Speaker 5
0s

Good morning ladies and gentlemen. Welcome to JPMorgan Chase & Co.'s third quarter 2025 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 & Co.'s website. Please refer to the disclaimer in the back concerning forward-looking statements. Please stand by at this time. I would now like to turn the call over to JPMorgan Chase & Co.'s Chairman and CEO Jamie Dimon and Chief Financial Officer Jeremy Barnum. Mr. Barnum, please go ahead.

Speaker 4
36s

Thank you and good morning everyone. Let me begin by noting this quarter we are experimenting with shorter prepared remarks. We're streamlining this part of the call to move more quickly to your questions and to minimize the amount of time spent on repeating what you have already seen in the earnings materials. With that, turning to this quarter's results, the firm reported net income of $14.4 billion, an EPS of $5.07 with an ROTC of 20%. Revenue of $47.1 billion was up 9% year on year, predominantly driven by higher markets revenue as well as higher fees across asset management, investment banking, and payments. The increase in NII driven by the impact of balance sheet growth and mix was offset by the impact of lower rates. Expenses of $24.3 billion were up 8% year on year, driven by similar themes as in prior quarters, including higher volume and revenue-related expense. The detailed drivers are in the presentation, and credit costs were $3.4 billion with net charge-offs of $2.6 billion and a net reserve build of $810 million. Wholesale charge-offs were slightly elevated as a result of a couple of instances of apparent fraud in certain secured lending facilities. Otherwise, in both wholesale and consumer, credit performance remains in line with our expectations.

Speaker 4
1m 55s

In terms of the balance sheet, we ended the quarter with a CET1 ratio of 14.8%, down 30 basis points versus the prior. You can see the puts and takes in the presentation. This quarter's higher RWA is primarily driven by increases in wholesale lending across both banking and markets as well as other markets activities. Moving to our businesses, CCB reported net income of $5 billion. Revenue of $19.5 billion was up 9% year on year, predominantly driven by higher NII, largely incurred on higher revolving balances. A few points to highlight: consumers and small businesses remain resilient based on our data. While we are closely watching the potentially softening labor market, our credit metrics, including early stage delinquencies, remain stable and slightly better than expected. We retained our number one position in retail deposit share in a relatively flat deposit market based on FDIC data, marking our fifth consecutive year leading the industry. In light of the attention our Sapphire refresh has received, we want to note that this has already been the best year ever for new account acquisitions for our Sapphire portfolio. The CIB reported net income of $6.9 billion. Revenue of $19.9 billion was up 17% year on year, driven by higher revenues across markets, payments, investment banking, and security services.

Speaker 4
3m 22s

To give a bit more color, IB fees were up 16% year on year, reflecting a pickup in activity across products with particular strength in equity underwriting as the IPO market was active. Our pipeline remains robust, and the outlook along with the market backdrop and client sentiment continues to be upbeat. In markets, fixed income was up 21% year on year with higher revenues in rates and credit as well as strong performance in securitized products. Equities was up 33% from robust client activity across the franchise with notable outperformance in prime. Turning to Asset & Wealth Management, AWM reported net income of $1.7 billion with pre-tax margin of 36%. Record revenue of $6.1 billion was up 12% year on year, predominantly driven by growth in management fees due to long net inflows and higher average market levels as well as higher brokerage activity. Long-term net inflows were $72 billion for the quarter, led by fixed income and equities. Assets under management of $4.6 trillion was up 18% year on year, and client assets of $6.8 trillion were up 20% year on year, driven by continued net inflows and higher market levels. Before turning to the outlook, Corporate reported net income of $825 million and revenue of $1.6 billion.

Speaker 4
4m 45s

In terms of the outlook, since we've already reported three quarters of results, I'm going to update the full year guidance in terms of the fourth quarter, and in addition to that, we've done the implied full year math on the page. You can easily compare it to previous guidance. We expect fourth quarter NII ex markets to be approximately $23.5 billion and fourth quarter total NII to be about $25 billion. We expect fourth quarter adjusted expense to be approximately $24.5 billion, implying $95.9 billion for the full year, with the increase driven by the stronger revenue environment. On credit, we now expect the 2025 card net charge-off rate to be approximately 3.3% on favorable delinquency trends driven by the continued resilience of the consumer. In keeping with our focus on the fourth quarter and recognizing that you'll likely annualize the fourth quarter NII and ask us about 2026, we're providing the central case for NII ex Markets in 2026, which is about $95 billion. Note that this is a preliminary view subject to the usual caveats as well as the fact that we have not finished the annual budget cycle yet. For expenses, completing the budget cycle will be even more important, which is why we are not providing an update today.

Speaker 4
6m 4s

While you probably haven't spent a lot of time refining your 2026 estimates yet, it is worth saying that when we look at the fourth quarter and adjust for seasonality and expected labor inflation, as well as adding some growth, the consensus of about $100 billion does look a little bit low. We will formally provide the 2026 outlook for NII expense and card NCO rate at fourth quarter earnings, and we'll have another opportunity to discuss the outlook at our recently announced company update in February. We are now happy to take your questions, so let's open the line for Q&A.

Speaker 5
6m 42s

Thank you. Please stand by. Our first question comes from John McDonald with Truist Securities. You may proceed. Thank you. Good morning.

Speaker 4
7m 11s

Thanks for the initial outlook on the 2026 NII. Jeremy, I wanted to ask about the retail deposit assumptions that were embedded in. At Investor Day, you discussed an expectation for deposits to grow 3% year over year by the end of the year. Fourth quarter and I think accelerating to 6% next year looks like they were flat this quarter.

Speaker 7
7m 30s

I just wanted to see if you're. Still expecting those kind of previously expected growth rates of 3% and 6%.

Speaker 4
7m 38s

Yeah, good question, John. Thanks for that. You're referring specifically to a page that was presented at Investor Day by Marianne Lake for the CCB with some illustrative scenarios for what we might expect CCB deposit growth to do as a function of some different potential macroeconomic scenarios. In the kind of then prevailing central case scenario, say we had 3% growth in the fourth quarter of this year and 6% projected for 2026. As we sit here right now and we sort of update the macro environment, a few things are true. One is the personal savings rate is a little bit lower than expected. Consumer spending remained robust while income was a bit lower. That's all else equal decreasing balances per account in CCB. As you obviously know, equity market performance has been particularly strong, which is driving flows into investments and we are capturing that in our wealth management business. Again, that's a little bit of a headwind to balances per account and relative to the scenario that we had at the time, rates are a little bit higher than what was in the forwards and that is producing again slightly higher than otherwise expected yield-seeking flow. They're still below the peak, but they're still a factor.

Speaker 4
8m 58s

As we look forward from here, the drivers are all still in place. If you break it down, a key driver is obviously ongoing net new accounts. If you look at this quarter, it's been strong with over 400,000 net new checking accounts this quarter. What you're left with is just the question of how that average balance per customer evolves and when you hit the inflection point of that number based on the factors that we've just gone through. At the margin, that kind of upward inflection point has been pushed out a little bit. At a high level, we remain quite confident about the overall long-term trajectory here and optimistic. The macro environment shift has just slightly pushed out some of the growth inflection dynamics. Got it. That's helpful. Maybe just sticking with that 2026 initial outlook, what are some of the other key assumptions in there, particularly around commercial deposits and maybe loan growth and rates? Sure, yeah. As we always do, we're using the current forward curves as of September 30. That has relevant cuts, or I think the impact of the 75 bps of cuts this year. I think as of the end of September it was two 25 bps cuts in the first half of 2026.

Speaker 4
10m 28s

That, all else equal, is obviously a headwind as we remain asset sensitive, and the annualization of this year and the first half of next year. Offsetting that, you have all the growth dynamics, which include card revolve growth, which has been obviously a significant tailwind. It's going to slow down a little bit given that the normalization of revolve is close to complete now, but we still see very healthy acquisition dynamics there. That will be a growth driver, albeit a little bit lower. Similarly, pivoting a little bit to deposits for a second, we just talked about the contribution of deposit balance between balance growth, which will be a factor in wholesale deposits. It was a very strong growth year this year, so we would expect it to be a little bit more muted next year, but the core franchise is doing great. Wholesale loan growth will kind of be what it is, but trends there are solid. It's the usual mix of rate headwinds offsetting balance growth and mix. We'll refine it more next quarter and we'll see how it goes. Got it. Thanks, Jeremy. Thanks, John.

Speaker 5
11m 48s

Thank you. Next we will go to the line of Robert Shore with Evercore ISI. You may proceed.

Speaker 4
11m 55s

Hi. Thanks very much. Wanted to drill down a little bit more on credit and you gave us enough. I think on the consumer side you noted the idiosyncratic names on the broadly syndicated side. Maybe if we could step back and say you're a big player in obviously everything, broadly syndicated loans, high yield markets and increasingly on the private debt side. My question is both of demand and credit fundamentals. What are you seeing in terms of drivers of client demand there on the lending side, wholesale front? Importantly, are you seeing differentiated credit fundamentals across public and private markets? There's been a lot of discussion about that lately and I feel like you're in the best position to help us. Okay, I'll do my best to try to help. Let me just get one thing out of the way because you were sort of polite enough not to touch on it, but I already kind of disclosed it on the press call. We generally, as you know, Glenn, are not in the habit of talking about individual borrower situations, but given the amount of public attention the Tricolor thing has gotten in particular, I think it's worth just saying that that's contributing $170 million of charge-offs in the quarter which we call out on the wholesale side.

Speaker 4
13m 21s

Also worth noting, there's been a lot of attention on the First Brand situation. We don't have any exposure to them. That's just worth getting out of the way. You asked about demand and you asked about public private differentiation on the demand side. I really think, not to overuse the phrase, but from the perspective of our franchise, this kind of moment of revived animal spirits, let's say, is driving demand. We're seeing very healthy deal flow. We're seeing acquisition finance come back. Obviously we were very involved in a particularly large deal this quarter. I would say broadly, and maybe this goes a little bit also to the public private point, our kind of product agnostic credit strategy across the whole continuum is playing out very nicely. I think some of the events of the quarter prove that. Now when you've got something big to do, we're the right people to call and will give you the best solution across a very complete full product suite. You asked whether we're seeing differentiation in fundamentals between private and public spaces? I don't know, I haven't heard that particularly. I think it probably depends a little bit on how you define the spaces and what you're differentiating.

Speaker 4
14m 45s

Obviously, to make the obvious point, subprime auto has been a challenging space for people in that industry, but that's probably not quite what you meant by private credit. I haven't heard anything to suggest that the private deals are performing differently from the public deals. It probably is true at the margin that some of the new direct lending initiatives involve underwriting at slightly higher expected losses. That's significant because, as we've been discussing here, the wholesale charge-off rate has been very, very low for a long time. I think simply having that normalized would produce some increases in wholesale charge-offs. Obviously, as we've been discussing a lot in consumer over the last couple years, when you're in that normalization moment, you're constantly wondering is this normalization or have we switched to deterioration? I don't know if we're seeing that yet in wholesale. It's also worth noting that the current portfolio is going to have a slightly different mix from what we have had over the last 10 or 15 years, and so the expected charge-off rate is going to be a little bit higher, all while it's equal. Obviously, that comes with appropriate revenues and returns. Okay, I appreciate that.

Speaker 4
16m 2s

Thank you. Thanks.

Speaker 5
16m 7s

Thank you. Next we will go to the line of Betsy Graseck from Morgan Stanley. You may proceed. One follow up on that is on the reserve build. I know that you mentioned largely due to card loan growth, but could you give us a sense as to how you're thinking about the reserve that you have against the commercial book, especially given what you just mentioned around the mix of the portfolio is different today than.

Speaker 4
16m 37s

It was. Prior cycle. I'm thinking prior cycle means pre-Covid, but let me know if it's a different time frame that you're thinking about. I mean I think we were thinking the entire post-GFC era. I think a couple of investor days ago we put up a slide showing that wholesale charge-off rate over 10 years. I might be wrong, but from memory it was like zero on a net basis, which is obviously not reasonable going forward. On your narrow question about the reserve, I think you've actually, maybe it doesn't pop in the consolidated numbers, but in some of the recent quarters, as we've sort of started doing some more of these direct lending deals, when we put those deals on the books, they come with quite significant day one reserve balances. In the normal course that growth comes with healthy reserves and hopefully we get the underwriting right and we get all that money back, obviously. As you well know, our entire wholesale reserve methodology is highly granular and very specific. To the extent that the mix shifts, loan growth will come with slightly higher reserve intensity. That will be situation by situation. Okay, perfect, thank you.

Speaker 4
17m 52s

Just the follow up is on how you're thinking about your excess capital utilization. I know yesterday you had the press release on leaning into industries that are critical for U.S. security, et cetera. Maybe you could speak a little bit to that incremental $500 billion, is it that you're talking about supporting growth of over the next 10 years relative to the potential for a dividend hike? You could do both, obviously. I did just want to understand the press release yesterday in that context as well as the opportunity set for a dividend hike. Thanks. Sure. Fine. Yeah, you kind of answered your own question a little bit. It is kind of an all of the above thing. Obviously we're not going to give guidance on buybacks or dividend policy. As you know, we're generating a lot of organic capital. We have a very large excess. We've kind of said that we wanted to arrest the growth of the excess. We've more or less done that since we said it. That's actually enabling us. In the meantime, we've actually grown RWA quite a bit, which, excuse me, has resulted in some actual decreases in the CET1 ratio. As we all know, we don't love buying back the stock at these levels, but we want to keep the excess reasonable.

Speaker 4
19m 24s

In the meantime, we're using our financial resources to lend into the real economy very broadly across the entire franchise. Yesterday's press release is an extension of that. Both in terms of what we were already going to do in the normal course, plus an aspiration to add another half a trillion of this type of lending at the margin, that's the type of RWA growth that consumes excess. Obviously in the context of the excess, $10 billion of direct equity investments that are incremental is a nice deployment of a modest portion of the excess. Obviously it's not going to happen instantaneously. I think all of the above is probably the short answer to your question. Thank you.

Speaker 5
20m 14s

Thank you. Jeremy, next we will go to the line of Ibrahim Poonawalla with Bank of America. You may proceed. Good morning. I guess maybe Jamie, a broader question, like when we read the quote from Jamie in the press release. Customers are resilient, but there's still massive amounts of uncertainty. I'm just wondering if, based on what you see, both commercial versus consumer, are things getting better as we look into 2026 or does it feel like we are at a tipping point where we could see a slump in unemployment over the coming months that then leads to concerns around the credit cycle? Just if there's a bias that you have on how things could play out, that would be helpful color.

Speaker 4
21m 7s

I mean, Jamie may have his own personal opinions here, but I think that at a high level, the story that we're trying to tell is one that's anchored on the current facts. The current facts on the consumer side are that the consumer is resilient, spending is strong, and delinquency rates are actually coming in below expectations. Those are facts that we really can't escape. Now, talking to our economists, I was struck by something that Mike Feroli said about thinking about the current labor market. In this moment of what people are describing as a low hiring, low firing moment, you can think of that as potentially explained by employers experiencing high uncertainty. If you believe that and you think about this moment as a moment of high uncertainty, I think tipping point is a little bit too strong a word. Certainly as you look ahead, there are risks. We already have slowing growth. There are a variety of challenges and sources of volatility and uncertainty. It's pretty easy to imagine a world where the labor market deteriorates from here. If that happens, obviously, as you well know, we're going to see worse consumer credit performance. I wouldn't say we're pounding the table with this view, but we're just noting, as we always do, that there are risks and that the fact that things are fine now doesn't mean they're guaranteed to be great forever.

Speaker 4
22m 39s

Got it. I guess just one follow up on your comments around expenses. I think there's a lot of discussion among shareholders whether AI and AI-driven productivity gains mean something for the banks as we look out over the next two to three years. You all have obviously talked about this at the investor day. I'm just trying to contextualize when you talk about the expense growth outlook or just sort of preliminary indication for next year, how should bank shareholders think about AI-led productivity gains in terms of making a dent on the expense growth either next year or for the next few years. Yeah. I'll give you my personal opinion about this. I certainly don't presume to tell people how to think about this at the system as a whole. I think the risk is because of how incredibly overwhelming the AI theme is for the whole marketplace right now and all the various effects that it's having in terms of equity market performance, MAG7 data center build out, electricity costs, it's an overwhelming thing. I think for us running a company of this type, we need to make sure we stay anchored in facts and reality and tangible outcomes.

Speaker 4
23m 56s

We're putting a lot of energy into this. A lot of people are spending a lot of time on it, we're spending a lot of money on it. We have very deep experts. As Jamie always says, we've been doing it for a long time, well before the current generative AI boom. In the end, the proof is going to be in the pudding in terms of actually slowing the growth of expenses. What we're doing is, rather than saying you must prove that you're generating this much savings from AI, which turns out to be a very hard thing to do, hard to prove and might at the margin result in people scrambling around to use AI in ways that are actually not efficient and that distract you from doing underlying process reengineering that you need to do. What we're saying instead is let's just do old fashioned expense discipline and constrain people's growth, constrain people's headcount growth. We've talked about that last year. We're going to do the same this year. Have a very strong bias against having the reflective response to any given need to be to hire more people and feeling a little bit more confident on our ability to put that pressure on the organization.

Speaker 4
25m 6s

We know that even if we can't always measure it that precisely, there are definitely productivity tailwinds from AI. That's how we're going to do it and hopefully that'll show up in lower growth than we would have had otherwise. A lot of the drivers of growth, which are per capita labor, inflation and revenue related expense and investments, are always going to be there. We're never going to stop doing those things. That's how we think about it. Thank you.

Speaker 5
25m 41s

Thank you. Our next question comes from Mike Mayo with Wells Fargo Securities. You may proceed. Hi. If I could get an answer to this from both you, Jeremy and Jamie. The question really is how much of a risk is the lending to the NBFIs, just, I mean, because you guys are always out front highlighting what could happen, whether it's cyber or, as you point, labor market or inflation. I feel like you haven't really highlighted this as a potential risk area. Maybe that's because you don't perceive it as such. You have Tricolor, you have First Brands. One area of your biggest growth, I think, has NBFIs over the last year. I'm just trying to put this in some sort of context that as it relates to Tricolor, you know, who bears the losses? Does it end investors in the funds? Do you put skin in the game and have your own investments? Are you an underwriter?

Speaker 4
26m 38s

Where are you exposed? I guess I'm asking JPMorgan Chase & Co. specifically, but then, Jamie, more generally for the industry, is this something that's flashing yellow that you are spending more time on? How should we think about that?

Speaker 7
26m 50s

Thank you.

Speaker 4
26m 53s

All right, let me do what you asked, Mike, and put a little bit of context around this. Let's do some housekeeping first. You talked about Tricolor, you talked about First Brands. I just want to reiterate, we do not have any exposure to First Brands. On Tricolor, it represents $170 million of the wholesale charge-off this quarter. Obviously, by definition, that reflects on-balance-sheet loans that we're charging off. With respect to other exposures, I don't really have anything additional to say about that at this point. It will play out as it plays out. In the normal course, we're always quite conservative about taking all possible hits that we can based on what's knowable up front. Take that for whatever it's worth. More generally, I think one thing that's important to say in terms of context about NBFI lending is that the vast majority of that type of lending that. we do is highly secured or in.

Speaker 4
27m 50s

Some way structured or securitized. In other words, it's not like we're doing extremely high risk, low rated lending to the NBFI community. That doesn't mean that there's no risk. That doesn't mean that things can't go wrong. Obviously, if you're doing secured lending and there are problems with the collateral, that's an issue which is clearly relevant in the case of Tricolor. We've talked a lot about the question about risk inside the regulated perimeter versus risk outside the regulated perimeter. We've also acknowledged that a lot of the private credit actors are, you know, large, very sophisticated, very good at credit underwriting. I don't think you're supposed to jump to the conclusion that there are necessarily lower standards or a huge systemic problem. To the extent that we lend to some of these folks who are clients of ours as well as competitors of ours, that lending follows our normal practices, it's often highly secured, and everything we do is in one way or another risky. I'm not sure that our lending to the NBFI community is an area of risk that we see as more elevated than other areas of risk, I guess is what I would say, Mike.

Speaker 7
29m 5s

I would just add that it's a very large category, non-bank financial institutions, and probably a number like half of it we would consider very traditional, not like different. There is a component which is different today than it was years ago, and there's a component which isn't that different. If you look at CLOs and lending to leveraged entities that are underwritten with leveraged loans, there's kind of a little bit of double leverage in there. I would say that yes, there will be additional risk in that category that we will see when we have a downturn. I expect it to be a little bit worse than other people expect it to be because we don't know all the underwriting standards that all these people did. Jeremy said these are very smart players. They know what they're doing, they've been around a long time, but they're not all very smart. We don't even know the standards that other banks are underwriting to some of these entities, and I would suspect that some of those deals may not be as good as you think. Hopefully we are very good though. We make our mistakes too, obviously. I think it could be a little bit worse.

Speaker 7
30m 13s

We've had a benign credit environment for so long that I think you may see credit in other places deteriorate a little bit more than people think when in fact there's a downturn, and hopefully it'll be a fairly normal credit cycle. What always happens is something's worse than a normal credit cycle, than the normal downturn. We'll see. We think we're quite careful and obviously we scour the world looking for things that we should be worried about. I do remind people we've had a bull market for a long time. Asset prices are high. A lot of credit stuff that you would see out there, you will only see if there's a downturn. Just a short follow up after Tricolor. This is a real puny drop in the bucket for you guys. Have you gone back and looked at your processes and done anything different? I mean, Michael, you should assume that every so like happens, we scour all process, all procedures, all underwriting, all everything. We think we're okay in other stuff. My antenna goes up when things like that happen. I probably shouldn't say this, but when you see one cockroach, there are probably more. Everyone should be forewarned on this one.

Speaker 7
31m 33s

First brands, I'd put in the same category. There are a couple other ones out that I've seen. I put in similar categories. We always look at these things and we're not omnipotent. We make mistakes, too. We'll see. There clearly was, in my opinion, fraud involved in a bunch of these things. That doesn't mean we can't improve our procedures. Got it.

Speaker 4
31m 53s

Thank you.

Speaker 5
31m 57s

Thank you. Next we will go to the line of Gerard Cassidy with RBC Capital Markets. You may proceed. Hi, Jeremy and Jamie. Jeremy, obviously you guys are in the residential mortgage lending market. Big players, granted, home lending, when you look at the revenue relative to banking and wealth management, obviously it's not that big. I got a question for you. This administration seems to be, when they come out with comments, they follow up on those comments with actions. Secretary of the Treasury has pointed out about a couple months ago that he thinks there's a housing emergency in this country. The question for you guys is, what do you think they could do to lower the spread between mortgage rates and the corresponding Treasury yield, assuming the Treasury yields don't go down. What do you think they can actively do to lower that spread, to lower mortgage rates to get housing more active. Refinancing activity, of course, would pick up with that.

Speaker 7
33m 6s

I'll take that one first. On the supply side, we know what it is. It's permitting, it's rules, it's local rules. It's how long it takes to get permits and, you know, build. Not in my backyard. You can't build two stories in certain places. That's the supply side. The demand side, you know. Remember, don't always push homeownership. We made a huge mistake in the government policy years ago. The supply side, we pointed out over and over and over again, I've been talking about it for years, that they should focus on reducing securitization requirements, origination requirements, servicing requirements, and we think you reduce the cost of mortgages, 30 or 40 basis points overall without creating any additional risk. There's just excessive stuff put in place after the great financial crisis, which obviously demanded a response, but is excessive. Anyone who's taken on a mortgage will tell you they had to sign 17 forms, 17 documents and all these things. To me, that's the most obvious one. Obviously, government policy. If the government wants to do more FHA, they could do that. That's up to them about whether they want to cheapen mortgages for near prime.

Speaker 4
34m 25s

All stuff like that.

Speaker 7
34m 26s

If they did have it like that, I would say always do it really thoughtfully. Very good, thank you. As a follow-up, just speaking about regulators in general, there's obviously been a major change with this administration. Can you guys give us any color what you're actually seeing on the ground? You know, we're what, nine months or so into this new administration with the new regulators, and also any color on when you think Basel III endgame may come out and what you're hearing in terms of how it will compare to what the original proposal was in July of 2023. Thank you.

Speaker 4
35m 3s

Yeah, thanks for that, Gerard. I agree with you. You know, this administration is saying things and from what we're seeing, transitioning to action quite quickly. What we're seeing from our engagement in Washington, and there's been some reporting in the press recently that's quite comprehensive on the evolution of potential proposals, which is aligned with what we're hearing as well. In general, there's a bias for action, getting things done quickly. They're looking at things quite comprehensively from what we see. As you know, we've argued for a long time, Jamie's argued a lot, that this is not about some overall calibration of the system, some back solving exercise for some number of whatever type. This is about looking at all the individual components of the capital rules understood holistically, doing the math right, and letting that roll up to whatever answer it's going to be. By the way, that answer is going to be different for different firms depending on their business mix. That's okay. That's part of the reason it doesn't really make sense to try to calibrate to some overall level for the system. It's just do the math right in a way that makes sense for the individual product or business area or source of risk and you'll get a reasonable outcome for the system.

Speaker 4
36m 27s

From what we're hearing that's very much the direction of travel. The relevant agencies are working well together. There's a sense of urgency and we're encouraged. I would note actually back to your first question that one area where getting things right at the individual product level has relevance is allowing banks to play their appropriate role in the residential mortgage lending market. In the instances where it makes sense, keep those instruments on the balance sheet. You want the capitalization of those to be reasonable and aligned with the risk. Again, from what we understand that is the direction of travel. In terms of timing, I mean your guess is as good as mine. I think there have been some public comments and I would just anchor myself on those and the press reporting, but we definitely hear a desire to get things done quickly and these things are complicated in some areas. We might have some disagreements at the margin. We'd still dislike G SIB as a matter of principle, but we don't want to let the perfect be the enemy of the good here. What we're doing is trending in the right direction. number they are doing that they're looking at holistically, that's great, but get the numbers right.

Speaker 7
37m 42s

I've said for years, G-SIB, CCAR, operational risk capital, double counting of trading book, it's just wrong. Some of these numbers are so inaccurate that they publish, that they should publish them with the disclosure saying we know these are highly inaccurate, like we know that this is not remotely related to reality and stuff like that. It's almost a dishonest disclosure of these notes, like do the actual number. The second thing they really should do, which I think they're doing, is what is the intended effect and what the unintended effect. We talk about, you know, we've got 8,000 public companies to 4,000 public companies. We've gone from pushing mortgages out of the banking system to a huge buildup in parts of the non-bank financial institutions and a huge amount of arbitrage taking place. If I was a regulator, I could look at all that and say, my God, is that what I wanted? The biggest frustration is they could have fixed all these things, reduced liquidity, reduced capital, all these things and made the system safer. We had a Silicon Valley Bank blow up because they're so focused on governance, they forgot to focus on interest rate exposure, and they are making changes now.

Speaker 7
38m 50s

What is actually real risk banks are bearing as opposed to woke signaling what a bank should be doing all the time? Hopefully they'll do it. I think they're devoted to doing it. Look at their words, their speeches. I'm talking about the OCC, the Fed, the FDIC. I think it's very good. Let's get it done quickly. Thank you for the color. Appreciate it.

Speaker 4
39m 13s

Thanks, Gerard.

Speaker 5
39m 15s

Thank you. Our next question comes from Erica Najarian with UBS. You may proceed. Yes, thank you. My first one is for you, Jeremy, under the category no good deed goes unpunished. Just wanted to ask a quick question on the expense outlook for 2026. You mentioned that $100 billion could be a little low and that you're in the middle of the planning cycle. That would imply 4% growth year over year. Is that the sort of new normal labor rate inflation that we should assume at this point?

Speaker 4
39m 51s

Okay, a couple things about that. One is not to get too much into the weeds here, but our expenses are a little bit seasonal. Annualizing the fourth quarter, sometimes you get a bunch of offsets and it's okay to do that, sometimes it's not. We always try to do this based on a sort of launch point of the annualized fourth quarter rate. While that's a reasonable thing to do for NII, it's a lot harder to do for expenses. Taking a step back for a second, I'm not telling you anything that you don't already know. You can look at whatever ECI or whatever other government measure of labor cost inflation. We know that even while inflation is a lot lower, we're very far from the moments in the mid 2010s where inflation was, for all intents and purposes, practically zero. I think the new normal for labor is some number like that, whatever, 3%, 4%, and not just labor. I mean, I don't want to fail to recognize the extent to which inflation has more or less come back to normal. By normal, we mean the Fed's target, and for a while it was below target.

Speaker 7
41m 1s

Whether it's labor or goods and.

Speaker 4
41m 2s

Services, not to get into tariffs or whatever, that's a factor that applies to our entire cost base. In addition to that, as we noted, we're going to invest where it makes sense. We're going to pay for performance to the extent that there's higher performance. Also, generally higher revenues will be associated with other variable expenses. Overlying all of that is the question of productivity, and it includes, but is not limited to, AI-driven productivity. You can assume that we're going to be pushing hard on all fronts to extract as much productivity out of the organization as possible. As is always true, we're going to try to keep that focus separate from our commitment to invest for growth in places where we want to.

Speaker 7
41m 50s

Can I just add to that medical? We spend $3 billion or so in medical. That's going to be up 10% next year. When you look at some of these things, and we know that already, and maybe we think it actually might be up another 10% in 2027 for a whole bunch of different. That's one thing. Another thing about comp. I just want to point it out. There's normal inflation and pay for performance, all that. There's a lot of pressure from other people who are paying people quite well. Hedge funds, law firms, private equity, non-bank financial institutions. We are going to pay our people competitively. That is a sine qua non if you want to have a great company for the next 20 years. There's some of that too. I'm not sure that it's going to change very much when you look at it, but I would put in the back of your mind too. It's probably good for you all to hear me say that.

Speaker 5
42m 38s

Sure.

Speaker 4
42m 41s

England Research, someone's job. I'll make sure to send a transcript to my boss. The second question is actually for you, Jamie. You have always had a differentiated way of thinking about risk. A two part question for you. Number one, I feel like we don't even know what the right questions are to ask when it comes to NBFI exposure and risk, which is such a broad category. Two part question here. Number one, what would be the questions you think investors should ask when assessing NBFI exposure as it relates to future credit risk? Second, should investors be concerned about the SSFA accounting for RWAs in certain structures where you could lower the RWAs to NBFI exposures from 100% to something much lower.

Speaker 7
43m 38s

Which SFA?

Speaker 4
43m 40s

Oh God, I used to know that acronym. It's a technical thing inside securitization where under some conditions you can lower the RWA weighting.

Speaker 7
43m 49s

Is that insurance related?

Speaker 4
43m 51s

No, it's for us. It's like a part of the REGAP rules. Do you want me to do that one first? You can do the first one. Even though I don't remember what the, I think it's a standardized securitization something. I forget what it stands for, but from what I recall about looking at that one, I think it is a mechanism by which you can take otherwise punitive risk weighting for certain types of structures and reduce it from 100 to 20, where arguably 20 is actually probably still too high because you've essentially mitigated the entire risk. My first answer to your question is of all the things to worry about, I wouldn't worry about that. Whatever you want to call it, protection enhancement or risk weighting decrease in that narrow context. On your question of what questions to ask about the NBFI space in general, Jamie will have his views. I think it starts by acknowledging that it's a very, very broad space and we probably need to narrow the focus a little bit. Subprime auto is one thing. Lending to trillion dollar asset managers on a secured basis is a very different thing.

Speaker 7
45m 11s

Maybe we should take a crack at telling you a little bit more about it. We feel fairly comfortable with our exposures in that. I think what you should do is, I think when we have a downturn, this is the important thing. There will be a credit cycle and we shouldn't be surprised. You know, the credit card laws will.

Speaker 4
45m 26s

Go up, middle market loans go up.

Speaker 7
45m 28s

Everything gets worse in a downturn in credit. I do suspect, I can't prove this and I don't know because we don't know everyone's underwriting standards. Every now and then we see what someone else is doing, we're surprised at their standards. They're not particularly good, but that's always been true. I suspect when there's a downturn you will see higher than normal downturn type of credit losses in certain categories. I just suspect that. The other thing which you can do, which I'm going to ask Michael Grubb to do for me again because I ask periodically, is look at the price of the BDCs and their publicly traded private credit facilities and do the homework. There are disclosures around that and we do it. Maybe we should just take a crack at one point laying out the different kinds of NBFIs and ones which might be concerning and ones that aren't concerning.

Speaker 5
46m 18s

Thank you.

Speaker 4
46m 20s

Thanks Erica.

Speaker 5
46m 25s

Thank you.

Speaker 4
46m 26s

I might have lost Erica. Let's go to the next question.

Speaker 5
46m 30s

Thank you. Our next question comes from Jim Mitchell with Seaport Global Securities. You may proceed. Hey, good morning. Maybe just on the investment banking environment, obviously things have gotten better. Just curious where you see the most strength in the pipeline, and as we get rate cuts coming, do you feel that we're starting to see more activity pick up or the potential for more activity to pick up among financial sponsors? Just curious your thoughts?

Speaker 4
46m 59s

Okay, interesting question on the sponsors. I mean, I don't know. I personally am not persuaded of the notion that cuts coming through that are fully priced in are going to meaningfully change behavior in sort of highly sophisticated professional community like financial sponsors. If that plays into flattening of the yield curve for other reasons, et cetera, beyond what's priced in from the forwards, that could be a little bit of a different story. I think what is clearly true, a little bit to the point of your question, is that the environment is. The results are very robust and the tone is very upbeat. I think an interesting thing from my perspective is to think about the narrative. Starting from the beginning of the year, we had the moment of everyone was talking about Animal Spirits and a big booming moment. Then we had Liberation Day and all the tariff uncertainty and equity market volatility. Things kind of went quiet for a while. What's interesting is that from the IPO perspective, for example, processes were kicked off early in the year and those processes continued even during the moments where conditions weren't ideal for the deals. What that meant is that there's a lot of stuff in the queue that's kind of ready to go.

Speaker 4
48m 23s

Now conditions are much more favorable both in terms of equity markets valuations, at least until recently, relatively low equity market volatility, a bit more breadth in the rally in terms of multiples, including smaller cap tech sector or whatever. Yeah, that's one area. In the meantime, as you know, we're starting to see more M&A activity as well. I noted earlier, I think it was the busiest summer we've had in a long time in terms of announcement activity. We're seeing that play through into acquisition finance. I think the rate environment is good enough from the perspective of being able to get deals done. It's a pretty supportive environment. As you well know, that can change overnight. Yep, it's all fair. Maybe just to follow up on just capital relief and how you're adjusting, or at least starting to think about adjusting to that. RWA growth is picking up. Is there other aspects, whether it's in the markets business or other marginal return activities before that, you see opportunities to lean into growth to use up capital? Because obviously IRRs and buybacks today at these levels are not great. Yeah, exactly. I mean, that's the exact math that we're always doing, which is like, okay, subject to certain assumptions, what is the return on a buyback and what's the alternative?

Speaker 4
49m 51s

Obviously, we want to be careful there, right? I mean, if you take that argument to the extreme and you say, like, oh, we want to do every piece of business that's like one basis point above the theoretical return on buybacks, you wind up potentially making a lot of really dumb risk decisions. You want it to be franchise accretive business, and you want to recognize that your estimate of the return of that business is itself subject to some uncertainty. Jamie always says, like, putting liquid par assets on the balance sheet and adding leverage is not a thing that actually generates value, no matter what the supposed return of that instrument is in the spreadsheet. It's a thing that we think about a lot. I would say to the extent that that's shaping our behavior, it's probably already shaping our behavior because as you know, we've had the access for quite a while. The price to tangible multiple has been going up for quite a while. We're going to continue looking for constructive ways to deploy while making sure that we don't do anything stupid, frankly. Okay, thanks for the color.

Speaker 7
51m 7s

Thanks, Jim.

Speaker 5
51m 9s

Thank you. Next we will go to the line of Ken Hsiang from Autonomous. Your line is open.

Speaker 4
51m 18s

Thank you. Good morning. I wanted to ask a question about just overall loan yields. Noticed that they were up three basis points in the quarter. Obviously, rates hadn't been moving during the quarter. Now that we're starting to head back down, just wondering what are the main drivers of still being able to actually see higher loan yields? Thanks. Oh, I never look at that. I have literally no idea why the loan yield is up three basis points in the quarter. If I had to guess, I think it's almost always a function of various types of mix effects. Recognizing that we have loans of radically different yields across the company from, you know, SOFR plus 20 basis points to, you know, so relatively small changes in mix can make a big difference. Obviously, you've got a lot of floating rate instruments, all of SOFR. You would expect those yields to be lower given the cuts that have come in. Mix effects can easily overwhelm that. I'm sure Michael will have a good answer for you by the time the call is over, but I had not looked at that one. Okay, I'll follow up on that. Secondly, with the Sapphire refresh, just assume that we're starting to see some of the awards amortization show in the card fees line and in the card revenue rate.

Speaker 4
52m 39s

I'm just wondering if you kind.

Speaker 7
52m 41s

Walk us through that, you know.

Speaker 4
52m 42s

Now that that card's coming on and you mentioned good additions there, just what do we have to think about in terms of what card leads the horse in terms of card revenue rate and, you know, eventual volume growth and related benefits. Thanks. Yeah, it's a good question. One thing that you might have noticed, talking about kind of micro supplement points, is that the revenue rate is actually lower than the NI yield, which implies a negative NIR yield. By the way, that target yield is a number that's often quite close to zero. It doesn't take a lot to make it negative, but it is currently negative. While there's a lot of puts and takes inside that number in terms of rewards, liability, annual fees and so on, the particular dynamic that's happening now is that as part of the refresh, customers are getting increased value ahead of the moment where the annual fee goes up. There's a kind of transitional period of a few months as the refresh rolls through where those numbers are slightly elevated.

Speaker 7
53m 47s

The fee comes in over a year, and some of these rewards come in as a negative then over a year.

Speaker 4
53m 53s

Exactly.

Speaker 7
53m 53s

It's one example of really bad accounting.

Speaker 4
53m 59s

As that stuff normalizes through, some of these numbers like return to slightly more normal appearance, but it might actually take a couple quarters for that to play out. Okay, got it. Thank you. Thanks.

Speaker 5
54m 19s

Thank you. Our last question comes from Chris McGrady with KBW. You may proceed.

Speaker 4
54m 26s

Great, thanks. Ryan Brinkman. Related to the 15% long-term national. Retail deposit market share, does your pricing? Need to be materially different from recent history? Or said another way, do you need. To price a little bit more competitive. To get that 4% of improvement over time? Thanks. In short, I would say no unless my CCB colleagues disagree or eventually change their strategy. I think what you see right now actually from those numbers is you do see us losing a little bit of share in the FDIC recently released results which have us as number one. We're happy to celebrate for the fifth year in a row and the other leading banks or other large banks which have adopted similar pricing strategies are also seeing a little bit of loss of share. That is from our perspective, expected as a conscious result of being disciplined about the pricing of deposits. It has no particular bearing on the long term growth strategy to get to 15% which is all about expansion and deepening and the core value proposition that we offer. Interestingly, when you look inside the granular market by market results in that FDIC data, what you see is us actually taking share in a lot of the kind of highest priority, highest profile expansion market.

Speaker 4
55m 59s

In that sense it's actually a validation of the strategy. By the way, I got my answer on the question. It is mix including cards. My guess was correct.

Speaker 7
56m 12s

The retail branch system, Jeremy said, deepening. Remember it's better products, better services, more branches, and better locations, deepening with customer segmentation. If we do a good job in all that, we hope to gain share. I think we are doing a good job in that, but we have to deliver that for years to get to 15%.

Speaker 4
56m 37s

Great. Thank you for the call. Appreciate it.

Speaker 7
56m 40s

Thanks, folks. Thank you very much for spending time with us. We'll talk to you all soon.

Speaker 4
56m 45s

Thank you.

Speaker 5
56m 48s

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