JPMorgan Chase
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Speaker 1
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Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's First Quarter twenty twenty five 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. The presentation is available on JPMorgan Chase's website. Please refer to the disclaimer in the back concerning forward looking statements. Please stand by. At this time, I would like to turn the call over to JPMorgan Chase's Chairman and CEO, Jamie Dimon and the Chief Financial Officer, Jeremy Barnum. Mr. Barnum, please go ahead.

Speaker 2
35s

Thank you, and good morning, everyone. Starting on page one, the firm reported net income of $14,600,000,000 EPS of $5.07 on revenue of $46,000,000,000 with an ROTCE of 21%. These results included a First Republic related gain of $588,000,000 which was previously disclosed in the 10 ks. On page two, we have more on our first quarter results. The firm reported revenue of $46,000,000,000 up $3,500,000,000 or 8% year on year. NII ex markets was down $430,000,000 or 2%, driven by the impact of lower rates and deposit margin compression, as well as lower deposit balances in CCB. This was predominantly offset by higher card revolving balances, the impact of securities activity including from prior quarters, as well as higher wholesale deposits. NIR ex markets was up $2,200,000,000 or 20%, and excluding the significant item I just mentioned, was up 14%, largely on higher asset management fees, lower net investment securities losses, and higher investment banking fees. And Markets revenue was up $1,700,000,000 or 21%. Expenses of $23,600,000,000 were up $840,000,000 or 4%, largely driven by compensation, including growth in employees across the front office and technology, higher brokerage and distribution fees, as well as marketing and legal expense. The quarter also reflected a $323,000,000 release of the FDIC Special Assessment accrual compared with a $725,000,000 increase in the prior quarter.

Speaker 2
2m 15s

Credit costs were $3,300,000,000 with net charge offs of $2,300,000,000 and a net reserve build of $973,000,000 We have more details on the reserve build on page three. With this quarter's reserve build, firms' total allowance for credit losses is $27,600,000,000 Let's take a second to add a little bit of context to our thinking surrounding this number in light of the unique environment of the last several weeks. Our first quarter allowance is anchored on the relatively benign central case economic outlook, which was in effect at the end of the quarter. But in light of the significantly elevated risks and uncertainties at the time, we increased the probability weightings associated with the downside scenarios in our CECL framework. As a result, the weighted average unemployment rate embedded in our allowance is 5.8%, up from 5.5% last quarter, driving the $973,000,000 increase in the allowance. So with that in mind, the consumer build of four forty one million dollars was driven by changes in the weighted average macroeconomic outlook. The wholesale build of $549,000,000 was predominantly driven by credit quality changes on certain exposures and net lending activity, as well as changes in the outlook. In addition, it is important to note that the increase in the allowance is not, to any meaningful degree, driven by deterioration in the actual credit performance in the portfolio, which remains largely in line with expectations.

Speaker 2
3m 44s

With that, let's go to balance sheet and capital on page four. We ended the quarter with a CET1 ratio of 15.4%, down 30 basis points versus the prior quarter, as net income and OCI gains were more than offset by capital distributions and higher RWA. This quarter, the firm distributed $11,000,000,000 of capital to shareholders, which reflects $7,100,000,000 of net common share repurchases and the payment of our common dividend, which has been increased to $1.4 per share. This quarter's higher RWA is primarily driven by overall business growth in Markets and some seasonal effects. Now let's go to our businesses, starting with CCB on page five. Consumers and small businesses remain financially healthy. Despite the recent downtrends in consumer and small business sentiment based on our data, spend, cash buffers, payment to income ratios, and credit utilization are all in line with our expectations. Moving to the financial results, CCB reported net income of $4,400,000,000 on revenue of $18,300,000,000 which was up 4% year on year. In banking and wealth management, revenue was down 1% year on year, driven by lower deposit NII, predominantly offset by growth in wealth management revenue. Average deposits were down 2% year on year and flat sequentially, while end of period deposits were up 2% quarter on quarter.

Speaker 2
5m 11s

Client investment assets were up 7% year on year, predominantly driven by market performance, and we continue to see strong flows into managed products. In home lending, revenue was up 2% year on year, and originations were up 42% year on year, off a small base in a slowly growing market. Turning to card services and auto, revenue was up 12% year on year, predominantly driven by card NII on higher revolving balances, as well as higher operating lease income in auto. Card outstandings were up 10% due to strong account acquisition. And in auto, originations were $10,700,000,000 up 20%, driven by higher lease volume. Expenses of $9,900,000,000 were up 6% year on year, predominantly driven by growth in marketing and technology, higher field compensation, as well as higher auto lease depreciation. Credit costs were $2,600,000,000 reflecting net charge offs of 2,200,000,000.0 up $275,000,000 year on year, predominantly driven by the seasoning of recent vintages in card, with delinquencies and losses in line with expectations. The net reserve build was $475,000,000 of which $400,000,000 was in card. Next, the Commercial and Investment Bank on page six. CIB reported net income of $6,900,000,000 on revenue of $19,700,000,000 which is up 12% year on year.

Speaker 2
6m 37s

IV fees were up 12% year on year, and we ranked number one with wallet share of 9%. In advisory, fees were up 16%, benefiting from the closing of deals announced in 2024. Net underwriting fees were up 16%, primarily driven by elevated refinancing activity, particularly in leveraged finance. And equity underwriting fees were down 9% year on year, reflecting challenging market conditions. In light of market conditions, we are adopting a cautious stance on the investment banking outlook. While client engagement and dialogue is quite elevated, both the conversion of the existing pipeline and origination of new activity will require a reduction in the current levels of uncertainty. Payments revenue was up 3% year on year excluding equity investments, driven by higher deposit balances and fee growth, predominantly offset by deposit margin compression. Lending revenue was up 11% year on year, driven by lower losses on hedges, partially offset by lower balances. Moving to markets, total revenue was up 21% year on year, reflecting record performance in equities. Fixed Income was up 8%, with better performance in rates and commodities against a relatively weak prior year quarter. Equities was up 48%, as the business performed well during a period of elevated volatility, supported by higher client activity and strong monetization of flows, particularly in derivatives.

Speaker 2
8m 5s

Securities services revenue was up 7% year on year, driven by fee growth and higher deposit balances, partially offset by deposit margin compression. Expenses of $9,800,000,000 were up 13% year on year, predominantly driven by higher compensation, legal and brokerage expense. Average banking and payments loans were down 3% year on year, and down 1% sequentially, as we continue to observe payoff activity and limited demand for new loans across client segments. Average client deposits were up 11% year on year and up 2% sequentially, reflecting increased activity across payments and security services. Finally, credit costs were $7.00 $5,000,000 largely driven by the net reserve build. Then, to complete our lines of business, asset and wealth management on page seven. AWM reported net income of £1,600,000,000 with pretax margin of 35%. Revenue of 5,700,000,000 was up 12% year on year, predominantly driven by growth in management fees on strong net inflows and higher average market levels, as well as higher brokerage activity and higher deposit balances. Expenses of $3,700,000,000 were up 7% year on year, largely driven by higher compensation, including revenue related compensation, and continued growth in our private banking advisor teams, as well as higher distribution fees. Long term net inflows were $54,000,000,000 for the quarter, primarily driven by equity and fixed income.

Speaker 2
9m 37s

In liquidity, we saw net inflows of £36,000,000,000 AUM of £4,100,000,000,000 and client assets of £6,000,000,000,000 were both up 15% year on year, driven by continued net inflows and higher market levels. And finally, loans were up 5% year on year and flat quarter on quarter, and deposits were up 7% year on year and down 2% sequentially. Turning to Corporate on page eight. Corporate reported net income of $1,700,000,000 Revenue of $2,300,000,000 was up $102,000,000 year on year. NII of $1,700,000,000 was down $826,000,000 year on year. NIR was a net gain of $653,000,000 compared with a net loss of $275,000,000 in the prior year. Current quarter included the significant item I mentioned upfront, while the prior year quarter included net securities losses of $336,000,000 Expenses of $185,000,000 were down $1,100,000,000 year on year, driven by the changes to the FDIC special assessment accruals I mentioned upfront. To finish up, let's turn to the full year outlook on page nine. We continue to expect NII ex markets to be approximately $90,000,000,000 The firm wide NII outlook has increased to about 94,500,000,000.0 reflecting an increase in markets NII, which you should think of as being primarily offset in NIR. Our adjusted expense outlook continues to be about $95,000,000,000 And on credit, we expect card net charge off rate to be in line with our previous guidance of approximately 3.6%.

Speaker 2
11m 20s

So to wrap up, we're pleased with another quarter of strong operating performance, but of course, the focus right now is on the future, which is obviously unusually uncertain. But no matter what outcomes eventually materialize, we are eager to do our part to continue to support our clients, the markets, and the broader economy, and we believe the banking system will be a source of strength in this dynamic environment. And with that, let's open the line for Q and A. Thank you. Please stand by. Our first question comes from Ken Usdin with Autonomous. You may proceed.

Speaker 3
12m 23s

Good morning, Jeremy. I'm wondering if you could start by just kind of amplifying just the macro commentary that you started off on. And given the uncertainty in the world that you referenced, just how are you seeing the activity change across the customer base from consumers to wholesale? And can you just talk through how that's also just informing any changes in your some of your growth and reserving expectations? Thanks.

Speaker 2
12m 54s

Sure, Ken. So at a high level, I would say that obviously some of the salient news flow is quite recent. We've done some soundings and some checking both on the consumer side and on the wholesale side. I think on the consumer side, the thing to check is the spending data, and to be honest, the main thing that we see there is what would appear to be a certain amount of front loading of spending ahead of people expecting price increases from tariffs. So ironically, that's actually somewhat supportive, all else equal, but I think what it sort of highlights is that during this transitional period and this elevated uncertainty, you might see some distortions in the data that make it hard to draw larger conclusions. In terms of our corporate clients, obviously they've been reacting to the changes in tariff policy, and at the margin that shifts their focus away from more strategic priorities with obvious implications for the investment banking pipeline outlook towards more short term work optimizing supply chains and trying to figure out how they're going to respond to the current environment. So as a result, I think we would characterize what we're hearing from our corporate clients as a little bit of a wait and see attitude.

Speaker 2
14m 15s

I do think you see obvious differences across sectors. Some sectors are going to be much more exposed than others and have more complicated problems to solve. And also across the size of the clients, I think smaller clients, small business and smaller corporates are probably a little bit more challenged. I think the larger corporates have a bit more experience dealing with these things and more resources to manage. So that's a little bit our read of the situation right now, but certainly a bit of a wait and see attitude. It's hard to make long term decisions right now, and so we'll see how that plays out.

Speaker 3
14m 51s

Yeah. And just one question on the NII X markets holding at 90. Can you just walk us through the puts and takes of just what's the new curve you're using, which also is subject to change every day? And what might have been some of the positive offsets to if you put in more expected cuts than you had before? Thanks.

Speaker 2
15m 12s

Yeah, that's a good question, Ken. You're right. So if you remember, last quarter we said that we had one cut in the curve. I think latest curve has something like three cuts. And we've talked a lot obviously about how we're asset sensitive, you now see our EAR disclosed in the supplement, and probably our empirical EAR is a little bit higher than our modeled EAR as a result of the relatively lower than modeled rates paid in consumer. So when you put that together, all else equal, the drop in the weighted average IORB, which is about 22 basis points, should produce a notable headwind in our NII ex markets.

Speaker 4
15m 55s

Even the curve, basically. Yeah, that's just mechanically Guaranteed not to happen.

Speaker 2
15m 59s

As Ken said. So that's mechanically just falling through the curve. So yeah, your question is that given that, why are you not revising down? And the answer to that is that across all the puts and takes actually, our number is a tiny bit lower, it's just not enough to warrant a change in the outlook, but we do have some offsets. So we have some balance effects that are favorable. You will have noted that I talked about higher wholesale deposit balances, for example. We see beta outperforming in a couple of different places in CDs and in wholesale. The other thing is that you'll recall that we talked before about having a placeholder in our NII outlook for the potential impact of the card late fee rule. We've now removed that, so that's a little bit of an offset as well. So that's kind of how you get to unchanged, even though clearly all else equal, the lower expected front end rates are a headwind.

Speaker 1
16m 53s

Thank you. Our next question comes from Erika Najarian with UBS. You may proceed.

Speaker 5
16m 59s

Yes, good morning. This question is for Jamie. Jamie, you were on the media today talking about potential economic turbulence. But Jeremy also mentioned that banking should be the banking system should be a source of strength in this turbulence. The equity market always seems to think about the banks as weaker players given how they trade the stocks more on sentiment and fear rather than the math of the ability of banks to absorb provisions going forward if we do fall into a slower economic downturn. So I guess just the question here is, you double click on how you think this is going to impact the economy going forward, and maybe double click on Jeremy's statement that the banking system should be a source of strength?

Speaker 2
17m 54s

Before Jamie answers that, Erica, I just want to make one brief comment, which is the banking system being a source of strength means what it says. In other words, banks doing their job to support the economy. That's not a statement about bank equity performance and the extent to which banks are cyclical or not. Obviously, a recessionary environment, as I've frequently said, all else equal, is bad for banks from an equity performance perspective. We're talking about the financial strength of banks' balance sheets and our ability to support our clients in the difficult moment.

Speaker 4
18m 27s

Everyone trades stocks in a different way, so sentiment banks are a cork in the ocean when it comes to the economy. If the economy gets worse, credit losses will go up, volumes can change, yield curves can change, We're not predicting all of that. What I would say is our excellent economist, Michael Farley, called him this morning, specifically to ask him how they're looking at their forecast today. They think it's about fiftyfifty for a recession, so I'll just refer to that. Obviously, if there's a recession, credit losses will go up, and other factors will change too. I think the one thing I'll add to what Jeremy said is, and I don't usually pay that much attention to anecdotes, but this time I am. And I think you're going to see a lot of companies, you guys, not you, but the analyst community has already reduced its earnings estimates for the S and P by 5%, so now it's up five as opposed to up 10. My guess is that it be zero and negative five probably the next month. And then you're going to hear 1,000 companies report, and they're going to tell you what their guidance is.

Speaker 4
19m 29s

My guess is a lot. We'll remove it. They're going to tell you what they think it might do to their customers, their base, their earnings, their costs, their tariffs. It's different for every company, but I assume you'll see that. And anecdotally, a lot of people are not doing things because of this. They're going to wait and see. And that's M and A, that's M and A with middle market companies, that's people's hiring plans and stuff like that. So people have to adjust this new environment. And I think you will see what it is. I just also want to point out, just so you can round it up, this is to make you feel comfortable, not uncomfortable, When COVID hit, unemployment went from like four percent to 15% in a couple of months, and we had to add to reserves in a two month period of $15,000,000,000 And then to show you how stupid CECL is, in a three quarter period, we took down the $15,000,000,000 So that just sizes up a bad recession. If it's a mild recession, it will be less than that. If it's a really bad recession, it'll be more than that.

Speaker 4
20m 31s

Either way, we can handle it and serve our clients. Earnings won't be great and the stock to go down, which I look at as an opportunity to buy back more stock.

Speaker 5
20m 43s

Got it. And a second follow-up question. And I don't disagree with you guys on equity market performance of bank stocks. It's just that the mindset of portfolio managers is they always go back to sort of the lowest common denominator of fundamental performance versus thinking about resilience. And to that point, the second question is on the reserve. You know, Jeremy, you mentioned a weighted average unemployment rate of 5.8%. I think that's above where economists are thinking we could peak even in a recession scenario. How should we think about any incremental builds from here? And what you're going, obviously deterioration in the outlook, but, what more do you need to see in terms of how you make decisions about further builds from here?

Speaker 2
21m 32s

Yeah, Ericka, it's a good question, but the truth is there's just a little bit too much uncertainty right now for me to give an outlook for reserves, which is generally not a thing that we do anyway. As I mentioned in my prepared remarks, the accident forecast at the end of the quarter was the sort of bog standard, no landing, barely any increase in unemployment. Given that we knew at the time that there were some big pending announcements and there was quite a bit of elevated uncertainty around that, it felt like the forecasts were kind of lagging because people were just waiting to actually get the information, and so it felt appropriate to add a little bit of downside skew to our probability assessment, which is what led to the increase and what led to the bill. We use this weighted average unemployment thing as a useful way to help explain what's going on inside the reserve, but obviously the actual mechanisms are quite complex: the depth of an eventual recession, the timing of it, distribution of outcomes, which sectors it hits, idiosyncratic stuff and wholesale, there's a lot. I think on consumers, Jamie mentioned, it is worth remembering that by far the most important variable is unemployment.

Speaker 2
22m 49s

So if the labor market remains very strong, consumer credit will probably be fine. If it doesn't, then you're going to see it play through the way it always does.

Speaker 5
23m 3s

Thank you.

Speaker 1
23m 6s

Thank you. Our next question comes from John McDonald with Truist Securities. You may proceed.

Speaker 6
23m 16s

Hi, good morning. Jeremy, on that same topic, no change to the full year credit card net charge off forecast. How do we square that with the rising recession risk? Is it because you already have a couple of months of delinquencies kind of baked in the cake and this is more an issue for next year or just too early to call?

Speaker 4
23m 33s

We should have not given you that forecast. We don't know what the number is going to be. I would say that's a short term number, and based on what's happening today, there's a wide range of potential outcomes.

Speaker 6
23m 45s

Yeah, okay. Okay, yeah, that's what we were kind of thinking.

Speaker 2
23m 48s

Mechanically, John, though, as you alluded to, there are some mechanical elements to the way a car charge off works that means that it's pretty baked pretty far out of time. So sort of echoing Jamie's point, it just doesn't necessarily tell you that much about what might actually happen through the end of the year. Even if unemployment were to increase significantly, it probably wouldn't flow through the charge offs until later.

Speaker 6
24m 14s

Okay, got it. And then just on capital, how does this type of macro uncertainty impact your thinking around conserving capital as opposed to deploying it through your investment agenda and buybacks as the stock gets cheaper? Are you still looking to arrest the increase or does this change it?

Speaker 4
24m 33s

The investment that we do in banks, branches, technology, AI is going to continue regardless of the environment. Then we have to pay what happens to Basel III and CCAR and GSIFI and all that, dollars 30,000,000,000 to $60,000,000,000 of excess capital, And in the Chairman's letter, I wrote about what we think of that. But based upon the environment, the turbulent issues, I like having excess capital. We are prepared for any environment, and that's so we can serve clients. That's not for any other reason. But we have plenty of capital and plenty of liquidity to get through whatever the stormy seas are.

Speaker 6
25m 10s

Okay. Thank you.

Speaker 2
25m 13s

Thanks, John.

Speaker 1
25m 17s

Thank you. Our next question comes from Matt O'Connor with Deutsche Bank. Your line is open.

Speaker 7
25m 23s

Good morning. Just wanted to drill down on the credit card spend. Any comments in terms of changing patterns on the consumer card spend? There's been headlines and travel kind of going down. Just talk about some of puts and takes in that up 7% year over year.

Speaker 2
25m 42s

Yeah, that's a good question. We're seeing that too, so let me talk about travel. We obviously saw the airlines discuss what they are seeing as headwinds for them, specifically in airline travel, and we're seeing that too through the card spend. It's not obvious to us that that's necessarily an indicator for broader patterns. There are a variety of potential explanations for the narrow drop in airline spend. And as I mentioned previously, another thing that we are seeing looking at the April data is what would appear to be a little bit of front loading of spending, specifically in items that might have prices go up as function of tariffs. So you see people behaving rationally, and I have noted even, you hear anecdotes and I've seen evidence of companies specifically advertising, we have pre tariff inventory and so on and so forth. So it's not that surprising that you're seeing that a little bit in the spending data. The other thing that people are kind of interested in this space is what's happening by income band, because we have seen some of the retailers and other folks talking about weaknesses in the lower income segment. And I think when we look at our card data and also our cash buffers in people's checking accounts, of course it is true that it is relatively weaker in the lower income segment.

Speaker 2
27m 1s

But when you take a step back and you ask, are we seeing signs of distress in the lower income segment? The answer is no. So sure, the margin cash buffers are lower, and you see some rotation of spend, and spending is a little bit weaker than it was in the peak spending moments, but actually some of the increases in spending that we're seeing in April are actually coming from the lower income segment. So no evidence of distress, I would say.

Speaker 7
27m 28s

Okay. That's helpful color. And then just separately, if we look at the delinquencies for the home lending, they increased both Q2 and year over year. Is that just some of the noise from the First Republic deal as you take the marks upfront and then those portfolios essentially reseasing from an accounting point of view? Or is there something else going on there?

Speaker 4
27m 50s

Sorry, I actually didn't hear which of these delinquencies in home lending.

Speaker 2
27m 56s

Interesting. I haven't looked at that. We'll have to get back to you on that. Whatever it is, it wasn't important enough to get raised, so It could be the First Republic in twenty years.

Speaker 2
28m 8s

Yes, anything is possible. We'll get back to you on that.

Speaker 7
28m 11s

Okay, thank you.

Speaker 1
28m 14s

Thank you. Our next question comes from Steven Chubak with Wolfe Research. You may proceed.

Speaker 8
28m 21s

Hi, good morning and thanks for taking my questions. Wanted to start off with one on the proposed SLR changes and just the impact of rate volatility. The treasury is committed to providing relief to the banks under the SLR just to help mitigate some of the volatility in the ten year. But given the geopolitical concerns, weakening global demand for treasuries, how does it inform your appetite just for purchasing US Treasuries if those reforms are implemented? And just how you're managing rate risk maybe more holistically across the firm just in light of some of the recent volatility?

Speaker 4
28m 57s

SLR alone isn't going to change that much for us. It may change for other people. You really need reform across SLR, GSIPI, CCAR, Basel III and LCR, all of which have deep flaws in them, to make a material change. And remember, it's not relief to the banks. It's relief to the markets. JPMorgan will be fine with or without an SLR change. The reason to change some of these things is so banks, the big market makers can intermediate more in the markets. If they don't, they do, spreads will come in, there will be more active traders. If they don't, the Fed will have to intermediate, which I think is just a bad policy idea. Every time there's a kerfuffle in the markets, the Fed has to come in and intermediate. So they should make these changes. The reason why is when you have very a lot of volatile markets and very widespread and low liquidity in treasuries, it affects all other capital markets. That's the reason to do it, not as a favor to the banks themselves. Anyway and we don't take more interest rate exposure to this in any way, shape or form. So it's not like we're going to change our position.

Speaker 4
30m 3s

We intermediate the markets, help clients do what they have to do. And if the banks could take bigger positions, they would have just larger dealer positions and basically take not much more interest rate exposure. I should say our folks did a fabulous job trading this quarter.

Speaker 2
30m 21s

Steve, all I would add to that is that it is of course true, and we all remember the moment a few years ago when intermediaries were in fact bound by us alone as a result of the expansion of deposit base, and extraordinary actions needed to be taken to address that. So we've seen when it is binding and it works not as designed, which is why we do very much agree that it should be fixed. I think our point is a little bit, as Jamie said in his chairman's letter, that it's not the only thing that needs to be fixed, and there are interactions among all these things, and we as a bank are not particularly bound by it. There is some interesting nuance too in terms of the potential TLAC issuance impact there, is quite sensitive to which particular fix gets put in, so that'll be an interesting thing to watch.

Speaker 8
31m 18s

Thank you both for that perspective. Just for my follow-up, did want to ask on the market's outlook. So admittedly less surprising to hear some of the cautious IB commentary in light of the uncertainty, but was hoping you could just speak to the markets businesses, which have been performing extraordinarily well of late, and just given the combination of elevated volatility, but also some indications that clients are taking down risk, how you expect that business to perform over the coming quarters?

Speaker 2
31m 46s

Yeah, it's a good question. As you know, Steve, we're obviously not going to give markets guidance. Your guess is as good as ours at some level, but the ingredients are the right ingredients. We've often discussed about how this business, all else equal, benefits from a volatile environment if markets are operating relatively normally, which they more or less have been. Of course, it's not guaranteed. We need to do a good job managing the risk. And yeah, there are states of the world where if our clients are struggling or deleveraging or taking down risk, that could be a headwind for us. So we're going to just do what we always do and try to manage the risk well and serve our clients, but we were happy to see the performance this quarter.

Speaker 8
32m 34s

That's great. Thank you both for taking my questions.

Speaker 1
32m 39s

Thank you. Our next question comes from Gerard Cassidy with RBC Capital Markets. You may proceed.

Speaker 9
32m 46s

Thank you. Hi Jeremy and Jamie. Can you guys share with us, if you take a look at the nontraditional lenders, private credit lenders, they've been very active in grabbing market share from the traditional commercial banks over the last two or three years, particularly since the initial Basel III endgame proposal came out in July of twenty three, which is no longer applicable. But are you guys seeing any opportunities where customers may reintermediate back into the banks like your bank because of this volatility?

Speaker 2
33m 25s

I mean, it's hard to tell, Gerard. I think it's too early to tell, But what I would say is that it kind of your question aligns with what we've been saying about this space for some time, which is we want to be product agnostic here and give our clients the best option that makes sense for them in the moment. So whether that's a traditional syndicated lending facility or something that looks more like a uni tranche direct lending type structure, we're open for business for all of it. And I would say that when we talk about the banking system being a source of strength in this environment, part of what we're talking about is our commitment and willingness to lend through cycles, as we've always done in the past, and that we have the underwriting capability and the capital and the liquidity and the experience to be reliable lenders and serving our clients no matter what type of environment we're in. So if that means that we have an opportunity to compete incrementally even more effectively in this environment, that'll be great.

Speaker 9
34m 32s

Very good, thank you. And then as a follow-up, you both just talked about the potential changes to the different regulatory outcomes for you and your peers, whether it's SLR or the G SIB buffer, etcetera. Can you opine for us your views? Are you more confident with the new administration, the new personnel, whether it's treasury secretary, business, or others, the nominees for different regulatory heads, that there will be a better chance of real regulatory reform, they see it the way you guys do, versus the prior administration?

Speaker 2
35m 13s

Mean, Gerard, we always say this, and it's true, which is that we work with all administrations and every administration as constructively as possible to express our opinions and advocate for the things that we think are right for the banking system and for the economy as a whole, and that was true before, and it's true now with this administration as well. Clearly, the administration has been quite vocal about wanting more pro growth policies at the margin and for wanting to make it easier for banks participate more constructively in the economy. And as we see the various folks and the various agencies go through the confirmation process, it will be helpful to have people in seats and get to work on some of the things that we want to get done. So let's see how that plays out, but we're looking forward to continuing to engage constructively.

Speaker 4
36m 6s

I think there's a deep recognition of the flaws in the system, And there should be, and fortunately they're to take a good look at it.

Speaker 9
36m 16s

Very good. Thank you.

Speaker 4
36m 19s

Thanks, Gerard.

Speaker 1
36m 22s

Thank you. Our next question comes from Ebrahim Poonawala with Bank of America. You may proceed.

Speaker 10
36m 30s

Thank you. Good morning. I guess, just wanted to follow-up on the macro uncertainty. I think when you talk to investors, we've gone from enthusiasm for a pro business administration to a lot of headwinds. And I think Jamie mentioned you'll have companies take down guidance, etcetera, potentially over the coming weeks. I'm just wondering what is it you think we need to see before this uncertainty abates? Are the ninety day pause that we saw with some of the other countries on tariffs, is that enough? Or I'm just wondering when you talk to clients, corporate CEOs, what are they looking for from the administration that would inject confidence to get back anywhere close to where we were maybe sixty or ninety days ago?

Speaker 4
37m 16s

Virgil, some of all the issues that are raised existed before the new administration, like the geopolitical situation, the excess fiscal deficits, poorly done regulations, and all of that. Obviously, pro growth is good, pro business is good, pro dereg is good. I think the best thing to do is to allow the Secretary of Treasury and the folks working with him and the administration to finish as quick as possible the agreements that they need to make around tariffs and with our trading partners. I think there'll be agreements in principle. Trade agreements themselves would be 5,000 or 10,000 pages long. That's the best way to go about it right now. Does not mean you won't have some of the effects take place anyway.

Speaker 10
38m 4s

Got it. I guess, as a follow-up, I think there's a lot of concern also in the Treasury markets. We've seen the ten year move from three ninety nine to four fifty in a matter of a week. Just your comfort level in terms of the functioning of the Treasury market, do you see the Fed stepping in, pausing QT, maybe even initiating some Treasury purchases? Any color would be great.

Speaker 4
38m 30s

Yeah, but again, I mean, we have sticky inflation. We had that before. I personally have told you I don't think that's going go away, and that relates to that. Obviously, The U. S. Dollar still is the reserve currency, that isn't going to change, though some people may feel slightly differently about it. And the Fed, we've been consistent. There will be a kerfuffle of the Treasury markets because of all the rules and regulations. I've told you that consistently. It happened in COVID. It happened before. It happened. That will happen. And then when that happens, the Fed will step in. That's what happens. And they're not going do it now because you don't have all those issues yet. They'll do it when they start to panic a little bit, and we don't know if and when that's going to happen, and we'll see. But the notion that the ten year Treasury has to go down is a false notion. We look at history in prior times, have huge global deficits. Back in the '70s, in the '60s, the guns and butter, tariffs, at least our economists think, be inflationary to 0.5% or something like that. So we'll have to wait and see and deal with it.

Speaker 10
39m 42s

Thank you.

Speaker 4
39m 43s

But for most we haven't dealt with this stuff before, and you're going see a lot of stuff taking place shortly in the next couple of months, and then we'll know.

Speaker 10
39m 54s

Got it. Thank you so much.

Speaker 1
39m 59s

Thank you. Our next question comes from Jim Mitchell with Seaport Global Securities. You may proceed.

Speaker 11
40m 5s

Hey, good morning. Jeremy, just on with three to four cuts sort of mostly in the back half, June to December, how do you think about the trajectory of NII this year? Is there a little more pressure towards the end of the year into 'twenty six? Just trying to think of that around that trajectory and jumping off point into next year.

Speaker 2
40m 29s

Yeah, it's funny, Jim, because I was asked on the press call, how come we're not suspending guidance or whatever, and my answer was, well, we do our best, and it's contingent on a variety of external variables, and we always make our guidance contingent on that.

Speaker 4
40m 47s

And that's the yield curve you're using, which we know will not happen.

Speaker 2
40m 51s

And the particular nuance, as you recall from last quarter where we went into some detail about the various drivers of the NII outlook, including a little bit of a suggestion about the quarterly trajectory, is that it's both the timing of rates and our expected evolution of deposit growth in the different businesses and how Harbor Volve and how that was all going to interact, producing a potential trough in different moments and then so on and so forth. I think that given everything that's going on on that one, probably we'll wait for next quarter to give you any more color on that, certainly the back loaded cuts, all else equal, from a run rate perspective introduce a little bit of a headwind on an exit rate going into next year. We'll just have to see how the balances play out through the next three quarters.

Speaker 11
41m 46s

Right. And maybe just It will not happen that way, and we have a lot of options in what we want to do to change our exposure to interest rate.

Speaker 11
41m 54s

Right. And maybe just on that point on volumes and deposits, obviously, this kind of volatility, tends to drive as corporates and investors go to cash tends to drive higher deposits. Did you see that trend in March and particularly in April? What are the trends like in the deposit side of the equation?

Speaker 2
42m 17s

It's a little hard to tell, to be honest. It is true that wholesale deposits this quarter out-performed for us relative to our expectations. I don't think I can say with any confidence that that's a result of the environment that we're in. So I think next quarter will probably be a better time to assess that.

Speaker 4
42m 39s

I would just also say that it may not be deposits. It may be Treasury bills or various other things. And what you've seen, which is different, is not the risk off trade in the ten year. That is fundamentally different this time.

Speaker 11
42m 54s

Right. Okay. Thanks for taking my questions. Thanks.

Speaker 1
43m 1s

Thank you. Our next question comes from Betsy Graseck with Morgan Stanley. You may proceed.

Speaker 12
43m 8s

Thanks. Good morning, Jamie. Good morning, Jeremy. Two questions, one for Jamie to kick off. Jamie, you've been through many cycles, and I think we're all interested in understanding how you think this next cycle is likely to progress. And I'm wondering, is there anything that you've seen in the past that looks like this or that you would suggest if any slowdown coming forward, is it more likely to be similar to what kind of prior cycle you've seen?

Speaker 4
43m 47s

Almost impossible to answer. We look at all the cycles, you know we prepare for a full range of outcomes. Don't personally like predicting what the future is going to hold, But I do I pointed out over and over, there's a lot of issues out there. I think some of those issues you are going to see them resolve for better or for worse in the next four months. So maybe when we're doing this call next quarter, we won't have to be guessing. We actually know what the effect of some of these things was with some predictability and stuff like that. The result in a bank is almost always the same, which is volatile markets, credit losses go up, people get more conservative, investments go down. It looks like a recession. Is it mild or hard? I don't know. But we are I've been quite cautious, and you can see it in our capital, our liquidity, our position, our balance sheet, so we're prepared. But we do all that so we can serve our clients through thick or thin. We're not guessing about what the future is going to hold. Obviously, if you look at our numbers, we have the margins and capability to get through just about anything.

Speaker 12
44m 56s

Okay, thank you for that. Then But that's This is different.

Speaker 4
45m 2s

This is the global economy. And please read my chairman's letter. The most important thing to me is the Western world stays together economically when we get through all this and militarily to keep the world safe and free for democracy. That is the most important thing. I really almost don't care fundamentally about what the economy does in the next two quarters. That isn't that important. We'll get through that. We've had recessions before and all that. It's the ultimate outcome. What's the goal? How can we get there? And it's literally that. The China issue is a major issue. I don't know how that's going to turn out. We obviously have to follow the law of the land, but it's a significant change we've never seen in our lives.

Speaker 12
45m 49s

Okay, thank you so much for that. And yes, looking forward to the next four months and clarity coming. So then, one for Jeremy. Question on the wholesale loans. I'm going into this because I noticed your average loan growth, I think it was running at about 2% year on year, and then end of period loans was up 5%, and wholesale loans was up 7%. So, I'm just wondering if there was some line drawdowns at quarter end. And it's a broader question on just liquidity. Do you see your customers looking for more liquidity? Are they drawing down lines? And maybe if you could speak to liquidity in the front end of the market, that would be helpful too. Thank you.

Speaker 2
46m 36s

Yeah, it's a good question, Betsy. So a couple of things. One is in our soundings of our wholesale clients during the moments of peak uncertainty, we did hear them talking about wanting to focus on shoring up liquidity. Interestingly, I actually asked the question a day ago whether we were seeing draws, meaning meaningfully observable draws from clients. And the answer to that question was no, at least not yet. So I don't know what to make of that, but perhaps it suggests that we do not see that level of heightened anxiety, that people are more just focusing on addressing their supply chain issues right now. So on wholesale loans, beyond that I don't think there's that much of a story. Now we're seeing a bit more growth in markets loans as opposed to traditional C and I loans in the current moment, but that's another general there. Did you open the Oh, yeah, what did you ask also, front end of the yield curve liquidity?

Speaker 12
47m 44s

Just in money markets, Fed funds, the front end seem to Yeah, what we've heard from our markets colleagues is that that's actually functioning quite smoothly.

Speaker 10
47m 59s

Okay, thank you.

Speaker 2
48m 2s

Thanks.

Speaker 1
48m 5s

Thank you. Our next question comes from Mike Mayo with Wells Fargo Securities. You may proceed.

Speaker 13
48m 11s

Hey, Jamie, you just said on this call there's a quote deep recognition of flaws unquote by the new regulatory regime and can you put, you or Jeremy put some meat on the bones as far as what's been an ideal scenario? You keep the safety and soundness of the system but you rid as much as red tape and bureaucracy as possible. How much could expenses potentially decline? I assume you'd pass on some of that to customers and you'd keep some of that and the regulators would save money, so some meat on the bones about the potential concrete savings from deregulation. But before that, the negative which you highlight in the press release and the chairman letter about the trade wars, Jamie, you went from trade wars, quote, get over it, to this week, say, do something. So just as far as the tariff journey, what were you initially expecting to what happened? And do you really think next earnings call will be through most of the uncertainty? Thanks.

Speaker 4
49m 12s

Yeah, no, I don't think we'll necessarily be through all the uncertainty. Think you'll just know a lot more. And my quote was about to get over it, I wish I hadn't said it. I was specifically referring to tariffs relating to protecting national security. National security is paramount. All things should be subordinated to it. You may need tariffs to help fix some of the problems related to national security. National security is a small part of trade, and it's rare earths, penicillin, medical ingredients, certain types of obviously you've heard about semiconductors. That was my quote about I did not change my view about it. I would like to see the administration negotiate trade deals. I think that would be good for everybody and they want to do it too. To the extent they want to do it. They said they're having conversations with 70 or 80 different people. And so I do think if the regulators change regulations, it will free up capital and liquidity to finance the system. And I wouldn't expect an expense drawdown that you're going to see. There will be hundreds of people maybe, but it's not going to be passed on, but it will reduce net net the cost of liquidity and the cost of loans and the cost of mortgages if it's done right.

Speaker 4
50m 34s

I specifically pointed out the mortgage issue in my Chairman's letter this year about if they do some of these reforms, the cost of mortgages would come down 70 basis points. If I were them, I'd be focusing that right now.

Speaker 13
50m 46s

No, and you also mentioned hundreds of billions of dollars of extra lending if you reduce the CET1 ratio, I guess, back down by one fifth.

Speaker 2
50m 54s

So if you have to fix LCR, GCFE, CCAR, SLR, and I think would free up hundreds of billions of dollars for JPMorgan annually of various types of lending to the system. Some would be markets, some would be middle market loans, etcetera. And I pointed out, if you wanted to look at the big numbers, that loans to deposits are now 70% for the banking system writ large. That used to be 100%. And the reason for that isn't it's not just capital. It is also LCR, it is also GCFE. And the question you should ask, because you're very smart, Mike, is could you have the same and I believe you have a safer system, lend more money, have more liquidity, eliminate bank runs, eliminate what have the first Republican Silicon Valley, and you could accomplish all of that with completely rational and thoughtful regulations. That's what I would like to see them do. I don't know what's going to happen. You can read our I think our MPOs are public and stuff like that. And so they should do that. Just make a better system. We have the best in the world. We've kind of started to cripple it slowly.

Speaker 4
52m 8s

And I'd say, when you look at these rules and regulations, see Europe. If that's where we want to go, let's just go there.

Speaker 13
52m 17s

One short follow-up. Just first quarter, you mentioned good credit, good trading, good EPSB. I'm not sure anyone cares. They're worried more about the things we're talking about here. But in terms of the risk of being an international company, an international U. S. Company during trade wars, and I know JPMorgan is a firm that likes to partner with countries as well as communities and customers. So how do you think about that risk? How should we think about that risk? And hopefully your voice is being heard to speed things along to whatever can be done, getting it done, because you could be in the crosshairs at some point.

Speaker 4
52m 55s

Yeah, I honestly add that to the list of worries. We will be in the crosshairs. That's what's going happen. And it's okay. We're deeply embedded in these other countries, people like us, but I do think some clients or some countries will feel differently about American banks. And we'll just have to deal with that.

Speaker 13
53m 15s

All right. Thank you.

Speaker 1
53m 19s

Thank you. Our next question comes from Glenn Schorr with Evercore. Your line is open.

Speaker 14
53m 26s

Hi, just one follow-up on this whole risk managementregulatory front. You know, I see, I hear, and I agree, flawed regulatory system could be better. We've had massive volatility, the market plumbing has held in okay so far, and you and others have had borderline spectacular trading results. So has something changed? Are the systems better? Are they better able to handle it as your risk management, your people, the diversity of your platform better? Or are there still environments where not all volatility is good? I'm just curious to get your big picture thoughts. Thanks.

Speaker 2
54m 6s

Maybe I'll start with that one, Glenn. So I guess I think that your points aren't mutually exclusive, meaning we're always continually improving the franchise. We've talked a lot about inward investment in all of our businesses, including markets. And so we try to be more complete and invest in technology and work more closely with our clients. So I'm sure we're kind of better at it than we were five years ago, as I think probably everyone is at the margin. I'm not sure that you can associate that with the current performance, I think these just happen to be very favorable conditions that we've managed very successfully. And to your point, I think your specific question of like, are there still forms of volatility that can be bad for the market's franchise, the answer to that question is definitely yes. When you have gap y volatility with no trading volume, people paralyzed, clients unsure what to do, active managers struggling, those environments are bad. So people make fun of the kind of good volatility, bad volatility story, but whether we like it or not, it's real. And in the end, we just have to manage the risks and serve the clients, and as I said earlier, we're happy to see those.

Speaker 4
55m 32s

I agree with Jeremy. I'd add to that volatility at least to bigger bid ask spreads, that, all things being equal, is better. And it leads sometimes to higher volumes, so you've seen really high volumes in FX and interest rate swaps and a whole bunch of different things, treasuries, that's better. But as Jeremy pointed out, sometimes that can evolve to at least very low volumes. Like you see in DCM today, when you don't have bond deals, when you have less trading, when you have so it will have lower volumes in certain markets and stuff like that. And how it all filters through is almost impossible to tell. But our folks do a great job and we're here to help our clients. So we know that volumes can go up or down and spreads can go up or down and we've had. But the plumbing of the system, I would say the plumbing worked well during COVID too. I mean, it wasn't the plumbing that was a problem and it wasn't even a problem to go back to some of the real crises we've had. But you should always worry about that kind of thing. Make sure it stays true.

Speaker 4
56m 33s

And I do think that the fact that the revenue performance in this quarter is good shouldn't make us lose focus on the importance of the larger fixes around financial resource deployment by regulated banks to supporting the capital markets ecosystem. Everything Jamie's been talking about, about SLR, LCR, ILST, GSIB, Basel III, MRWA, the whole panoply of items which interacts, as we've often talked about and is miscalibrated, it will at the margin make it harder for banks to serve a stabilizing function in a difficult moment. That remains quite important as a policy priority.

Speaker 14
57m 16s

That's a great point. Thanks for that. Appreciate it.

Speaker 4
57m 20s

Thanks, Glenn.

Speaker 1
57m 21s

Thank you. And our final question will go to the line of Sal Martinez with HSBC. You may proceed.

Speaker 15
57m 30s

Hey, good morning. Thanks for taking my question. Most of my questions have been asked and answered, but I guess I'll ask about costs since nobody's asked it. But I guess, how should we think about the cost structure and any sort of cost optimization efforts? If you do see a revenue slowdown, but not necessarily a severe downturn. I think you do have in the $95,000,000,000 guidance, you do have a good amount of growth penciled in for investing in bankers and branches and tech and marketing. And guess, do you does it make sense or under what conditions would it make sense for you to maybe pull back on some of these investments? Or do you think that's just completely shortsighted unless we see a real significant downturn in the economy?

Speaker 2
58m 25s

Yeah, so you've slightly answered your own question there, so, but it is nonetheless a good question. So let unpack it a little bit. So the way I think about it is, there are some elements of the expense base which automatically reset a function of the business environment. So we talk about those as volume and revenue related expenses, so you will see those come down as a function of the environment. It's also true that there are conceivably certain investment business cases which, depending on how the environment changes, could no longer make sense analyzed in the same way that we analyzed them originally, I. E. Through the lens of their ability to generate long term shareholder value through a long investment cycle. And so if for whatever reason the environment changes in such a way as to make certain of those investments less compelling, we would obviously adjust. Of course, the thing that we're not going to do is stop investing in things that we still think are very compelling through our traditional long term investment lens simply for the purposes of achieving a cosmetic reduction in expenses in an environment where you may or may not have a reduction in revenues for unrelated reasons.

Speaker 2
59m 36s

As you well know, that's just not how we run the company. This quarter, as it happens, a question you might have is how are you managing to keep your guidance the same with what you're saying about, for example, the investment banking outlook, but it's worth noting that investment banking performance this quarter was actually fine. As you know, markets performance was very strong. And there are also some ups and downs in there, I should note, including the fact that there is some sensitivity to the expense base to the strength of the dollar, or weakness in this case, and while some of that is offset in revenue, it's a little noisy, that's a factor as well. It's small, but I'm just highlighting that there are some slightly non obvious things that aren't strategic up I think the management thing is very important. I always talk about good expenses and bad expenses, and the good expenses are the bankers and branches that we think will pay off. But there are also bad expenses, which I would put in the category of bureaucracy, lack of efficiency, things you don't need to do. And if you go to if you read my Chairman's letter, the last section is called Management Learnings, and if you look at companies that over time fail, it's almost always bureaucracy, complacency, arrogance, and lack of attention to detail.

Speaker 4
1h 0m

And so there is, we're making a I say a but I'm mad at myself for not doing it sooner to spend a little more time that after COVID, the buildup in headcount, the buildup in rules and regulations, the people working or not working from home, After all of those things, we just think there's more efficiency here. And I think some of that Mike Mayo mentioned the thing about regulation, he is right, there will be reductions in cost because rules and regulations will be modified a little bit. I pointed out resolution recovery, which is a complete waste of time, is 80,000 pages long. It will never happen that way. CCAR, which is virtually a waste of time, is 20,000 pages long. Okay? We report a trillion think it's a trillion bits of data every day or something like that to all the various regulators and stuff like that. There is this excessive cost built up that hopefully we can get rid of and reduce the cost of the system, but it's not the brand new branches. And the folks here are working on what we call streamlining. Jim Pietzsche has got a war room going on it.

Speaker 4
1h 2m

We already have a significant amount of saves and stuff like that. And we're having fun doing it. To me, it's like exercising and eating your spinach. It's what we should be doing. We haven't done it for a while, I apologize to my shareholders for not having done this a little bit sooner.

Speaker 15
1h 2m

Okay, that's very clear, very helpful. Thank you.

Speaker 2
1h 2m

Jose, thanks very much. See you next quarter.

Speaker 1
1h 2m

Thank you all for participating in today's conference. You may disconnect at this time, and have a great rest of your day.