

Operator

Everyone, that marks the end of our call for today. You may now disconnect. Thank you for joining. Enjoy the rest of the day.