Company Name: JPMorgan
Company Ticker: JPM US
Date: 2018-07-13
Event Description: Q2 2018 Earnings Call

Market Cap: 385,325.36
Current PX: 114.65
YTD Change($): +7.71
YTD Change(%): +7.210

Bloomberg Estimates - EPS
Current Quarter: 2.300
Current Year: 9.162
Bloomberg Estimates - Sales
Current Quarter: 27781.357
Current Year: 110850.158

Q2 2018 Earnings Call

Company Participants

- Marianne Lake
- Jamie Dimon

Other Participants

- Ken Usdin
- John McDonald
- James Mitchell
- Erika Najarian
- Mike Mayo
- Glenn Schorr
- Saul Martinez
- Betsy Graseck
- Gerard Cassidy
- Alevizos Alevizakos
- Matthew O'Connor

MANAGEMENT DISCUSSION SECTION

Marianne Lake

Financial Highlights

EPS and Revenue

- Starting on page 1, the firm reported net income of $8.3B and EPS of $2.29 on revenue of $28.4B
- All were records for second quarter, even excluding the benefit of tax reform
- Our return on tangible common equity was 17% and also included in the result were two notable items, which I will call out in a moment, excluding which EPS would have been about $0.10 higher

Consumer Deposit Growth and Card Sales

- The strength this quarter was broad-based across businesses and highlights include average core loan growth, excluding the CIB, of 7% year-on-year
  - Consumer deposit growth of 5%, which we believe continues to outpace the industry
  - Card sales up 11%
  - And client investment assets and merchant processing volumes, each up 12%
- We maintained our number one rank in Global IB fees and CIB delivered double-digit revenue growth across the board

- Commercial Bank revenue was up 11% year-on-year with IB revenues being a bright spot this quarter
- And in Asset & Wealth Management, AUM and client assets were both up 8%

Operating Leverage

- Turning to page 2 for more details about Q2
- The Firm delivered strong core positive operating leverage this quarter
- Revenue of $28.4B was up $1.7B or 6% year-on-year
- Net interest income was up $1.1B or 9%, reflecting the impact of higher rates and loan growth, partially offset by lower Markets NII.
- Noninterest revenue was up over $600mm, driven by a strong performance in Markets and IB fees and also higher auto lease income
- NIR this quarter was negatively impacted by a rewards liability adjustment in Card, and remember that last year included a significant legal benefit
- Excluding these two items, NIR would have been up $1.6B and total revenue up 10%

Transaction Expenses

- Expense of $16B was up 8% year-on-year with half of the increase directly related to incremental revenues, principally compensation in the CIB, transaction expenses and auto lease growth
- About a third related to continued investments in technology as well as headcount across the businesses and the remainder was largely a loss on the liquidation of a legacy legal entity as part of our simplification efforts
- And if you exclude this item, expense was up only 7%

Credit Costs

- The legal entity loss, together with the rewards liability adjustment in Card, are the two notable items I mentioned at the beginning for a total reduction of over $500mm pre-tax
- Credit costs of $1.2B were flat year-on-year and credit trends remain favorable across both Consumer and Wholesale

Balance Sheet and Capital

- Shifting to balance sheet and capital on page 3, we ended Q2 with CET1 of 11.9%, up about 10BPS vs. the last quarter as most of the capital generated was returned to shareholders
- Risk-weighted assets were relatively flat despite solid growth in loans and commitments being offset across other categories
- In the quarter, the Firm distributed $6.6B of capital to shareholders, and last month, the Fed informed us that they did not object to our 2018 capital plan
- We were pleased to announce gross repurchase capacity of nearly $21B over the next four quarters, and the Board announced its intention to increase our common dividend to $0.80 per share effective in Q3

Consumer & Community Banking

- Moving on to page 4 and Consumer & Community Banking, CCB generated $3.4B of net income and an ROE of 26%
- Core loans were up 7% year-on-year, driven by Home Lending up 12%, business banking up 6%, Card up 4% and auto loans and leases also up 4%
- Deposits grew 5%, and although growth is slower than a year ago, we are seeing record high retention rates and customer satisfaction scores

Client Investment Assets and Card Sales Volume

- Client investment assets were up 12% with more than half of the growth from net new money flows, and we are capturing an outsized share as our customers shift from deposits to investments
- Card sales volume was up 11%, and we announced several new Cards as we continue to update our product offering

Revenue

- Revenue of $12.5B was up 10% year-on-year
- Consumer & Business Banking revenue was up 17% on higher NII, driven by continued margin expansion as well as deposit growth
- Home Lending revenue was down 6% on production margin compression and lower net servicing revenue, despite higher purchase volume in Retail

Card, Merchant Services & Auto

- And Card, Merchant Services & Auto revenue was up 6% driven by lower Card acquisition costs, higher Card NII on margin expansion as well as loan growth, as well as higher auto lease volumes
- This was largely offset by lower net interchange driven by a rewards liability adjustment of about $330mm reflecting strong customer engagement across our Ultimate Rewards offerings
- As a result, the Card revenue rate was 10.4% for the quarter
- But our full year guidance of approximately 11.25% holds
- Expense of $6.9B was up 6% year-on-year driven by higher auto lease depreciation and investments in technology

Credit

- Finally, on credit, charge-offs were down $36mm year-on-year, including a recovery of about $130mm from a loan sale in Home Lending
- This was largely offset by higher net charge-offs in Cards
- The Card charge-off rate was 3.27% reflecting seasonality and is in line with expectations and in line with our guidance
    - There were no reserve actions taken this quarter

Corporate & Investment Bank

- Turning to page 5 and the Corporate & Investment Bank, CIB reported net income of $3.2B on revenue of $9.9B, up 11%, and an ROE of 17%
- In Banking, we maintained our number one ranking for the quarter and YTD in Global IB fees, with a record H1 performance, and we grew share across all regions
- IB revenue of $1.9B was up 13% year-on-year, outperforming a market that was down slightly as we saw robust activity particularly in M&A and ECM
    - It was a record second quarter for advisory fees, which were up 24%
- Benefiting from a number of large deals closing this quarter, we gained share and rank number two globally

Equity Underwriting Fees

- Equity underwriting fees were up 49%
- We ranked number one globally as well as in North America and EMEA, and gained share in a competitive environment driven by IPOs and convertibles in the two most active sectors, Healthcare and Technology, which are areas of strength for us
    - Additionally, we saw good momentum in Private Capital Markets as clients are exploring alternative sources of capital
- And debt underwriting fees were relatively flat vs. a very strong prior year quarter supported by healthy acquisition-related activity
- And we ranked number one in DCM globally and across all sub-products
- Looking forward, the overall pipeline remains strong

Market Conditions

- Moving on to Markets, total revenue was $5.4B, up 13% year-on-year, or up 16% adjusting for the impact of tax reform and was driven by strong results in equities, solid performance in FICC across categories, and with performance picking up in H2 the quarter
- Fixed Income Markets revenue was up 12% adjusted on the back of good client flow and decent volatility and with Commodities making a notable recovery from a challenging prior year
- It was a record second quarter for Equities with revenue up 24%, driven by strong client activity and favorable trading results and with particular strength in Cash, Prime and Flow Derivatives

Treasury and Securities Services

- Treasury Services and Securities Services revenue were each up 12%, driven by higher rates in deposit balances
- And Securities Services also benefited from higher asset-based fees on new client activity and higher market levels

Expenses

- Finally, expense of $5.4B was up 11%, driven by higher performance-related compensation, volume-related transaction costs and investments in technology
- The comp-to-revenue ratio for the quarter was 27%, consistent with the prior-year quarter

Commercial Banking

- Moving to Commercial Banking on page 6
- Another strong quarter for this business with net income of $1.1B and an ROE of 21%
- Revenue was a record for Q2, up 11% year-on-year, driven by higher deposit NII and strong Investment Banking activity
- Gross IB revenue of $739mm was up 39%, driven by several large transactions, a strong underlying flow of business, and the overall pipeline is robust and active
- Expense of $844mm was up 7%, as we continue to invest in the business both in bankers and in technology

Loan Balance

- Loan balances were up 4% year-on-year and 2% sequentially
- C&I loans were up 3% year-on-year and sequentially due to increased M&A related financing with strength in our expansion markets, as well as in specialized industries and despite lower tax-exempt activity
- CRE loans were up 4% year-on-year and flat vs. last quarter as there continued to be a lot of competition for high-quality assets and we are selective given where we are in the cycle
- Finally, credit performance remains strong with a net charge-off rate of 7BPS

Asset & Wealth Management

- Moving on to Asset & Wealth Management on page 7
- Asset & Wealth Management reported net income of $755mm with a pre-tax margin of 28% and an ROE of 33%
- Revenue of $3.6B was up 4% year-on-year driven by higher management fees on growth in long-term products as well as strong banking results
- Expense of $2.6B was up 6%, driven by continued investment in advisors and technology as well as higher external fees on revenue growth
- For the quarter, we saw net long-term inflows of $4B with positive flows across multi-asset equities and alternatives, partly offset by outflows in Fixed Income
  - Additionally, we saw net liquidity inflows of $17B
- AUM of $2 trillion and overall client assets of $2.8 trillion were both up 8%, with the increase being split about equally between flows and higher market levels globally

Investments

- Deposits were down 7% year-on-year, reflecting continued migration into investments where we are also capturing the vast majority, and down 3% sequentially on seasonal tax payments

- Finally, we had record loan balances up 12% with strength in global wholesale and mortgage lending

Corporate

- Moving to page 8 and Corporate
- Corporate reported a net loss of $136mm
- The result included a pre-tax, $174mm loss on the liquidation of a legacy legal entity previously mentioned
- But it is of note that while this loss through expense affects retained earnings this quarter, it is offset from a capital perspective
  - So it's capital-neutral
- Before I wrap up, you may note we have no outlook page here, although both revenue and expense are trending higher market-related
- Given we're only halfway through the year, we're not updating our outlook at this point

Client Activity Levels

- So to close, the macroeconomic backdrop continues to be supportive
- Consumer and business confidence and sentiment remain high
- Client activity levels are robust, and the markets are open and active

Summary

We are pleased with the firm's results this quarter

Our broad-based financial performance clearly demonstrates the power of the platform

Revenue grew strongly, double-digits y-over-y in many cases

We realized positive core operating leverage despite significant investments, and credit trends remain favorable across both Consumer and Wholesale

- This was a clear record for a second quarter whichever way you slice it

We remain focused on consistently delivering for our customers and our communities, and investing for the long term

QUESTION AND ANSWER SECTION

<Q - Ken Usdin>: Can I ask you to talk a little bit about the Card business and you mentioned the strong customer engagement with regards to the rewards markdown? Can you just walk us through what's the drivers of that and is this a onetime event, and does it affect the Card revenue rate outlook?

<A - Marianne Lake>: So I'll start at the end because that's pretty simple. It obviously affected the Card revenue rate in the quarter. You can see that that was 10.4%, and you can see on the page we've adjusted for the impact. But the 11.25% for the year remains true, which is to say that while this may be slightly larger than normal, it's not exactly a onetime item. We regularly review our liability as we observe the mix of our portfolio and the behaviors of our customers.

On face value, I know rewards is often talked about as a competitive matter. I mean, this is less about competition per se. In fact, we have record-low sales attrition, which in a competitive environment is really very good. And it's more about customers' awareness of the value proposition of rewards and them being engaged in redeeming them, which for us is net a positive thing because engaged customers spend more and we're seeing that. They attrite less and we're seeing that. And they will bring us more of their share of deposits and investments as we deepen relationships.

So, I would say it's a little larger than normal. We do it pretty regularly so it's not onetime, but it's not completely typical.

<Q - Ken Usdin>: Got it. And in the press release, Jamie, you mentioned in the first paragraph about increasing competition. Is that a global, across-all-businesses comment or are you seeing it narrowly in specific areas? Thanks.

<A - Marianne Lake>: Okay. I think it's – I mean, it's pretty global across all businesses as a general matter and there were some obvious areas where it's pretty acute in Retail-Auto space, for example. We talked about Commercial Real Estate, for example. Mortgage clearly with capacity in the system, for example.

All of those areas are pretty competitive for a variety of reasons given where we are on the cycle in the economy and the like, but I would say it's broad based. It's everywhere.

That said, we are holding our own and, in many cases, gaining share. So we're doing pretty well.

<Q - John McDonald>: I wanted to ask you what you're seeing this quarter in terms of Consumer deposit trends, a little more color on both the pricing beta and volume balances. Kind of wondering if you're seeing a lot of competition from the online competitors like Marcus and whether those are affecting your deposit balances with consumers being attracted to those high yields and are they affecting your pricing decisions?

<A - Marianne Lake>: Okay. So I would say you talked Consumer deposits so I'm talking retail now not the sort of high net worth base. I'll come back to that.

Consumer deposit is up 5% year-on-year, slowing down as we would have expected. While you have seen online competitors and even some regional competitors make some moves in the large bank space, we haven't really seen that yet.

When we look at the sort of deposit slowdown and we unpack it, it feels to us like the vast majority of the root cause is customers moving into investments. And in the case of Retail customers, actually into managed accounts so it doesn't even appear to be rate-seeking.

Spending more would be the second driver, and to a much less extent are we seeing behaviors that look like they're rate-seeking at this point. So, we're not seeing that kind of migration out of the company to online or other competitors at this point. And so at this point, reprice is still not happening. That said, we are on a journey clearly.

In the higher net worth space, we continue to see the migration into investment assets we've been seeing and again, we continue to recapture the vast majority of those. So, at this point, things are playing out as we would have expected and we're not actually losing deposits on mass to any third parties.

<Q - John McDonald>: Okay. And just to follow up on that, can you remind us what's the opportunity you see with the rollout of Finn and what advantages you expect to have in that arena?

<A - Marianne Lake>: Yeah. So I would look at Finn as one of many sort of digital innovations that we're doing, and I would look at it also in conjunction with broader digital account opening. And although we've now launched Finn nationwide, I think it's fair to say it's still very nascent and we're still learning. So we're going to continue to observe. It's got very high Net Promoter Score, by the way, so customer experience is good, but it's still quite young.

<A - Jamie Dimon>: We haven't really marketed it, either.

<A - Marianne Lake>: No. We're just starting. I would say digital account opening on the other hand is a pretty good success story, and we are seeing a lot more accounts opened digitally across the channels and we're seeing all those decent chunk of net new to the bank. And where we're seeing existing customers open new accounts, we're getting incremental money.

So, we are seeing our digital effort pay off and even more broader than that, we could go into QuickPay and Zelle and the like. But I wouldn't focus overly on Finn as an isolated thing, but think digital more broadly.

<A - Marianne Lake>: Morning, Jim.

<Q - James Mitchell>: Hey. Good morning. Maybe just talk a little bit about loan growth. Obviously, it seems to have picked up in the Fed data over the last month or two. What are you guys seeing on the ground? And do you think that what we've seen so far is a good indicator for maybe a more sustained pickup in growth?

<A - Marianne Lake>: Yeah. I would say that new account – if you use the Commercial Bank C&I loans as a kind of bellwether, there has been decent demand. And I mentioned it in my remarks, but a decent demand not exclusively but partially on the back of a very robust and active M&A environment.

And so, the demand is there. I would say growth is solid and in line with our expectations, so we will continue to hope to see that growth as we go through the year. And then when you're up, there may be other tailwinds.

We've yet to see the full effect of tax reform flow through into profitability and FCF. So, I would characterize loan growth as solid and our expectations for the outlook to remain solid, but benefiting from a very active capital markets environment.

<Q - James Mitchell>: Okay. And maybe as a follow-up, when we think about NIM going forward, I mean I think it was a couple years ago that you talked about maybe normalized being somewhat in the 2.65% to 2.75% range or 2.46% now. Is there a certain loan-to-deposit ratio you think you need to have or level of rate? Just trying to think through how we think about NIM going forward.

<A - Marianne Lake>: Yeah. I mean we're at Fed funds of 175 to 200 [basis points] right now, so we're not anywhere yet close to normal rates.

And so, when we think about what we've talked about on normalizing NIM, we were thinking about it more through cycle adjusted for new liquidity rules and everything else. So we have a number of further rate hikes to go before we would reach that point. But we are on a core basis, and remember we have a fairly sizable market balance sheet. But on the core basis, we are continuing to see NIM expansion in line with expectations and moving up towards that. So we would expect to see expansion y-over-y moving towards that level, but not getting there yet.

<Q - Erika Najarian>: My question is on the regulatory process this year under the new leadership. I'm wondering if there's anything that you could share with us that you've observed in terms of change, whether or not it was how receptive or not the regulators were during the comment period for the SCB and also during the CCAR process. Was there any marked or observable change in the processes this year vs. previous years?

<A - Marianne Lake>: Yeah. So I would say on the comment period for the SCB, obviously during the comment period, the regulators are quiet. So, it wasn't a two-way dialogue during that period. We would expect the two-way dialogue to start now that the comment period is over and the industry and bilateral letters have been submitted.

I will say going back to comments I think I've made previously that I remain constructive about the willingness for the current leadership to pay attention and take on both those comments. Then, if you look at the proposal that was sent out for comment, not only did it have a large number of questions that they were asking for feedback on, but the actual proposal was very similar to what we had been understanding was the intention in the speeches that go back a fair way, which is to say that it feels like we're still making the sausage rather than this is a done deal. And so we're very optimistic that the comments will be taken onboard. And you know what they are.

Volatility was evident in spades in this test, opaqueness, GSIB. We can go through them, I'm sure we will. So we remain optimistic that the comments the bilateral discussions will start now. I would say – or the industry-wide discussions will start now.

I would say on CCAR, it felt status quo to prior years. It's not to say that it's not constructive; it's just it felt like status quo to prior years.

<Q - Erika Najarian>: And just my follow-up question, the pushback that I'm getting from a lot of investors on bank stocks is that we're long in the tooth in the economic cycle.

Clearly, there's strong activity levels that you posted this quarter and the credit metrics that you posted would suggest otherwise. And I'm wondering, both Jamie and Marianne, how you would respond to that pushback that now is not the time to invest in banks because we are late in the game from an economic standpoint.

<A - Marianne Lake>: Yeah. I mean, I would say two things, which is while this cycle is older than potentially typically cycles have been, growth over the last decade has been lower through the recovery. So there is plenty potentially of room to play. And as we look at all the economic data, not just here in the U.S. but also globally, there are no real signs of fragility.

And I know people are staring at a flat yield curve and we would say that that flat yield curve is a bare flattening – good flattening from a bank profitability perspective and not some looming risk of a recession embedded in it. Some premium still negative, real policy rates still at zero, credit very benign.

That said, we are in cyclical businesses, no doubt, and so we are preparing and we will be ready when the cycle turns and no doubt, there will be impact from that. But through the cycle, I think we've proven that our business model will produce strong shareholder returns and among best-in-class performance.

<Q - Mike Mayo>: Yeah, just I wanted to follow up on that last question, if Jamie could respond, too. I mean, Marianne, you said the macro is very supportive. You sound very positive. On the other hand, the 10-year treasury yield has flashed some warning signs to a variety of parties.

So, Jamie, we had the tax cut. We've been waiting for the extra boost to the economy, whether it's CapExs or whatever. Do you think the economy is accelerating, it's still on steady footing, it's the same, or maybe it's slowing down? And how should we think about the 10-year and how do you think about the 10-year? And how do you manage to a flatter yield curve?

<A - Jamie Dimon>: Yeah. So just real quickly, I mean Marianne said it, we've had almost 9 to 10 years of growth at 2%. Averaging 20% over the 10 years, it really should have been closer to 40%.

There's a lot of evidence that there's slack in the system and it's been finally people going back to workforce. The consumer balance sheet is in good shape. CapExs are going up. Household formation is going up. Homebuilding is in short supply. The banking system is very, very healthy compared to the past.

Consumer confidence and business confidence are very high, albeit off their highs, probably because of some of the noise in trade. So if you're looking for potholes out there, there are not a lot of things out there. And growth is accelerating.

And, of course, things are always a little bit different. My own personal view is that the 10-year is the 10-year. I wouldn't say that it has to happen the way it's happened every time last time. I just think that's a mistake.

And the Fed is reversing the balance sheet, I think it's very easy that rates can go up – the 10-year rates can go up in a healthy environment. And in history, we've had rates going up where you have a healthy environment. It's not always true that the 10-year going up is bad.

<A - Marianne Lake>: Right. I would also say that the shape of the curve is correlated to Fed funds in a tightening cycle and that is what we're seeing. So while there are other factors weighing potentially on the 10-year in terms of still very accommodative Central Bank policy, particularly in the Bank of Japan and the ECB, where obviously trade is not necessarily constructed just in terms of the narrative.

For short-term, underfunded pensions going into bonds. There were some technicals, but fundamentally what you're seeing in terms of the flattening is pretty typical of a tightening cycle. And as long as it's accompanied with solid to strong economic growth, it doesn't concern us at this point.

And in fact, as we've been pointing out, we are still levered towards front-end rates from a profitability perspective and we do expect the curve to steepen over time.

<Q - Glenn Schorr>: Just one follow-up on the competition conversation. I just want to see. Your loan growth decelerated, but it was in line with your 7% to 8% goal. Your loan beta capture, what you're getting on the pricing side is actually a little bit better than what you've given up on the deposit side. So that all seems fine, but this is the first time I remember putting that comment about the competition.

Are you still okay with the 7% to 8% goal? And maybe just an add-on to that, I'm just curious if part of the competition has anything to do with the private credit market that seems to be growing pretty strongly.

<A - Marianne Lake>: So I would say just a tiny little correction. Our outlook was 6% to 7% core loan growth, excluding the CIB. We're at 7% now. Things are still moving ahead in line with that. I would also just point out that it is an outlook, not a target. So while we still feel like that is our outlook at this point, we obviously are going to make the right decisions based upon the environment that we're in.

Competitively, the private credit market for Commercial Real Estate, for leveraged lending, it's competitive, but so are also the mainstream competitors. So, it's just that the environment is pretty constructive and everybody is trying to get to access to the high-quality assets and so margins are under pressure, and we will make sure we're getting the right return for the risk we're taking.

<Q - Glenn Schorr>: Got you. Okay. And then to follow up on the expense side, if you did $16B times four, it would be $64B. Your outlook was $62B, but a lot of those were good expenses on better volumes. And you're still on track in your mind for the overhead ratio goals because I don't want to overly focus on a dollar amount.

<A - Marianne Lake>: It's a couple things. The $62B – remember the $62B was before the impact of expense going up. So the actual full year outlook was $63B – about $63B including them. This quarter included a onetime item, the $174mm on the legal entity liquidation. We knew about that, obviously, so it was in our number, but you can't annualize it. You can't sort of times it by four.

So you're absolutely right. As you look out for the full year, to the degree that we would be above our outlook of $63B, it will be largely driven – it's not exclusively driven by higher performance-related compensation on higher revenues. With the only other caveat that, as you probably know, we are waiting, as I'm sure you are, for when the FDIC surcharge is taken away. The FDIC anticipated that would be in the middle of the year this year, but that is now – potentially it's in risk to moving out into the third or fourth quarter. So while that could have an impact on this year, to answer your broader question, are we still on track for our expense overhead ratios, yes.

<Q - Saul Martinez>: So, just following on the theme of economics and policy, to what extent do you see trade friction, geopolitical concerns, those things starting to impact client sentiment whether it's institutional or corporate clients? And ultimately, do you see that – or how do you gauge that as being a risk to global growth and U.S. growth?

<A - Marianne Lake>: Yeah. So I would say so far where we are is that trade is firmly part of the risk narrative. So it's definitely as Jamie has said on the psyche of people, but it is not at this point causing them to change the strategic actions and decisions that they're making, but clearly part of the conversation.

And as currently outlined, it's more of that than it is a real impact to sort of the global macroeconomic outlook. But that isn't to say that uncertainty can't ultimately lead to more challenges or slower growth but because confidence is a really important part of not just the business investment cycle, but also the financial market stability. So, at this point, it's more of a risk narrative than it is an actual driver, but it is important that that uncertainty is taken off the table.

<Q - Saul Martinez>: Okay. And if I can just ask a quick follow up, and I apologize if you addressed it earlier, there's a lot of multi-tasking this morning. But on the market side, you did much better than what Daniel suggested in his update in terms of year-on-year being flattish, overall. Can you just give us a sense of what changed in the last month of the quarter?

<A - Jamie Dimon>: It got better.

<A - Marianne Lake>: Yeah. Obviously, yes. Right. In a nutshell, it got better, but let me just give you the context. The context is, as you will recall as we ended the first quarter, there were some bouts of volatility and clients became more cautious and that carried over into H1 this quarter. And so, while activity was fine, it wasn't as strong.

In H2 the quarter, that generally faded. Activity levels picked up and I would say there were more catalysts. And ironically, one of the more catalysts when you're thinking about trading volatility or intraday volatility or vol of vol, trade is part of that. Emerging markets, idiosyncratic events are part of that. The European sovereign-Italy situation. So there's just more catalysts in the market and just generally more client participation.

<A - Marianne Lake>: Sorry, just to finish that to make sure that no one is confused, it was pretty broad-based, it was pretty consistent throughout H2 the quarter, and it wasn't a lot of one-off large trades.

<Q - Betsy Graseck>: Jamie, I wanted to ask about the China investment. I know that you put in the press release that you announced in this quarter plans for a more significant investment in China. I just wanted to understand the timing. Is this something that's over the next year or this is a longer term three- to five-year? And if you could give us a sense as to how much is in your control vs. needing regulatory approval from folks over there, et cetera.

<A - Jamie Dimon>: Right. So I'm just going to make a broader business comment for a second. Because I think we didn't really answer Mike Mayo's question. You don't run the business guessing about when there might be a recession because we know there's going to be one. We already price through a recession. We like to gain clients, bankers, cards, accounts, products, services. That's how we run the business.

Some of the decisions you make are portfolio decisions. You can add to your mortgage portfolio or you can sell it. You can reduce your growth in auto loans if you think the credit is bad and, of course, we will do that when the time comes, but we will still be adding accounts.

And so, to me, I don't worry as much about the 10-year bond or all these various things. We try to manage those risks. We want more clients. In almost every business we're in, we want to do a very good job for them in products and services.

China, it's a long-term story because we're not looking for any immediate thing. In the next 12 years or so, China will – internal market, think of their bond market, stock market, probably very close, equal to size of the United States of America. Therefore, we want to be able to do everything we do here in China. We can do a lot of that in Hong Kong today, but we can't do it in Shanghai.

So we've applied for licenses both – and obviously, we need permission, ultimately, from our regulators and from their regulators. So it's totally in their control and it may or may not be affected by trade, but I look at this as a point in time, it is what it is. Eventually, we'll get these licenses and eventually, hopefully we'll be a large, strong competitor in Shanghai.

Remember, we already do a lot of that business in Chinese companies around the world, the Chinese companies in Hong Kong, and we've got a lot of people going into China. So we're looking for the full set of licenses to do what we need to do for Chinese companies. Now ultimately, I think it'd be good for China to have a company like JPMorgan with equity debt, credit, transparency, governance issues inside China.

<Q - Betsy Graseck>: But right now, today, the ability to operate in Shanghai?

<A - Jamie Dimon>: Well, no, look, we already do deposits. We do certain banking. What we can't do is equity, debt and trading of equity and debt. So if we get this license one day at 51%, we'll be able to make the – and these licenses, we'll be able to do basic equity underwriting, equity sales and trading, research, debt underwriting, debt sales and trading. We could do all of that today in Hong Kong, but remember, Chinese companies, they can do it in Shanghai or they can do it in Hong Kong or they can do it in London or they can do it in New York. We just want the full capability.

<**Q - Gerard Cassidy**>: Marianne, can you share with us – and correct me if I'm wrong – I think you guys have given us some color in the past about the impact of the Fed taking down their balance sheet over the next three to five years by a couple of trillion dollars, that it will impact your deposit side of the balance sheet. Can you give us an update of where that stands today?

<**A - Marianne Lake**>: Well, so the Fed has been on a pretty well telegraphed path reducing their balance sheet by about $50B a quarter. We talked about the fact that if you take $1.5 trillion out of the system, if you look at – as the Fed was growing its balance sheet, about half of that will ultimately impact deposits and our share of it would be 10%. So we've talked about potentially that kind of $50B to $75B of deposit outflows over the several years it would take to reduce that. But, primarily, they would be – not exclusively, but primarily nonoperating and, therefore, limited impact on liquidity or basis. And so, it's playing out textbook right now.

<**Q - Gerard Cassidy**>: Okay. And then as a follow-up, I know you've touched on this increased competition. Can you give us maybe some more details in the Commercial Real Estate and the residential mortgage area? What you're actually seeing? Is it just pricing? Or is it now loan covenants? Is it loan-to-values? Any further color there.

<**A - Marianne Lake**>: So residential mortgage corresponded in particular is pricing. Pricing, pricing, pricing. And so we will see share if the pricing goes to what we could consider to be not sufficient to return our shareholder value.

In the Commercial Real Estate space, I would say it's primarily pricing, so spreads are under a lot of pressure. And the competition, as I said, it's GSEs, it's insurance companies, it's nonbank financial institutions.

It's a little bit less credit terms, but still pretty robust albeit that we are seeing a tiny shift to the right in LTVs. We're not going there, by the way, but I would call it pretty modest. So I'd say generally terms are holding up quite well.

<**A - Jamie Dimon**>: On the competition issue, I think it's good for the country, the United States that we have it fully competitive, between Card, Mortgage, Retail, Asset Management, Commercial Banking, Investment Banking, sales and training, there are strong competitors everywhere. It's just recognizing that. That's all it is. It's a good thing. It's called capitalism.

<**Q - Alevizos Alevizakos**>: I've got one question and a follow-up. I do care about the geographical speed of the IB performance. You mentioned that there were certain catalysts and you actually mentioned both the Italian situation, but also the emerging markets. So I want to know whether the strength was driven in the U.S. or whether there was a specific kind of area that were weaker or stronger? And then, my follow-up is do you feel that [indiscernible] (00:41:01) picking up [indiscernible] (00:41:03 – 00:41:07)?

<**A - Marianne Lake**>: So sorry, Al. I'm really, really sorry but actually, you were breaking up, and so I didn't catch most of that question.

<**Q - Alevizos Alevizakos**>: Yeah.

<**A - Jamie Dimon**>: Where is the IB doing well internationally? U.S., Asia, Italy?

<**A - Marianne Lake**>: Okay. So I would say across regions. Equities, strong performance across regions. While there were more catalysts this quarter, so you mentioned Italy, I think, none of those were particular drivers that we'd define on all of those events I mentioned. So I would say broad-based, gaining share we think in some areas in Equities, Cash and Prime in particular, and holding our own elsewhere, and I would say solid performance across the FICC spectrum.

<**A - Jamie Dimon**>: And Investment Banking.

<**A - Marianne Lake**>: And Investment Banking, yeah, gaining share in Investment Banking. But, obviously, you can't look at any one quarter.

<**Q - Alevizos Alevizakos**>: Thanks for that. And the second part and sorry about that you couldn't listen before, is do you feel that you've started picking market share from the European competitors in the U.S., especially the ones that they are deleveraging?

<A - Marianne Lake>: Well, I mean I would say that if you just go back over the course of the last couple of years, you have seen some share shift from European banks to U.S. banks broadly. In the Prime space, I would say U.S. Prime incumbents are gaining some share, but it's not a particularly new trend and it's not the dominant trend.

<Q - Matthew O'Connor>: To follow up on the net interest margin, you mentioned ex the Markets business, it was still increasing. And I was wondering if you could size the magnitude of the NIM increase linked-quarter on a core basis, ex-Markets?

<A - Marianne Lake>: Yeah, so linked-quarter reported down 2BPS, because of lower Markets NII and higher Market asset $20B. Core up 8BPS.

<Q - Matthew O'Connor>: Okay. That's helpful. And then, just separately, within CIB, the net charge-offs went up. Is that just some of the cleanup in Energy? I know you mentioned that there was reserve release related to Energy, but you had a little blip in the charge-offs there and just wanted to get some color on that.

<A - Jamie Dimon>: Charge-offs or credit?

<A - Marianne Lake>: Charge-offs. So in the CIB, the charge-offs were driven by a few names and the principal one was the remaining piece of the Steinhoff loan that we sold this quarter. We had a reserve release against it that was larger.

<Q - Gerard Cassidy>: Just a follow up, Marianne. On the capital return that you guys were approved for in terms of the share repurchase, is that going to be spread out evenly over the next four quarters? Or is it going to be more front-end loaded?

<A - Marianne Lake>: So we haven't disclosed that but if you look at our historical pattern, it's pretty even.

<Q - Betsy Graseck>: Just a question on CECL. I think Jamie mentioned in the past that CECL is not a big deal for you guys and maybe you could explain why and what kind of prep work and what you're thinking about as you work to adopt that over the next couple of years?

<A - Marianne Lake>: Sure. Look, CECL is not a big deal insofar as we're getting ready for it. I will tell you that we haven't disclosed an adjustment number on the basis that we're still working through the modeling and the data, and it is more complicated perhaps operationally to get everything lined up than you might think. We're going to intend to be running some stuff in parallel next year so we'll be able to give you much more color next year.

Generally speaking, as you move to license loan losses, it won't shock you to know that we will have an adjustment to our reserves through equity. It will be driven most likely by any of the portfolios that have longer weighted average life vs. incurred loss models. Card would be the most notable, to a lesser extent, unfunded wholesale commitments but it'll be manageable in the context of the firm. It goes through equity and then if you think about the economics, the cash flows, the NPV of these loans doesn't change.

<A - Jamie Dimon>: Which is what my comment relates to.

<A - Marianne Lake>: Yeah, it doesn't change the economics of the loans. You up-front a little bit of reserves, you get paid for over time. We don't think it's going to fundamentally shift the dynamics but that will play out.

<A - Jamie Dimon>: We don't make economic decisions based upon accounting.

<Q - Betsy Graseck>: Are there any asset classes where it's shorter under CECL than under incurred loss model?

<A - Marianne Lake>: It's hard because it's life of loan, so it's hard to have a shorter – it's difficult to imagine that a life of loan could be shorter than an incurred loss so no not really but, for us, the reason why it's pretty limited, not to say there's no other impact, but the reason why it would be mostly driven by the areas I mentioned is because in most of our wholesale space and so many of our other products, we are covered for multiple years, if not total life of loan at this point.

<Q - Erika Najarian>: Hi. I thought I'd join the party, too. I was feeling a little left out.

<A - Marianne Lake>: Okay.

<Q - Erika Najarian>: A quick question follow-up on Card retention. You mentioned that rewards redemption is a sign of engagement. I'm wondering if you could share with us, once redemption hits a certain level in terms of the number of points, so the number of points remaining may not be enough to redeem a trip or whatever, what is the retention level then?

<A - Marianne Lake>: I'm not sure that I totally followed the question.

<A - Jamie Dimon>: They're constantly creating rewards points, and then they're constantly using them for things.

<Q - Erika Najarian>: Got it. Got it.

<A - Marianne Lake>: Yeah.

<A - Jamie Dimon>: And when they use rewards points, some points cost us more than other points. And the pace at which they use them change the economics a little bit but, basically, it's still what we expect over time.

<A - Marianne Lake>: Yeah. And remember that in a very, very oversimplified model of the universe, we would want an extraordinarily high level of redemptions. We are giving these rewards to customers because we think that they are, and they indeed are perceiving great value in them and so we're just continuing to observe that as the mix changes.