Q3 2020 Earnings Call

Company Participants

- Jamie Dimon, Chairman and Chief Executive Officer
- Jennifer Piepszak, Chief Financial Officer

Other Participants

- Andrew Lim, Analyst
- Betsy Graseck, Analyst
- Brian Kleinhanzl, Analyst
- Charles Peabody, Analyst
- Erika Najarian, Analyst
- Gerard Cassidy, Analyst
- Glenn Schorr, Analyst
- Jim Mitchell, Analyst
- John McDonald, Analyst
- Ken Usdin, Analyst
- Matt O'Connor, Analyst
- Mike Mayo, Analyst
- Saul Martinez, Analyst
- Steve Chubak, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Third Quarter 2020 Earnings Call. (Operator Instructions)

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 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 1, the firm reported net income of $9.4 billion, EPS of $2.92 and revenue of $29.9 billion with a return on tangible common equity of 19%.

Included in these results are $524 million of legal expenses primarily related to the resolution of legal matters announced last month.

Overall for the quarter, while we're still in a very uncertain environment, our underlying business fundamentals performed quite well. So I'll just touch on a few highlights here before getting into the line of business results. CIB continued its strong performance with IB fees up 9% and markets revenue up 30% year-on-year and we had record revenue in AWM up 5% year-on-year.

On deposits, while we expected to see some normalization in our balances, instead we saw another quarter of growth with average deposits up 5% sequentially and notably we moved into the number one spot in US retail deposits with 9.8% market share gaining 50 basis points of share year-on-year. On the other hand, average loans were down 4% quarter-on-quarter, primarily on revolver pay-downs from our wholesale clients.

With that, let's turn to Page 2 for more detail on the third quarter results. We reported revenue of $29.9 billion, which was flat year-on-year. Net interest income was down approximately $1.2 billion or 9% on lower rates, partly offset by higher Markets NII and balance sheet growth. And non-interest revenue was up $1.2 billion or 7%, primarily driven by CIB, including higher Banking and Markets revenues, as well as net securities gains in Corporate.

Expenses of $16.9 billion were up approximately $500 million or 3% year-on-year on the higher legal expenses that I already mentioned. This quarter, credit cost of approximately $600 million were down $900 million year-on-year primarily driven by modest reserve releases, which you can see in more detail on Page 3. We released approximately $600 million of reserves this quarter primarily on run-off in Home Lending and changes in wholesale loan exposure.

Charge-offs across our portfolios remain relatively low and in fact were down slightly year-on-year and quarter-on-quarter. While we could see an uptick in charge-offs over the next few quarters given payment relief and government stimulus already provided, we don't expect any meaningful increases in charge-offs until the second half of 2021.

As you can see at the bottom of the page, our updated base case reflects some improvement from last quarter. However, the medium to longer term, it's still highly uncertain, in particular, as it relates to future stimulus. And so we remain heavily weighted to our downside scenarios and with reserves of $33.8 billion we prepared for something worse than the base case.

And now turning to Page 4, I'll provide a quick update on what we're seeing in our customer assistance programs. You can see here that the vast majority of Card & Auto customers have exited release and so what's left in deferral is primarily in Home Lending including $11 billion of owned loans and $17 billion in our service portfolio. And in terms of what we're seeing with our customers that have exited release approximately 90% of accounts from being current.

Now, turning to balance sheet and capital on Page 5. We ended the quarter with the CET1 ratio of 13%, up 60 basis points versus last quarter on earnings generation and lower RWA, partially offset by dividends of $2.8 billion. And it's worth noting that we have over $1.3 trillion of liquidity sources available to us across HQLA and unencumbered securities

Now, let's go to our businesses, starting with Consumer & Community Banking on Page 6. CCB reported net income of $3.9 billion and an ROE of 29%. Revenue of $12.8 billion was down 9% year-on-year, driven by deposit margin compression and lower card NII on lower balances, partially offset by deposit growth and strong Home Lending production margins.

Deposit growth was 28% year-on-year up over $190 billion, largely on lower spending and higher cash buffers across both our consumer and small business customers, as well as organic growth. Client investment assets were up 11% year-on-year, driven by both net inflows and market performance. Overall, Consumer customers are holding up well. They have built savings relative to pre-COVID levels and at the same time lower debt balances.

With regard to digital adoption, early signs suggest the increased customer migration to digital will persist. In fact, nearly 69% of our customers are digitally active and that's up 3 percentage points year-on-year and accelerating. And quick deposit now represents more than 40% of all check deposits versus 30% pre-COVID

Moving on to Consumer Lending, starting with Home Lending, total originations were down 10% year-on-year driven by correspondent. However, consumer volumes were up 46% year-on-year and notably, more than half of consumer applications were completed digitally, twice the level of the first quarter.

In Card, while net sales were down 8% year-on-year and continue to improve throughout the quarter and in the month of September, sales were down only 3% year-on-year, reflecting the lowest decline since March. Retail, which is a significant portion of overall spend was the bright spot, reaching double-digit year-on-year growth in the third quarter, largely driven by card-not-present transactions.

And then in Auto, record originations for the quarter of $11.4 billion were up 25% year-on-year. Total CCB loans were down 7% year-on-year with Home Lending down 15% due to portfolio run-off and Cards down 11% on lower spend, offset by Business Banking, up 83% due to PPP loans. Expenses of $6.8 billion were down 4%, predominantly due to lower marketing investments. And lastly, credit costs of $794 million included a $300 million reserve release in Home Lending and net charge-offs of $1.1 billion driven by Cards.

Now turning to the Corporate & Investment Bank on Page 7. CIB reported net income of $4.3 billion and an ROE of 21% on revenue of $11.5 billion. Investment Banking revenue of $2.1 billion was up 12% year-on-year and down sequentially of an all-time record quarter and we maintained our number one rank in IB fees year-to-date.

The quarter's performance was largely driven by our equity capital markets business, which saw an uptick in IPO issuance, driven by a strong equity backdrop with stocks trading at or near all-time highs. In advisory, we were down 15% year-on-year, largely impacted by the muted M&A announced volumes in the first half of the year. However, we saw a surge in M&A activity this quarter with announced volumes returning to pre-COVID levels as companies began to shift their focus from day-to-day operations to more strategic and opportunistic thinking.

Debt underwriting fees were up 5% year-on-year, but down 21% sequentially as we saw investment-grade activity return to more normalized levels from the record volumes we saw in the second quarter. The leveraged finance market continue to recover with high-yield spreads approaching pre-COVID levels and some notable acquisition financing deals closing. We maintained our number one rank in overall wallet and were the leaders and lead left across leveraged finance. In equity underwriting, fees were up 42% year-on-year, resulting in the best third quarter ever, primarily driven by our strong performance in IPOs and follow-on.

In terms of the outlook, we expect fourth quarter IB fees to be roughly flat versus a strong quarter last year and down sequentially. However its valuations remain elevated, we could continue to see momentum in capital markets.

Moving to Markets. Total revenue was $6.6 billion, up 30% year-on-year. While activity continue to normalize with spreads, volumes and volatility reducing from the elevated levels of the first half of the year, the performance was strong throughout the quarter and across products, reflecting the resilience and earnings power of this franchise to a broad range of market conditions.

Fixed income was up 29% year-on-year against a strong third quarter last year driven by a favorable trading environment across products, notably in commodities, as well as elevated client activity in credit and securitized products. Equities was up 32% year-on-year on continued robust client activity in equity derivatives, as well as the recovery in prime balances and a solid performance in cash.

Looking forward, it's important to remember that 4Q '19 performance was very strong, making for a difficult year-on-year comparison and obviously forecasting Markets performance remains challenging in this environment.

Wholesale Payments revenue of $1.3 billion was down 5% year-on-year driven by deposit margin compression largely offset by balance growth, as well as a reporting reclassification in Merchant Services. Security Services revenue of $1 billion was flat year-on-year, where higher deposit balances were offset by deposit margin compression. Expenses of $5.8 billion were up 5% compared to the prior year, largely due to higher legal expense, partially offset by lower structural and volume and revenue related expenses.

Now moving on to Commercial Banking on Page 8. Commercial Banking reported net income of $1.1 billion and an ROE of 19%. Revenue of $2.3 billion was flat year-on-year driven by deposit margin compression, offset by higher balances and fees and higher lending revenue. Gross Investment Banking revenue of $840 million was up 20% year-on-year on increased debt and equity underwriting activity.

Expenses of $956 million were up 3% year-on-year. Average loans were up 5% year-on-year, but down 7% quarter-on-quarter due to declines in revolver utilization by C&I clients and lower origination volume in CRE. Deposits of $248 billion were up 44% year-on-year and 5% quarter-on-quarter as client balances remain elevated. Finally, credit costs were a net benefit of $147 million including a $207 million reserve release and net charge-offs of $60 million.

Now, on to Asset & Wealth Management on Page 9. Asset & Wealth Management reported net income of $877 million with pretax margin of 31% and ROE of 32%. Record revenue of $3.7 billion for the quarter was up 5% year-on-year as growth in deposit and loan balances along with higher management fees and brokerage activity were largely offset by deposit margin compression.

Expenses of $2.6 billion were flat year-on-year. And credit costs were a net benefit of $51 million primarily due to reserve releases. For the quarter, net long-term inflows of $34 billion were positive across all channels and driven by fixed income and equity. At the same time, we saw net liquidity outflows of $33 billion. AUM of $2.6 trillion and overall client assets of $3.5 trillion up 16% and 15% year-on-year respectively. Driven by net inflows into liquidity and long-term products as well as higher market levels. And finally deposits were up 23% year-on-year and loans were up 30% with strength in both wholesale and mortgage lending.

Now on to Corporate on Page 10. Corporate reported a net loss of approximately $700 million. Revenue was a loss of $339 million, down $1 billion year-over-year driven by lower net interest income on lower rates, including the impact of faster prepays on mortgage securities, partially offset by $466 million of net securities gains in the quarter. And expenses of $719 million were up $438 million year-on-year primarily due to an impairment on the legacy investments.

Now, let's turn to Page 11 for the outlook. You'll see here that our full-year outlook for 2020 remains in line with what I said at Barclays. We expect net interest income to be approximately $55 billion and adjusted expenses to be approximately $66 billion. And while we don't have anything on the page for 2021 and we're not planning to do Investor Day, we'll share more color with you on the outlook in the first quarter of next year.

So, to wrap up, even though recent economic data has been more constructive than we would have expected earlier this year, there remains a significant amount of uncertainty, and so we continue to prepare for a broad range of outcomes while focusing on serving our customers, clients and communities through this time.

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

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Matthew O'Connor of Deutsche Bank.

Q - Matt O'Connor

Good morning.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Yes.

Q - Matt O'Connor

So, I think one of the key questions on investors' minds right now is how will banks grow revenue kind of medium-term here, as you think about lower for longer rates. And I was hoping you could just talk about how you think about managing the Company if rates stayed very low for a long time and how you can grow revenue. And obviously year-to-date, the revenue has been very good, up 4%. And if you could, if even the branch expansion that you alluded to in the comments as part of that answer, that would be helpful. Thank you.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So, in terms of how we think about the revenue outlook for 2021, first of all, it's early and we'll come back to you in the first quarter with more details. But it is true that if we think about the NII outlook that that will be under pressure relative to 2020 and I can give more detail on that, but also we are on pace for record revenue in Markets and Investment Banking and so that will be a tough compare.

Having said that, we're not going to change the way we run the Company, because of what might be temporary rate headwinds and we see significant franchise value in the growth that we're seeing in the deposit base. And with that, branch expansion, we are continuing on our plans in branch expansion. We have I think almost 120 branches open in our expansion markets. We'll do more than another 150. So far this year, we got approval to enter 10 additional states, which will ultimately put us in all lower 48. So we continue with the branch expansion and remain very excited about it with those new branches in most cases performing well above of the original business case.

A - Jamie Dimon {BIO 1484062 <GO>}

(inaudible) give you a little bit of longer term view, there is not one single business where not any bankers, countries, products, digital are going security services and cash management services we're adding, we're going to chase both management business, we're adding private bankers. We're adding products and asset management and we kind of look through all the things I kind of call the weather we just keep on growing the branch. The branch expansion is one example that we never stopped doing that. We never stopped any credit card product. We never stopped growing digital Home Lending products and we'll be doing that for next decade. And of course, you have always ins and outs from our cold weather NII spreads margins markets, et cetera, but the goal is always the same; grow the business to serve your clients around the world.

Q - Matt O'Connor

And then just as a follow-up, Jen, you'd said that you elaborate on the net interest income. I don't know if you meant now or you're going to wait till January for that in terms of the outlook for next year from the puts and takes.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So there -- I had said at Barclays that the current run rate was a good place to start, so $13 billion is a good place to start and for 2021 reflects the impact of the rate environment and some normalization in Markets NII, but some there balance sheet growth in mix should be supportive throughout the year. And so, for the full year of 2021, my best view at this point would be $53 billion plus or minus, but yeah we'll sharpen our pencils on that and continue to provide updates, but right now, full-year $53 billion.

Operator

Our next question is from Glenn Schorr of Evercore ISI

Q - Glenn Schorr {BIO 1881019 <GO>}

Good morning. So I guess the reserve release was definitely driven by mortgage prepay and run off, so that I get that, but NPAs were still up 18% quarter-on-quarter. I wonder if you could talk about what drove that maybe comment on commercial real estate specifically be appreciated. Thanks.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So the reserve release, as you said, was largely on portfolio run-off and changes in exposure in wholesale, so not a reflection of a change in our outlook. And then the increase in non-accrual loans is on the consumer side is mortgage and it represents the customers that have come out of forbearance and are not paying. And so, as you saw on that slide, the payment deferral slide, about 90% are still current, the other 10% have now then reflected in the non-accrual exposure. So that is all mortgage.

And then the increase in non-accrual on the wholesale side was just a few names specific downgrades which are in sectors you would expect as you just said, retail-related real estate and oil and gas. And then more broadly on commercial real estate, I'll just share that we feel adequate reserve for what we're facing, but if you look at rent collections as an example, overall, with the exception of retail between 85% and 95% and then even retail in the month of September was about 80% have recovered to about 80%. So, still a lot of uncertainty there, but we feel adequately reserved.

Q - Glenn Schorr {BIO 1881019 <GO>}

Okay. I appreciate that. Maybe one on asset management. You've been doing great, I don't need to ask on your specific business, but in the past you've spoken about potential interest in participating in industry consolidation. We saw some of that happening lately.

Can you just talk, remind us about the parameters of what you would and might not be interested in doing an asset and wealth management bank?

A - Jamie Dimon {BIO 1484062 <GO>}

Well, since we have you on the line, our doors are wide open, we would be very interested in reduce (inaudible) consolidation of the business, but we're not going to be more specific (Technical Difficulty) fit the system, the technology, the business logic, the ability to execute does -- lot of issues it will determine whether something makes sense for us.

Operator

Our next question is from Mike Mayo of Wells Fargo Securities.

Q - Mike Mayo {BIO 1494617 <GO>}

Hey, Jen and Jamie, that was some comment, you said you do not expect much higher charge-offs until the second half of next year and that's even with the higher NPA. So what are your assumptions behind that, Jen, as far as specifically when the forbearance actions run their course, and Jamie policy actions that might be embedded in that expectation.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Okay. So I'll just start, Mike, with, first of all, the increase in non-accrual was on mortgage. And when you look at the LTV on those loan-to-value on those loans, that's what is embedded in how we're thinking about the what charge-offs will look like in the near-term. There are still very healthy LTVs on those loans. So really when we talk about losses really emerging in a significant way not until the back half of '21, we're talking about Cards. And just given the amount of stimulus and payment relief and support in the system, we haven't seen the delinquency buckets begin to fill up, and we charge 180 days tax due in cards. So that is primarily just a timing issue as it relates to Card. We could see increases in charge-offs in the next few quarters on the wholesale side or it may be here and there on the consumer side, it just the meaningful change in charge-offs we don't expect until the second half of 2021.

A - Jamie Dimon {BIO 1484062 <GO>}

Yeah. Mike, about policy, I wouldn't say that policy is determinative here, because this is unprecedented times and what we were saying is that policy will matter and will skew the odds and stay with better outcome. So I think the policy obviously the Fed's doing what it can to keep markets open, but the policy on the fiscal side, if you have some kind of continuation of unemployment insurance and PPP, those are two most volatile areas.

So just maximize the chance that will have better outcomes and I do think that over time intelligent return to work, I caution people, remember, 100 million people go to work every day. So we complete focus is in the 50 million who don't go to work but the 100 million go to work it's rather safe, there is a lot of examples where you have to do to social distancing and the cleaning and all the (inaudible) that make me safer than being home in your community.

And so, but again that's what is a little bit important because you look at cities and travel and a whole bunch of stuff, there are a lot of people who are under a lot of stress and strain who won't be able to survive another year of complete close down. So the other policy is a new and most rational thoughtful return to the office, done properly, which will help all those businesses support the big office towers and buildings and stuff like that and those few things will maximize the chance of good outcome, they don't guarantee the chance of a good outcome.

Q - Mike Mayo {BIO 1494617 <GO>}

And I know this is a tough question, but you're in the middle of the stress test part two, when all is said and done Jamie or Jen, where do you think these charge-offs go as a percentage of the global financial crisis? You have to have -- I know you have scenarios, but where should we thinking is like half the GST levels same GST level, twice the GST level, what you guys think in the back of your mind?

A - Jennifer Piepszak {BIO 19013293 <GO>}

It's a very difficult question to answer. It's very different, of course, because the GST was heavily mortgage-related and this will probably be less though, we also -- our portfolios are in significantly better shape coming into this, whether it's mortgage or card, but just given the amount of uncertainty about where this could go, we still have 12 million people unemployed, I think it's very difficult.

I don't know, Jamie, whether you would add.

A - Jamie Dimon {BIO 1484062 <GO>}

It's very hard. I agree with you, Jen, it's very hard to say. And it might -- it depends on the outcome. Again, we look at the good case, the medium case, the relatively adverse case and extremely adverse case and here the answers are completely different and we don't know the future. So, it's hard to predict what it's going to be, but our reserves are prepared for a relative adverse case, which is equal to the -- roughly equivalent to the CCAR Extreme Adverse case that we just got roughly. Again, it's very hard to compare apples to apples in these things.

Operator

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

Q - Erika Najarian {BIO 17048573 <GO>}

Hi. Good morning. I'm going to ask the two questions that I often get from investors that are hesitant to dip their toe back into bank stocks. And the first is, and, Jen, this goes back to your earlier comment, the one question I get on credit quality is, did stimulus and policy redefine cumulative credit losses lower for the cycle. In other words, I think Jamie said change the outcome or do you think it just delayed the realization of these losses?

A - Jennifer Piepszak {BIO 19013293 <GO>}

So, I think it's difficult to know. I think the purpose of it was to change the outcome, not just delay the losses, but it's difficult to know people sort of described it as a bridge and the question as to whether the bridge will be long enough and strong enough to bridge people back to employment and bridge small businesses back to normalcy. So I think it remains to be seen. As Jamie said, we are obviously preparing for it to not necessarily change the outcome obviously, because we built significant reserves. So we're prepared for it to be a delay rather than change the outcome.

Q - Erika Najarian {BIO 17048573 <GO>}

Got it. And my follow-up question and perhaps if I could direct this to Jamie, this is a bit of a follow-up to Matt's earlier question, but investors are essentially worried on the other side of the credit recovery about what the interest rate environment may imply for quote normalized ROTCE. And as you think about what you mentioned to be quote weather considerations, what prevents JPMorgan from going back to that 17%, 19% ROTCE that you posted in '18 and '19.

A - Jamie Dimon {BIO 1484062 <GO>}

You guys (inaudible) forecast the future is hard to tell. I think negative interest rates are bad idea and we'll probably force over time the industry to strength, which we would be buying back stock and doing other things capital, but we're able to handle low rates and we can have decent returns at low rates I think is a bad long-term strategy. I also think it's a bad idea for you all to assume they're going to continue like that forever. I mean, we had massive global QE in the last go-round and we didn't have inflation, but I remind people lot of QE was around Fed. The Fed and the Central Banks bought securities that would create deposits for banks.

The banks are forced to put deposits in the central banks. So it was not new inflation is fiscal stimulus, fiscal stimulus which has been extraordinary around the world is, by its nature inflationary. And so we don't really know the outcome of that, but my view and my fellow investors we're going to build our businesses day in and day out regardless of interest rate environments, et cetera and we have plans to adjust interest rate environments. We cannot do certain things, we can charge for certain things, we can do a whole bunch of different stuff, but the services is still required moving money around the world, trading for people, underwriting securities, helping manage their money and you won't be okay. We'll work through it.

Operator

Our next question is from Betsy Graseck of Morgan Stanley.

Q - Betsy Graseck {BIO 4799503 <GO>}

Hi. Good morning. Can you hear me?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Yes. Hi, Betsy.

Q - Betsy Graseck {BIO 4799503 <GO>}

Hi. I had two questions. One was, interested in understanding how you are threading the needle between your outlook here for reserves and the potential to buy back stock. You've got the reserve level high with the base case outlook for unemployment that's above where we are today for the next six months it looks like or even longer. And your capital build is obviously continuing to increase here. So how should we think about that? Could we imagine that your buyback could kick off before reserve release happens and would you release reserves before the net charge-offs start to come through like you mentioned in second-half '21?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So as we -- first of all, on stock buybacks, obviously, we are restricted here in the fourth quarter. We are hopeful, but that said, we'll see what they need and get what they need in the resubmission to give them the confidence to revert to a more normal distribution framework under SCB in the first quarter. So that's obviously the most important hurdle for us.

And then, if we have excess capital and the reserve decision and the buyback position are not related to one another. We are always going to make sure that we have our best estimate of losses that we're facing, considering the uncertainty as well. And then of course our capital hierarchy would always look to grow our businesses first and foremost. But if we have excess capital and if we do not have regulatory restrictions, you could see us buyback stock as early as the first quarter, and like I said, that wouldn't necessarily be related to a reserve release.

The other thing on potential reserve releases, we obviously need to see the economy continue to deliver on the base case to give us the confidence that that is what we're dealing with. But I would just say that remember there was a capital release -- a partial capital release on CECL build. So when you release reserves, only about half of that actually falls through to capital.

Q - Betsy Graseck {BIO 4799503 <GO>}

And could you talk a little -- Jen, could you talk a little bit about the Slide 3 where you've got the base case outlook for unemployment and just give us a sense as to what's driving this base case outlook for unemployment in 4Q '20 at 9.5% and in 20 -- 2Q '21 at 8.5%. They are obviously above where we are today and could you help us understand how you're thinking about flexing that going forward? What would change those assumptions?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Yes. That's like largely, Betsy, a timing issue with when we actually run the models for the reserve. That's not necessarily, as you rightly point out, reflective of our economist's latest outlook. So, we would as we progress through the fourth quarter use the latest outlook for the base case. But then again, as Jamie said, we look at a number of different scenarios and depending upon what we think we're dealing with in terms of the uncertainty, we may continue to heavily weight the downside scenarios or maybe even more heavily weight the downside scenarios we have to face. So if you look at the weighted outcome of all of the scenarios that we use to drive the reserves, it is -- we are prepared for a double-digit unemployment -- peak unemployment level, but it would start with the revised base case shall I say from our economist.

A - Jamie Dimon {BIO 1484062 <GO>}

Yes. If I just put it in perspective, it's a little bit of capital. I mean we have extraordinary amounts of capital $200 billion, we've got $1.3 trillion of liquid assets and securities. And the way you should look at it is the $200 billion in the next eight quarters will earn PPNR like pre-tax pre-provision earnings roughly $80 billion give or take and we don't know exactly what that's going to be. So with the $80 billion if things get better, it will be more than that and take down reserves. If things get worse, it may be about that or in the worst scenario we have to put up $20 billion. Even if we put up the $20 billion, in my view that will not emerge in a quarter. That will emerge over several quarters, which means you can buy -- pay the dividend, buy back stock, have plenty of capital, and still be very conservatively capitalized. And that's the reality of it. Okay. Forget all the other stuff you read -- and we're conservative. We like to be conservative going loan loss reserves and capital. So we'll be patient, but we have tremendous amount of wherewithal to do both when the time comes. I hope we're allowed to do it before the stock is much higher.

A - Jennifer Piepszak {BIO 19013293 <GO>}

And the $20 million that Jamie references, we talked about each adverse scenario last quarter so you can think that that's the $20 billion that Jamie is referencing if that is what...

A - Jamie Dimon {BIO 1484062 <GO>}

And that $20 billion is unemployment of 12% 13% that goes up into the better part of six quarters. I mean it's really extremely adverse. It's far worse than the CCAR case we just got.

Operator

Our next question is from John McDonald of Autonomous Research.

Q - John McDonald {BIO 21440002 <GO>}

Good morning. Jen, you mentioned that next year you have some tough revenue comps. Can you talk about the notion of expense flexibility at JPMorgan? Underneath the surface of flattish expenses, where are you on saving money from digitization and structural change and how does that give you flexibility against where you'd like to be investing?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So first of all, it's early. We're still working through next year so I would certainly refine the guidance in the first quarter. But as it relates to expenses, we will -- and you mentioned digital, that's one, we will continue to deliver on the structural expense efficiencies as we have been for the last several years. There will -- as we do expect the world to normalize a bit, there will be opportunity in volume and revenue related expenses, but we are going to continue to invest and so there will be puts and takes and we'll provide more detailed guidance in the first quarter.

Q - John McDonald {BIO 21440002 <GO>}

Okay. And as a follow-up. On capital, can you talk about the notion of reducing your SCB and maybe your GSIB surcharge footprint over time? I think you've commented that there's potential to do that. What is the path and the route to doing that and how do you feel about the prospects for those two things getting better over time?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So I'll start with GSIB, which is that we do expect to be in the 4% bucket at the end of this year, but it is not effective immediately. And so, we will have 2021 to manage that back down. What I would say there is that with the Fed balance sheet at these levels possibly expanding, that makes managing the GSIB back down quite challenging. So in the absence of recalibration, which we remain hopeful about, managing that back down will certainly be challenging but not impossible, but we'll certainly think about any impact on our client franchise before we do anything. So, we have some time there. We could see recalibration that would help, but no doubt that that's a challenge. On SCB, I'd start by saying it's scenario dependent of course. So all else equal, we do think that we have opportunities to manage down the SCB and that could include transferring securities from AFS to held to maturity and then some other mechanical issues on our side that we're confident will, all things equal, reduce our SCB. But again, it's scenario dependent. So all that being said, John, I would just say that our expectation at this point over time is that our target capital level of 11.5% to 12% is -- should be unchanged over time.

Q - John McDonald {BIO 21440002 <GO>}

Got it. Thanks.

Operator

Our next question is from Ken Usdin of Jefferies.

Q - Ken Usdin {BIO 3363625 <GO>}

Thanks. Good morning. Jen, Jamie mentioned earlier that you've got $1.3 trillion of cash and securities. It didn't look like you really changed the size of the investment portfolio this quarter, but you didn't make a bunch of moves into held to maturity from available for sale. And I'm just wondering you guys have talked about expectation that deposits might settle down, but they are continuing to grow. And so what can you do at this point and going forward with the move -- starting to move some of that cash into things that might at least earn some more to protect the NII going forward? Thanks.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So, I'll start...

A - Jamie Dimon {BIO 1484062 <GO>}

I'll just take that. We're not going to do anything to protect the NII. We have $300 billion of cash we could invest today and that becomes $400 billion. We're not going to invest in stuff making 50 basis points, 60 basis points, or 70 basis points so we get a teeny little bit more of NII. We're going to make long-term decisions for the Company and if your NII then (inaudible) so be it. But we don't want to be in a position where we lose a lot of money because we may invest in some five or 10-year securities, which you lose a lot if rates go up. So, we're not protecting NII.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Yes. So as a principal matter, it's important to remember that we manage the portfolio across multiple dimensions not just optimizing NII as Jamie said and we're thinking about capital protection at these levels. But just in terms of the activity that you saw in the securities portfolio, we've been very active. We added about $160 billion through the end of Q2. In Q3 we were active buyers and sellers because in Q3 we saw attractive selling opportunities which made economic sense for us. So just to Jamie's point so you give up some NII, but it just made economic sense for us; but we were also buying in the third quarter. We also focused on optimizing liabilities with the excess liquidity. So, you'll see that our debt is down nearly $40 billion from last quarter. So then just in terms of that transfer to held to maturity with the significant growth in the securities portfolio, it just made sense from a capital protection perspective. It's also helpful for SCB, as I mentioned, and these are high quality core holdings.

Q - Ken Usdin {BIO 3363625 <GO>}

Yes. And fully agree on that duration point, Jamie. A follow-up just on if you think about the fee businesses and some of...

A - Jamie Dimon {BIO 1484062 <GO>}

You guys should -- you guys are supposed to be raising the question about why moving some of the held to maturity reducing SCB. Is that a rational thing? I don't think it is, but that's what it is and that's what we're going to deal with is why we could drive down SCB.

A - Jennifer Piepszak {BIO 19013293 <GO>}

On duration, the tenure has backed up a bit over the last couple of weeks and so we have been -- we will remain opportunistic, but we have added at these levels.

Q - Ken Usdin {BIO 3363625 <GO>}

Great. And then just one follow-up on just fees in general, you've got the consumer fee businesses that are still trying to get back to where they were a year-ago and then last quarter Jamie had made the comment about cut it in half and trading and it wasn't anywhere close to that which was positive, it's still quite, quite good. Just how you think through just pushes and pulls between fees as you look forward, right, in terms of how much better do you think the consumer can get from where it is and if -- how much if any or are the institutional businesses over-earning relative to where they posted in the first half? Thanks.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So on consumer fees, you'll see that consumer fees recovered a bit in the third quarter. The decline there was both relief actions that we took, but also because of the higher cash buffers that consumers are experiencing. That also impacts fees so -- and that's a good thing. So we'll take that. So that did recover a bit in third quarter, but that will take time to get back to what you might consider normalized levels.

And then, on the institutional side, we did expect to see markets normalize in the third quarter we did see that a bit, but not as much as we had thought when we were at second quarter earnings. And IB fees also continued to be very strong in the third quarter, exceeding our expectations for what we might have thought in the second quarter.

Looking forward though, the fourth quarter is a tough compare. So we do and we do expect markets to continue to normalize. And then, on the IB fees side, our pipeline is flattish to what it was last year, it's still down a bit in M&A, but we did see M&A recover in the third quarter and it's up in ECM. So as I said, flattish in the fourth quarter feels about right at this point.

Operator

Our next question is from Steve Chubak of Wolfe Research.

Q - Steve Chubak {BIO 18457976 <GO>}

Hi. Good morning. So, Jen, I was hoping you could speak to this expectations for loan growth across both the institutional and consumer channels. When -- do you anticipate we could begin to see balances quite positively, and separately, just what level of loan growth is contemplated in the $53 billion NII guide that you provided for '21?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So, loan growth will be challenged, I think, in the short term. On the wholesale side, I think we'll probably tread water at these levels, but increasing CEO confidence with M&A activity and capital investment should be supportive of more normalized loan growth, but that may take some time.

On the consumer side, we are seeing cards continue to revert to more normal levels and so that will continue into 2021. But that could be offset by continued prepays in mortgage. So there will be puts and takes there. And then Asset Management, I think, we'll continue to see solid growth. So net-net -- not significant loan growth, but mix will be helpful, because card growth is supportive of a mix benefit on NII.

Q - Steve Chubak {BIO 18457976 <GO>}

Thanks for that. And maybe a question for you, Jamie. You had alluded to potential for charging for additional products and services to offset rate pressures. And I was hoping you could speak to some of the areas where you might look to potentially charge clients and just philosophically, how you're handicapping the risk of client attrition if competitors ultimately don't follow suit.

A - Jamie Dimon {BIO 1484062 <GO>}

First of all, I don't think it's going to happen, so I don't spend too much time worrying about it. But we have, as a Company may have gone through everything we do and how we do it and how we respond to negative rates. I might be able to account by account lot of these necessary services, all the competitors, it's a competitive world. I agree with your competitors don't do stuff. We have a hard time doing it, but I think you will see a lot of competitors respond to negative rates in a lot of different ways. So there will be an opportunity to do something like that.

Operator

Our next question is from Jim Mitchell of Seaport Global.

Q - Jim Mitchell {BIO 1972127 <GO>}

Hey. Good morning. Maybe just a question on deposit growth. I think we've all been surprised at the continued growth. Can you just kind of talk to what you're seeing. It looked like we had further growth in September. Are you expecting this to continue? Is it sort of moving out of money markets and the deposits. What do you think is driving the growth and do you expect to continue?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So there's no doubt that with the Fed being this active that there is significant excess liquidity in the system. We did think that we would see deposits normalize in the third quarter both on consumer spending -- on the consumer side and then on the wholesale side in places like security services with asset managers holding cash on the sidelines. We didn't see what we thought we would. So yes, we did continue to see deposit growth here in the third quarter. Going forward, I think that normalization is still very much a part of our outlook except for that given that the normalization is a bit different here, it will likely be offset by continued organic growth, perhaps more than offset by continued organic growth.

Q - Jim Mitchell {BIO 1972127 <GO>}

Right. Makes sense. And then maybe a follow-up on credit. I mean, I appreciate that we're not going to see charge-offs given where delinquencies are today. But what do you think -- how do we think about delinquencies and what triggers you to either release or build reserves? I would imagine it will see it if you would be making those decisions before charge-offs. Where do we see delinquencies? You've had very good experience so far in your core book, as well as the deferrals acting well. When do we -- I mean, it just seems very surprising we haven't seen delinquencies tick up yet in any material way. When do you expect that or is it really all dependent on sort of the goodwill of the government?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Well, I think, we -- one of the reasons we haven't seen delinquencies tick up is because of the payment relief, but also the extraordinary support that has been provided through stimulus. So we'll probably see delinquencies tick up in the early part of 2021. We're not assuming further stimulus beyond the end of this year and how we think about reserves. So we do think you'll start to see delinquencies tick up early 2021 and then charge-offs in the back half of 2021. I think future stimulus would give us more confidence in the economy delivering on the base case. There is a lot of factors that we'll be looking at as we think about the right level of our reserves over the coming quarters and delinquencies will be just one part of that.

Operator

Our next question is from Gerard Cassidy of RBC.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Thank you. Good morning, Jennifer.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Hi, Gerard.

Q - Gerard Cassidy {BIO 1505265 <GO>}

I may have missed this, I had to jump off for a minute on the call, but can you give us some color -- you've spoken very well about what's going on in the consumer credit area, but when you go into the commercial side of the business, can you share with us the sectors that you're seeing the biggest challenges and can you give us some color on the re-rating process that you're going through on those credits and are troubled today and what kind of deterioration you're seeing in those specific credits in terms of possibly write-downs or revaluations of if it's collateral like on a commercial real estate loan?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So the sectors I think are ones that you would expect airlines, lodging, restaurants, other T&E, real estate, oil and gas. And those continue to be the sectors under the most pressure. When you look at downgrades here in the third quarter or -- not here in the third quarter, in the third quarter, we saw downgrade slow a bit, because in the second quarter, we saw significant downgrades just on the increased level of debt that companies were taking on. So we saw downgrades slow a bit in the third quarter, but we do expect downgrades to continue particularly in real estate. And then elsewhere in wholesale, I would say CEO sentiment is guarded, but constructive.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Very good. And then as a follow-up, I know Jamie touched on interest rates and how you're very focused in growing your business in any rate environment. Could you give us some color inflation if it does pick up and if we get a steepening in the curve obviously Chairman Powell has indicated, he is not going to move on rates for quite some time. But if we're looking in the third quarter of, let's say '21 and the 10-year government bond yields is let's say 125 basis points. Can you just give us some color. I know that's not your prediction, but what would that do for the margin and revenues if we were fortunate enough to see a steeper curve due to higher inflation.

A - Jennifer Piepszak {BIO 19013293 <GO>}

I don't have the sensitivity to hand. Go ahead, Jamie.

A - Jamie Dimon {BIO 1484062 <GO>}

Yeah, I'd tell you there is a disclosure we make in the 10-Q. It shows what would happen if rates go 100 basis points (inaudible) $1.5 billion a year with the warrant and is a piece of that, but the smaller piece and that rolls in and compounds over time, but that's not the right way to look at it as to what. If you have an active environment rates are going up, we have more volume and more NII. If you have stagflation by any chance, that's a really bad idea. So the why is more important than just the what here.

Operator

Our next question is from Saul Martinez of UBS. Saul, your line is open. Please proceed.

Q - Saul Martinez {BIO 5811266 <GO>}

Hello. Sorry about that. I was on mute. I wanted to follow up on an earlier question, I think it was from Ken on partly on sales and trading. But you're tracking this year in sales and trading to a revenue of close to $30 billion. And if we go back to say 2010, shortly after the crisis, it's been pretty consistently the annual revenues in, say, the $18 billion to $21 billion range, there was obviously a lot of volatility on a quarterly basis, but it's generally been in that range. So how do we think about or frame the range of outcomes as market conditions normalize? Do you feel like there have been changes in terms of your share of market structure that maybe allow you to have a larger revenue base and more revenues from those businesses than you have had historically, even as market conditions normalize or is it just kind of too hard to tell? I'm just trying to think through, because is it obviously a pretty big impact on your overall PP&R and revenue forecast going forward.

A - Jennifer Piepszak {BIO 19013293 <GO>}

So I think that, I mean, as you know, we're on pace for a record year, so I think any compares are going to be challenging and we do expect the market to continue to normalize and that could be partially offset by share gains, as you mentioned, but it is never a good idea to try to forecast markets even early in a quarter never mind the year before.

I don't know, Jamie, if you have anything.

A - Jamie Dimon {BIO 1484062 <GO>}

And so what reason this is the ground war game we have lots of competitors and we're all buildings systems is double are going to be, they can do a better job for them almost impossible to forecast short-term numbers in that

Q - Saul Martinez {BIO 5811266 <GO>}

Yeah, no, and I understand that totally get that and I appreciate that. It's just that you're kind of tracking to a revenue that's about 30% higher than what you've done in the post -- any year in the post-crisis environment to that -- somewhere to that effect. So that delta between the current run rating with what has been a more normalized run rate is pretty sizable. So I'm just trying to get any color in terms of kind of thinking through kind of a range of outcomes for where that can settle in at, not necessarily in a given quarter per se, but just more on a normalized basis, do you think about the business as a whole.

A - Jamie Dimon {BIO 1484062 <GO>}

So do I say our trader did have done an exceptional job, but I would say the second quarter will not be typical and the third quarter probably wont. Hopefully might be better there has been past couple of years, but we don't know. But remember, the market itself, total bonds, total assets under management, total credit products, total (inaudible), total global products that's growing over time. So there is an underlying growth (inaudible) around and competition was around.

Operator

Our next question is from Andrew Lim of Societe Generale.

Q - Andrew Lim {BIO 15232581 <GO>}

Hi. Good morning and thanks for taking my questions. So the first one, you've got $33.8 billion of reserves. I guess, that was in line with an Extreme Adverse scenario. I know you can't tell what's going to happen going forward given many different variables, but we've already seen some of that being released. So I was wondering if you had the base case scenario pan out over the coming years how much of that $33.8 billion should we expect to be released back through the P&L and over what time period?

A - Jennifer Piepszak {BIO 19013293 <GO>}

So I'll start by saying we're not reserves for the Extreme Adverse scenario. So we are reserved for something worse in the base case, because we have put heavyweights on scenarios that are worse than the base case, but we are not reserved for the Extreme Adverse scenario and the relief this quarter was first of all very small in the grand scheme of things, and was almost exclusively related to portfolio run-off or exposure changes not anything to do with the change in our outlook. And then, if the economy delivers the base case, you will see reserve releases from us in the coming quarters. But it is, it is very, very difficult to try to tell you how much and when.

Q - Andrew Lim {BIO 15232581 <GO>}

I mean, surely you've got like can you make it like an estimate of your reserves. If you did assume the base case going forward and I guess it's a difference between what you are...

A - Jamie Dimon {BIO 1484062 <GO>}

I've already said that the base case -- the said base case happens would probably something like $10 billion of reserve.

Q - Andrew Lim {BIO 15232581 <GO>}

$10 billion over-reserved?

A - Jamie Dimon {BIO 1484062 <GO>}

No, $10 billion of reserve.

Q - Andrew Lim {BIO 15232581 <GO>}

Got it. Understood.

A - Jennifer Piepszak {BIO 19013293 <GO>}

And I mentioned it earlier, it's just important to remember that there were capital modifications to CECL. So only about half of that ends up in capital, because as you release your reserves...

Q - Andrew Lim {BIO 15232581 <GO>}

Yes, of course. Got it. Understood. Thanks for that. And then just a follow-up question on your CET1 ratio. You had a nice pick-up there this quarter of these strong earnings but we've also had a near 2% reduction in risk-weighted assets. I was just wondering if you could give a bit more color on the moving parts and how you expect that to pan out in the coming quarters.

A - Jennifer Piepszak {BIO 19013293 <GO>}

That's largely the RWA reduction was largely on revolver pay downs. So I wouldn't expect that kind of pace to continue. We will continue to build if we're not allowed to buy back stock. But we will continue to build capital on earnings probably less so on RWA reduction.

Operator

Our next question is from Charles Peabody of Portales Partners

Q - Charles Peabody {BIO 2346511 <GO>}

Yeah. Good morning. Question about your rate sensitivity to the long end. If I look at a time series, going back to the second quarter of last year, your rate sensitivity has increased every single quarter to a steepening yield curve. In other words, your NII would improve some more the yield curve steepens at the long end. So my question is, it was that an intended action or residual effect, because I did notice that you've been adding fairly significantly to your MBS portfolio.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Yeah. So Charles, I don't know precisely the answer to that, but it's largely going to be, I'm assuming on the growth in our deposit base, which then has supported the growth in the securities portfolio.

Q - Charles Peabody {BIO 2346511 <GO>}

Okay. It's substantial. I mean, if you go back to the second quarter of last year, you had a $600 million potential increase in second quarter of this year was $1.7 billion. Anyway, my second question is related to the legacy impairment charge. Can you give us some color around that? What sort of asset class that was in and is it over $0.5 billion, under $0.5 billion?

A - Jennifer Piepszak {BIO 19013293 <GO>}

So under $0.5 billion is what remains and it was a legacy investment that we took an impairment on and it's not meaningful in the grand scheme of things.

Operator

Our next question is from Brian Kleinhanzl of KBW.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Great. Thanks. Just a quick question to start with. Maybe as you think about kind of what you've been doing for our customer accommodation as it relates to the pandemic, I know there would have been fee waivers first quarter, second quarter of this year, but what kind of customer accommodation was happening in the third quarter? Is it kind of a clean number from a field perspective in the third quarter or is there still a certain level of accommodation going on?

A - Jennifer Piepszak {BIO 19013293 <GO>}

There is probably -- I don't actually know. Jason and team can get you the details. It's less than what it was in the second quarter and it's more the -- what this means in terms of the reduction in fees is more a function of cash buffers.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Okay. And then, is there a way that you can have an update on the IB pipeline, but on a geographic basis. I mean, as we've seen negative highlights around COVID kind of around the world. Is there different pipelines building in different regions? Thanks.

A - Jennifer Piepszak {BIO 19013293 <GO>}

There is less of a regional story, but from a product perspective overall were flattish to last year, but M&A in a little bit lower, importantly though recovered quite nicely in the third quarter and ECM is a little bit higher, but overall flattish.

Operator

And we have no further questions at this time.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Okay. Thanks, everyone.

Operator

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