Q4 2020 Earnings Call

Company Participants

- James Dimon, Chairman and Chief Executive Officer
- Jennifer A. Piepszak, Chief Financial Officer

Other Participants

- Andrew Lim, Analyst
- Betsy Graseck, Analyst
- Brian Kleinhanzl, Analyst
- Charles Peabody, Analyst
- Erika Najarian, Analyst
- Gerard Cassidy, Analyst
- Glenn Schorr, Analyst
- James Mitchell, Analyst
- John McDonald, Analyst
- Kenneth Usdin, Analyst
- Matthew O'Connor, Analyst
- Michael Mayo, Analyst
- Steven Chubak, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, welcome to JPMorgan Chase's Fourth Quarter 2020 Earnings Call. This call is being recorded. Your line will be muted for the duration of the call. We will now go live to the presentation, please standby.

At this time, I would like to turn the call over to JPMorgan Chase's Chairman and CEO, Jamie Dimon; and Chief Financial Officer, Jennifer Piepszak. Ms. Piepszak, please go ahead.

Jennifer A. Piepszak {BIO 19013293 <GO>}

Thank you, operator. Good morning, everyone. The presentation has always is available on our website, and we ask that you please refer to the disclaimer at the back. It's slightly longer this quarter given we're not having Investor Day and so after I review our results, I'll spend some time on our outlook for 2021, as well as touch on a few important balance sheet topics that are top of mind for us.

So starting on Page 1 for the fourth quarter, the firm reported net income of $12.1 billion, EPS of $3.79 on revenue of $30.2 billion and delivered a return on tangible common equity of 24%. Included in these results are approximately $3 billion of credit reserve releases.

Before we get into more detail on our performance, I'll just touch on a few highlights. First off, our customers and clients continue to demonstrate strong financial resilience in the face of an unprecedented pandemic, as evidenced in our credit metrics thus far. We saw continued momentum in investment banking and grew our share to 9.2%. In CIB markets, revenue was up 20% year-on-year, driven by strong client activity and elevated volatility in the quarter. And in AWM, we had record revenue of 10% year-on-year.

On deposits we saw another quarter of strong growth, up 35% year-on-year and 6% sequentially, and Fed balance sheet expansion continues to increase the overall amount of cash in the system. While loan growth remain muted, at 1% both year-on-year and quarter-on-quarter.

On to Page 2, for more on our fourth quarter results. Revenue of $30.2 billion was up $1 billion or 3% year-on-year. Net interest income was down approximately $900 million or 7% primarily driven by lower rates and mix, partly offset by balance sheet growth and higher Markets NII. Non-interest revenue was up $1.9 billion or 13%, higher IB fees, legacy investment gains in Corporate and higher production revenue in Home Lending. The expenses of $16 billion were down 2% year-on-year on lower volume and revenue related expenses partially offset by continued investments. Credit costs were net benefit of $1.9 billion, down $3.3 billion year-on-year, primarily driven by reserve releases of $2.9 billion, that I'll cover in more detail shortly.

Turning to the full-year results on Page 3. The firm reported net income of $29.1 billion, EPS of $8.88, and record revenue of nearly $123 billion and delivered a return on tangible common equity of 14%. Revenue was up $4.5 billion or 4% year-on-year as net interest income was down $2.8 billion or 5% on lower rates, partly offset by higher Markets NII and balance sheet growth. And non-interest revenue was up $7.3 billion or 12% on higher markets and IB fees as well as higher production revenue in Home Lending.

Expenses of $66.7 billion were up 2% year-on-year, driven by volume and revenue related expenses, higher legal and continued investments, partially offset by lower structural expenses. And credit costs were $17.5 billion, reflecting a net reserve build of $12.2 billion due to the impacts of COVID-19 and net charge-offs that were down year-on-year.

Now turning to reserves on Page 4. We released approximately $3 billion of reserves this quarter across Wholesale and Home Lending. Starting the Wholesale, we released $2 billion due to improving macroeconomic scenarios and the continued ability of our clients to access capital markets and liquidity. In Home Lending, we released $900 million, primarily on improvement in HPI expectations and to a lesser extent portfolio run-off. And in Card, we held reserves flat, as we remain cautious about the near term, especially with the number of unemployed still nearly two times pre-pandemic levels and potential payment shock coming to consumers from expiring benefits.

And so with the near-term outlook is still quite uncertain, we remain heavily weighted to our downside scenarios. And at nearly $31 billion we are reserved at approximately $9 billion above the current base case. And to touch on net charge-offs for the quarter, they were down about $450 million year-on-year and remain relatively low across our portfolios. Looking forward, we still don't expect any meaningful increases in charge-offs until the second half of 2021, and with the recent stimulus, it could be even later.

Turning to Page 5, we've included here an update on our customer assistance programs. And you can see the trends are largely similar to last quarter and further evidence of the resilience of our customers. The vast majority, what's left in deferral is in mortgage with $10 billion of owned loans and $13 billion in our service portfolio. And in terms of what we're seeing from our customers, they have exit release more than 90% of accounts remain current.

Turning to balance sheet and capital on Page 6. We ended the quarter with a CET1 ratio of 13.1%, flat versus the prior quarter, on a strong earnings generation, largely offset by dividends of $2.8 billion and higher RWA. As we stated in our press release last month, the Board has authorized share repurchases and we plan to resume buybacks in the first quarter up to our Fed authorized capacity of $4.5 billion, after paying our $0.90 dividend.

You can see here on the page, we've included the liquidity coverage ratio for both the firm and the bank, which we believe it's important to look at together in order to better understand the liquidity profile of our balance sheet. The firm is at a healthy LCR at 110%, however, the bank LCR is 160%, reflecting the extraordinary deposit growth that has meaningfully outpaced loan demand.

Now let's go to our businesses, starting with Consumer and Community Banking on Page 7. In the fourth quarter CCB reported net income of $4.3 billion and an ROE of 32%. Revenue of $12.7 billion was down 8% year-on-year, reflecting deposit margin compression and lower Card NII on lower balances, largely offset by strong deposit growth and higher Home Lending production revenue.

Deposit growth was 30% year-on-year, up over $200 billion as balances remain elevated and as we continue to acquire new customers and deepen primary relationships. Loans were down 6% year-on-year with Home Lending down due to portfolio run-off and Card down on lower spend offset by Business Banking, which was up due to PPP loans. Client investment assets were up 17% year-on-year, driven by both net inflows and market performance.

On Spend, combined debit and credit card sales volume in the quarter was up 1% year-on-year, which reflected debit sales up 12%, largely driven by retail and everyday spend, and credit sales down 4% largely driven by T&E.

In Home Lending, overall production margins remained strong. Total originations were down 2% year-on-year, but were up 12% quarter-on-quarter, both driven by correspondent as we lean into the channel after pulling back earlier in the year. For the year, total originations were $114 billion, including nearly $73 billion of consumer origination, both the highest since 2013.

In auto, loan and lease origination volume was $11 billion, up 29% year-on-year. And across the franchise, digital engagement continues to accelerate. Our customers use quick deposit for more than 40% of all check deposits, which is nearly 10 percentage points higher than a year ago. And in Home Lending, nearly two-thirds of our consumer applications were completed digitally using Chase MyHome. And that has tripled since the first quarter.

Over 69% -- overall, 69% of our customers are digitally active with business banking at 86%, both higher than a year ago. Expenses of $7 billion was down 1% year-on-year. And credit costs were a net benefit of $83 million, driven by $900 million of reserve releases in Home Lending, largely offset by net charge-offs and cards of $767 million.

Now turning to the Corporate & Investment Bank on Page 8. CIB reported net income of $5.3 billion and an ROE of 26%, and revenue of $11.4 billion for the fourth quarter, and an ROE of 20% on revenue of $49 billion for the full year. The extraordinary nature of this year has meant that we had records in almost every category for both the quarter and the full year. In Investment Banking, IB fees were up 25% for the year and we grew share to its highest level in the decade. In the quarter, Investment Banking revenue was $2.5 billion, was up 37% year-on-year and up 20% sequentially. The quarter's performance was driven by the continued momentum in the equity issuance market, as well as strong performances in DCM and M&A.

In advisory, we were up 19% year-on-year, driven by the closing of several large transactions. The M&A market continue to strengthen this quarter and in fact announced volumes exceeded pre-COVID levels. Debt underwriting fees were up 23% year-on-year, driven by leverage finance activity and we maintained our number one rank overall. In equity underwriting, fees were up 88% year-on-year, primarily driven by our strong performance and follow-ons in IPOs.

Looking forward, we expect IB fees to be up modestly for the first quarter and the overall pipeline remains robust. We expect M&A to remain active on improved overall CEO confidence and the momentum and equity capital markets is expected to continue, of course, dependent on a successful containment of COVID.

Moving to markets. Total revenue was $5.9 billion, up 20% year-on-year, against a record fourth quarter last year. Fixed income was up 15% year-on-year, driven by improved client activity across businesses, particularly in spread products, as well as the favorable trading environment in currencies and emerging markets, credit and commodities. Equities was up 32% year-on-year, driven by strong client activity and equity derivative and cash throughout the quarter across both flow trading and large episodic transactions.

Looking forward we expect markets to remain active in the first quarter and we have seen strong performance since the start of January. But it's obviously too early to predict the full quarter. And for the remaining quarters of this year and the full year the comparisons will be particularly challenging given the extraordinary performance of markets in 2020.

Wholesale Payments revenue of $1.4 billion was down 4% year-on-year, primarily reflecting the reporting re-class in merchant services and security services revenue of $1.1 billion was down 1% year-on-year. On a full year basis, the headwinds from lower rates were almost entirely offset by robust deposit growth. Expenses of $4.9 million were down 9% compared to the prior year, driven by lower compensation and legal expenses.

Now let's go to the Commercial Banking on Page 9. Commercial Banking reported net income of $2 billion, and an ROE of 36%. Revenue of $2.5 billion was up 7% year-on-year with higher lending and investment banking revenue, partially offset by lower deposit revenue. Record gross Investment Banking revenue of $971 million, was up 53% year-on-year. And the full year was also a record, finishing at $3.3 billion, surpassing our previously established $3 billion long-term targets. And given our investments in banker coverage, we believe there is continued upside from here.

The expenses of $950 million were flat year-on-year. Deposits of $277 billion, were up 52% year-on-year and 11% quarter-on-quarter, as client balances remain elevated. Average loans were up 1% year-on-year, but down 3% sequentially. C&I loans were down 4%, on lower revolver balances, with utilization rates nearing record lows, as clients continue to access capital markets for liquidity. And CRE loans were down 1% on higher prepayment activity in both CECL and real estate banking. Finally, credit cards were a net benefit of $1.2 billion, driven by reserve releases.

Now on to Asset & Wealth Management on Page 10. Asset & Wealth Management reported net income of $786 million. We pre-hedged margin and ROE of 29%. And for the year AWM generated record net income of $3 billion with pretax margin and ROE of 28%. For the quarter, revenue of $3.9 billion was up 10% year-on-year, as higher performance and management fees, as well as growth in deposit and loan balances, were partially offset by deposit margin compression.

Expenses of $2.8 billion were up 13% year-on-year, primarily due to higher legal expenses related to the resolution of matters previously announced. But excluding this, expenses would have been up 4% year-on-year on volume and revenue related expenses. For the quarter, net long-term inflows of $33 billion, positive across all channels, asset classes and regions. And this was true of the $92 billion for the full year as well. In liquidity, we saw net outflows of $36 billion for the quarter and net inflows of $104 billion for the full year. AUM of $2.7 trillion and overall client assets of $3.7 trillion, up 17% and 18% year-on-year respectively. We driven by net inflows into both liquidity and long-term products, as well as higher market levels. And finally deposits were up 31% year-on-year and loans were up 15%, as clients continue to increase their liquidity in both for our investment opportunities.

Now on the Corporate on Page 11. Corporate reported net loss of $358 million. Revenue with the loss of approximately $250 million, relatively flat year-on-year. Net interest income was down $730 million on lower rates, including the impact of faster prepays on mortgage securities, as well as limited deployment opportunities on the back of continued deposit growth. Declines in net interest income were largely offset by net gains this quarter of approximately $540 million on several legacy equity investments. And expenses of $351 million were roughly flat year-on-year as well.

Now shifting gears, I'll turn to our outlook for 2021, which I'll cover over the next few pages, starting with NII on Page 12. As you can see on the page, we expect NII to be around $55.5 billion in 2021. And this is based on the latest implies, which reflects the steepening yield curve we've seen over the past few weeks. So you can see that we do expect to be able to more than offset the impact of low rates in 2021 from continued deposit growth and higher Markets NII. But it's important to note, that it takes a loan growth to truly realize the benefits of a steeper yield curve.

I'll also just remind you that the increase in CIB Markets NII is largely offset in NIR, and this component is highly market dependent. And so as it relates to loan growth, while there should be some opportunities in AWM and wholesale, we expect headwinds, at least in the near term, as corporate cash balances are all time highs, card payment rates are elevated and there continues to be significant prepayments in Home Lending. But we do expect this to normalize and see loan growth pick up in the second half of the year, particularly in Card. Therefore, our fourth quarter 2021 NII estimate of $14 billion and more is a reasonable exit rate. And notably, that's in the zip code of our 4Q'19 NII, when rates were significantly higher than they are today. We've also included on the right side of the page some risks and opportunities. And obviously, this is an exhaustive list, what are drivers that could be most impactful to this year's NII outlook.

Now turning to expenses, on Page 13. As Jamie mentioned last month, we do expect our expenses to increase in 2021. And based on our latest work, we expect that number to be around $68 billion, up versus the prior guidance of $67 billion, largely due to higher volume and revenue related expenses and the impact of FX, both of which have offset in the revenue line, as well as the impact of expenses from our recent acquisition of cxLoyalty.

Then taking a look at the year-over-year expense growth, you can see it's primarily due to investments, which I'll cover in more detail on the next page. Our volume and revenue related expenses are up slightly, with some puts and takes there. That's obviously market dependent, but remember any changes there do come with corresponding changes to our top line. And in structural we expect the net reduction of approximately $200 million. Notably, this includes a decrease of $500 million, reflecting the realization of continued cost efficiencies and what is largely our fixed cost base. And you can see that it is partially offset by the impact of FX on our non-U.S. dollar expenses.

It's important to note that while structural is coming down, this doesn't represent the full extent of our productivity, we're realizing efficiencies in each category here. For example, our software engineers are becoming more productive and we are reducing our cost to serve, as we see more customers use our digital tools to self-serve.

Moving to Page 14, to take a closer look at our investment spend. Over the past few years, our investment spend has been around $10 billion. And we expect that to increase to nearly $12.5 billion in 2021. You can see that we've highlighted on the page, the major areas of focus that we've been consistently investing in for years, which should continue to strengthen our franchise and drive revenue growth.

Starting on the bottom with technology, this represents roughly half of the overall investment spend and these tech investments are across the Board as we look to better meet our customer and client needs, improve our customers digital experience, strengthen our fraud detection capabilities, as well as modernize and improve our technology infrastructure, cloud and data capabilities.

Moving to non-tech investments. We expect marketing spend largely in CCB, to return to pre-COVID levels this year after being down in 2020. We continue to invest in our distribution capabilities across all of our businesses. This includes hiring bankers and advisors, not only in U.S., but also internationally, as well as expanding our physical footprint. We've been continuing to execute against our branch expansion plans in new markets, having opened 170 branches, so far, out of our planned 400, and expect to be in all contiguous 48 states by mid-2021, gaining traffic.

And the other bucket on the page is a catch-all for everything else, including real estate and other various investments across our businesses. In the expenses we're fairly stable over the past two years and the increase in 2021 is largely related to our $30 billion commitment to the path forward, which includes promoting affordable housing, expanding homeownership for underserved communities and supporting minority owned businesses, and then as well as expenses related to our acquisition of cxLoyalty. So in summary, you can see that we continue to invested the cycle and these investments that we believe position us well to outperform on a relative basis, regardless of the environment.

Now I will turn to a few balance sheet and capital related topics starting on Page 15. Over the next few slides, I'd like to provide you some insight on how recent monetary expansion and corresponding growth in the financial system is creating new challenges for bank balance sheets. More specifically, this expansion is putting significant pressure on size-based capital requirements, which is likely to impact business decisions including capital targets. We start with what has happened this year. In response to the COVID crisis, the Fed balance sheet has significantly expanded, which has resulted in $3 trillion of domestic deposit growth across the U.S. commercial banks.

It's important to note, because this QE is unlike anything we've seen before. In the current QE, we experienced a much bigger and faster expansion. And that expansion has come with our meaningful loan demand beyond PPP, as you can see in the loans and deposit ratio on the page. This has resulted in bank balance sheets, which are larger, but more liquid and less risky. From a bank capital perspective, the key question to asked is how long will this persist?

On the chart, you can see that the QE3 unwind kept the Fed on pause for several years before a modest pace to reductions. So even if the Fed immediately signal tapering which of course is not the base case, and follows the base case of the last online, it will take many years to return to pre-COVID levels. Of course, the unwind speed is certain, but I think we can all agree the bank balance sheets remain elevated for some time.

Now lets go to Page 16 and see how this will impact capital going forward. Few factors that are top of mind for us are GSIB, which we've been talking about for a long time. And also SLR which is not something we typically talk about. But given the overall system expansion is now in focus.

On the graph, what you can see here are the historical trends of GSIB and SLR based requirements, overlaid with the path of the Fed securities holdings. You can see that during the original calibration of these rules, which included significant growth rating, the Fed balance sheet was notably lower. With the recent growth in the Fed balance sheet, we are seeing upward pressure in increases to GSIB requirements, as well as the SLR shifting from a backstop to a binding measure, which will impact the pace of capital return. And these dynamics will likely persist for an extended period. The fair temporary relief of SLR expires after March 31. This adjustment for cash and treasuries should either be made permanent or at a minimum be extended.

With these exclusions, you can see how this remains a backstop measure, not a binding one. And on GSIB, there is an public dialog about the need to index the score to GDP, as a proxy to account for ordinary economic expansion over time. And this was also cited by the Fed, is the possible shortcoming of their framework. For 2020, GDP is clearly not the best proxy for system expansion, but the principle still applies.

GSIB was designed as a relative measure between large and medium sized banks. And therefore, it should certainly reflect an overall system expansion, which impacted, small, medium and large banks alike. By future proofing GSIB and inception with the adjustments outlined on the page, you can see the resulting GSIB score profile. Lower over time, but more importantly flatter over the course of the most recent system expansion. While we recognize the prudent bank capital requirements do promote safety and soundness, satisfying these heightened requirements is certainly not (inaudible), which is why these two areas GSIB and leverage are top of mind for us in 2021.

Now let's look at the impact of this on marginal deposits on Page 17. In addition to what we've already discussed, there are two more building blocks required in the full picture of marginal deposit economics, and they are interest rates and loan demand. We've experienced a combination of both lower interest rates and lower loan demand, which have reduced the NIM of marginal deposits to practically zero which you can see here on the chart. And this is an issue for all banks not just GSIBs or JPMorgan. However, with this specific to the larger banks, is that when the SLR becomes binding, we may be required to issue debt and retain higher equity, which ultimately makes some marginal deposit a negative ROE proposition in today's ultra low rate environment.

The key question is, what could happen next? We could simply shy away from taking new deposit, redirecting them elsewhere in the system or we can issue or retain additional capital and pass-on some of their costs, which is certainly something we would want to do in this environment. And therefore, we strongly encourage a serious look to be size-based capital calibrations, with an appropriate sense of urgency, as we will soon be facing this critical business decisions.

All of this can be addressed through a few simple adjustments, namely an extension of the SLR exclusions, and the GSIB fixed as we spoken about over time. But to be clear, we believe the framework as a whole has made the banking system safer as we experienced in 2020. But we're also seeing evidence where the lack of coherence in the calibration is risking unintended consequences going forward.

With all that said, before I close things out on capital, here is how we're thinking about target CET1 levels. While GSIB pressure remains and the need for recalibration SCB optimization can provide some offset, allowing us to manage to a 12% CET1 target. The recent stress-test shown implies 20 basis point reductions at SCB. And we had continued our optimization efforts since the resubmission. So we're hopeful for a lower SCB later this year, of course, that scenario is dependent.

At this point it's too early to provide a specific color on the impact of SLR. So it's just important to know that in the absence of any adjustments to the measure, we may have to issue preferreds or carry additional CET1 or the 12% target, I just mentioned. We obviously can't emphasize these key messages and stuff. And these factors are clearly front and center, as we think about managing our balance sheet and capital targets in the near- and medium- term.

Now before we conclude, note that we've included a few additional part on our businesses in the appendix, to give you an update on their strategic highlights and performance, as well as provide the latest financial outlook. These are issues we talked about, at last year's Investor Day, still remain our focus and we continue to execute and make progress against them.

So to wrap up, 2020 was an incredibly challenging year, but it also showcased the benefits of our diversification and scale and the resulting earnings power of our company, while our employees relentlessly focused on supporting our customers, clients and communities. While downside risk do remain in the near term and it will be significant, several recent factors help us feel more optimistic, as we look ahead to the recovery in the medium and longer term.

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

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Steven Chubak with Wolfe Research.

Q - Steven Chubak {BIO 18457976 <GO>}

Hi, good morning, Jamie. Good morning, Jen. And happy New Year.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Happy New Year Steve.

A - James Dimon {BIO 1484062 <GO>}

Same to you.

Q - Steven Chubak {BIO 18457976 <GO>}

So want to start-off with a question on the NII outlook. The 2021 guide implies rather healthy step-up versus the $54 billion. Jamie, you had reiterated just last month. And your updated NII guide for '21, what are you assuming regarding the deployment of excess liquidity, given some of the recent curve steepening? And separately, what are your assumptions around the trajectory for card balances and overall growth in '21? Especially in light of the expectations for additional stimulus, which we saw at least this past year could drive further consumer deleveraging?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. So I'll start with excess liquidity, so I think there the theme is we're being opportunistic for patients. So as you think about the recent moves that we've seen in the yield curve, in the grand scheme of things, those could be small moves. And as we think about managing the balance sheet, it's not just about NII, of course, it's about capital. And so there is risk in adding duration at these levels in a further sell-off. So we're being very patience. But we have been and will continue to be optimistic, and you will see that we did add $60 billion to the portfolio in the fourth quarter. So that's what we're assuming in the outlook, is a very balanced view on the point, the excess liquidity. And then...

A - James Dimon {BIO 1484062 <GO>}

In the implied curve. Yeah, in the implied cure. Yeah. And then on card balances it's quite extraordinary, what we're seeing in terms of payment rates in the card portfolio, which of course is very healthy as consumers use this opportunity to deleverage. So there is an offset on the credit line. But that we are expecting that to normalize in the back half of 2021, as spending recovers. But it is certainly a risk for us if they remain elevated. So that's why everything listed on that page in the plus-minus, because everything could be an opportunity and a risk.

Q - Steven Chubak {BIO 18457976 <GO>}

Fair enough. And just for my follow-up, wanted to ask on capital. Both the slides are really interesting, highlighting the impact of QE, on the leverage ratio and GSIB scores. You've been critical of GSIB surcharges and the need to recalibrate these coefficients for some time. We haven't really seen much progress there, kind of feels like waiting for Godot. As if the Fed is slow to recalibrate the minimum leverage ratios to account for this QE driven deposit growth. What mitigating actions can you take to ensure you're not capital constrained, as balance sheet growth continues? And maybe any revenue attrition we need to contemplate as part of those mitigating actions?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. So I'll start with GSIB. If we take that in turn, so starting with GSIB, as I said, we do think that we have opportunity in the SCB, of course, that scenario is dependent and based on the Fed model. But we do think we have opportunity there based on the work that we've been doing. It will be very difficult for us to get back to 3.5% with be current expansion. So we are expecting to remain in the 4% bucket. But as you know, that's not effective until early 2023, so that gives us time to manage SCB, as I mentioned as an offset. On the leverage issues we have -- we can cure that through issuing preferreds, but we haven't made that decision yet. As I said, because it is a critical decision for us to think about. And as you think about capital return, it will depend on where our stock price, as we think about the economic value of issuing preferred, to buy back stock. So there is a lot for us to think about over the next couple of months.

A - James Dimon {BIO 1484062 <GO>}

The current you said in the GSIB, because it's very important. If we were on the international standard, our GSIB will be 2% not far. And we've been talking about, they were supposed to adjust GSIB for the growth, the economy and effectively the shrinking side of the banking system. Because the banking system itself is getting smaller as mortgage go to non-banks and private credit goes elsewhere, and the rest, the international Chinese banks are growing, et cetera. So these adjustments should be made. And we pointed out is $1.3 trillion of liquid assets and market was secured. Our balance sheet, which was shocking reached five G-SIB too. GSIB has no risk weighted measurements to a no diversification to it, no profitability to it, is just kind of these very gross measures. And it needs to be recalibrated and same with SLR. I mean, so do we expect it to happen? Probably not, in our lifetimes because we politicized bank -- detailed bank numbers and so on. And we can live with it for now. But in the long run, it's not good for American to live, that much were anticipated to our competitors overseas.

Operator

The next question comes from the line of Jim Mitchell with Seaport Global Securities.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Hi Jim.

Q - James Mitchell {BIO 1877338 <GO>}

Sorry. Hi, sorry, I was on mute for a second there. Maybe just talking about loan growth, you saw a pretty nice improvement in the wholesale side, you talked about some opportunities in '21, it seems to be mostly coming out of the CIB, is that sort of acquisition finance, what's driving some of the improvement on the wholesale side?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Yeah, I would say, acquisition financing is the opportunity on the wholesale side. When we -- there may be some opportunity in the back half of 2021 in C&I, that feels like it's returning to BIU, but I think that's going to take some time. But as I said, we are at historic levels of cash on corporate balance sheets. And so outside of acquisition financing and C&I, it will be challenging. C&I in the back half of 2020.

Q - James Mitchell {BIO 1877338 <GO>}

Perfect. Okay, fair enough. And then maybe on your expense assumptions for the $68 billion, you don't really mention at all, any to the CIB. You would think that, if we are as everyone assumes we had a record year in 2020. 2021 maybe markets in IB fees are lower. Is there any kind of -- are you building in some lower compensated -- revenue based compensation expense in that $68 billion? Or is that potential positive?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

So we capture that in the volume and revenue related, Jim, it just happens to be more than offset by volume and revenue related growth elsewhere.

A - James Dimon {BIO 1484062 <GO>}

The guidance we're putting on this is $68 billion. Yeah, we all make commitments and promises, that's $68 billion. I would love to find $2 billion more of investments literally. I mean we're seeking every unified more to do, to help clients around the world and stuff like that. So that's kind of our current forecast and fortunately we found some more to do, including cxLoyalty and opening more branches and some of the technology we're building et cetera. But I would like to find more, it would be the best and possible highest use of our capital.

Operator

Your next question comes from the line of John McDonald with Autonomous Research.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Hi, John.

Q - John McDonald {BIO 21440002 <GO>}

Hi, Jen. Given the outlook for net interest income and expenses, it seems like the efficiency ratio is going to tick-up a few hundred basis points this year at '21 versus '20. And I know you don't manage it necessarily year-to-year. But just kind of over time, you seem to have a mid-50s efficiency target. Just kind of wondering how you put guardrails up for yourselves in terms of expense discipline in managing over time to have positive operating leverage in an efficiency corridor?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. So I'll start by saying, you're absolutely right. We don't manage the efficiency ratio in any quarter, even any year. But operating leverage is very important to us. And then we gave last year at Investor Day about a 55% efficiency ratio. I'll say in a normalized environment, we haven't had anything that structurally has changed. And so that should still be achievable for us in a normalized rate environments and otherwise normalized environment.

And then as it relates to expense discipline, it is a bottoms up process. And so everywhere around this company, we are looking to get more efficient and holding people accountable to do just that. Which is why I call out on the slide that structural -- is basically everything that is an investment volume and revenue-related, isn't necessarily a representation of all of our expense efficiencies. So the discipline is everywhere and it's the way we run the company, and we do believe the importance of operating leverage through time, no doubt.

Q - John McDonald {BIO 21440002 <GO>}

Okay. And then as a follow-up on the NII walk, you've got a $1 billion incremental NII expected in '21 versus '20 from markets -- CIB Markets. Can that be true? If market revenues is down year-over-year, can they both be true and just maybe explain that?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Yeah, it can absolutely be true. So markets is -- I mean, most of our business we don't run them NII versus non-interest revenue, it is an accounting concerns but market is particularly true. So, yes, that is possible. In NII, the markets business, you can think about its liability sensitive. So you're going to see the benefit of lower rates in NII, that doesn't necessarily imply anything about the overall performance.

A - James Dimon {BIO 1484062 <GO>}

We have positive carry -- the trading profit goes down and the carry goes up. The absolute numbers same.

Operator

The next question comes from Erika Najarian with Bank of America.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Hi Erika.

Q - Erika Najarian {BIO 17048573 <GO>}

Hi. Hi, good morning. My first question is on the outlook for card losses. The 2.17% net charge-off rate was certainly eye opening relative to what happened in 2020. And the discussions actually that I've been having with investors on the trajectory of card is, do you think that the bridge that the government built is strong enough that we may not see a spike in losses in card like we're all expecting? And Jim given your comments earlier, what would you need to see to feel more comfortable about releasing reserves from your card portfolio?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Okay. Sure. So it's interesting that you brought up the bridge being strong enough. It does feel like at this point in this crisis, the bridge has been strong enough. The question is, it still remains is the bridge long enough. And so while we just had recent stimulus, tasks that makes us feel better about the bridge being long enough, but we have to get through the next three to six months. So it feels like we've been saying that, since this crisis started, but I think it is particularly true at this point, obviously, given the vaccine rollout. So consumer confidence is still low relative to pre-COVID levels. You can convert that with -- compare that to the wholesale side where CEO confidence is up. That's not true on the consumer side. And so the next three to six months is going to be critically important for us to assess whether or not only is it strong enough, but is long enough, and we see consumer sentiment pick up a bit. There is also possibility for payment shocks as some relief programs, whether it would be student loan forbearance or tax reserved on benefits received. There are things that could hit the consumer in the next three to six months, that we need to think about.

A - James Dimon {BIO 1484062 <GO>}

I would said add, very different for subprime and prime. And if you look at our portfolio it's mostly prime. And the folks in the prime category, have a lot more income, a lot more savings, housing prices are up, they did not lose their jobs. So the news there is actually rather good. On the lower quartiles, it's the opposite. Even now when we just do all the stimulus checks, and we did that $12 million of them, which have already been processed.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

$12 billion.

A - James Dimon {BIO 1484062 <GO>}

$12 million -- $12 billion (inaudible) approximately. And at the bottom, the folks who are at $1,000 in their accounts, but the accounts are coming down, and they just got $1,000, they obviously need it. The folks in the higher end, they obviously don't need it quite as much. So it's passed, we expected to go up, but it's possible somehow that doesn't happen in some dramatic way.

Q - Erika Najarian {BIO 17048573 <GO>}

Got it. And Jamie, my second question is for you...

A - James Dimon {BIO 1484062 <GO>}

Wait, I'll make another point, it's very important. We do not consider taking down reserves recurring or no income. We don't do it to show a profit, we don't consider the profit, it's ink on paper. It's based on lots of different calculations, obviously we want real loss to be lower over time. But just -- our card reserves like $17 billion, we took it down next quarter because we have more optimistic outlook. We're not going to be sitting here cheering about that. We're cheering their markets [ph], are doing better. But we don't, we don't consider that earnings. And I think you all should look at a little bit differently now, particularly with the change in accounting rules.

Q - Erika Najarian {BIO 17048573 <GO>}

Yeah, I think, your investors appreciate that. And the second question I had for you Jamie, is, in last -- on last year's Investor Day, it was clear to your investor base that you were looking to inorganically enhance your scale in AWM. And what's interesting is that, the discussion that, I've been having already -- your investors more recently is, wondering whether or not you would consider a larger deal maybe in payments? Given that a lot of investors and banks are thinking that, that's the -- this is the part that seems to be potentially more vulnerable to technology competitors. What are your thoughts there? And I guess my own thought process has been tempered by Jennifer's presentation on capital. But wanted to get your thoughts there?

A - James Dimon {BIO 1484062 <GO>}

We have -- we are capital customers over. We have so much capital, we cannot use it. If you look at what happened this year, our capital went from 12.4% of 13.3%. But I think it advances more representative of real risks, will be 13.8%. That's after doing $2 trillion of loans, $12 trillion of reserves -- $12 billion of reserves, $12 billion of dividend. I mean we're earning, if you look at pre-tax, pre-provision is $45 billion or $50 billion a year. So we're in very good shape to invest. The most important thing is -- as we grow there, every business grow organically, every single one opening branches and account, doing payments.

And we put a lot of time and efforts into payments. We're quite good at it, between credit card, debit card, Chase Merchant Services. But I agree with you, and -- but we're open for inorganic too. Inorganic shouldn't be an excuse, not for growing organically. And it's not just Chase -- it's not just asset management, it will be any area where we could do. I thought cxLoyalty was a neat thing, InstaMed was neat thing. We bought 55ip which is a special way to manage money, tax efficiently. And so we're going to build it ourselves or buy it. We're open minded, anybody who have good ideas for us, let us know.

We have the wherewithal, but we thought we will also look at buying it. And like I said, we're always looking for a way to invest more of our money intelligently. We've got tremendous set of assets, we also have tremendous set of competitors, particularly in payments, consumer land now and a bunch of other areas. So you saw Google Pay, you saw Walmart's going to try and expand a little more time, it's expanding. And we like competition, we believe it, we have to be really prepared for that. And that is deeply on our mind, that how we run our business.

Operator

Your next question is from Betsy Graseck with Morgan Stanley.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Hi Betsy.

Q - Betsy Graseck {BIO 4799503 <GO>}

Hi, good morning. Jamie, a question on cxLoyalty, because I thought you were loyalty program and capability set there and your payment space in your consumer facing space was quite good. So I'm just wondering what the rationale was? And is there an expectation that you're going to be leveraging that into non-card portion of your business? Was that part of the -- so what was that deal?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Betsy, I'll take that one. So this, we're really excited about this one. And really with any tech platform, scale matters. So combining our scale with cxLoyalty is innovated technology, will be a win not only for our Chase customers but for cxLoyalty's existing clients and suppliers. And then, you're right to point out our existing UR platform. But that today is predominantly used as the points redemption portal. So there is a huge opportunity to capture a greater share of our customers' spend on travel, which is $140 million both on and off us. So in addition to capturing the full economic value of the existing redemptions on the platform, we also have an opportunity to really turn it into a great place for our customers to book travel.

Q - Betsy Graseck {BIO 4799503 <GO>}

Okay. But still focused on card space as opposed to moving into other parts of your relationship with consumers?

A - James Dimon {BIO 1484062 <GO>}

It's consumer. This thing, it was consumed (Multiple Speakers).

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

There is no reason we have to be Card only.

A - James Dimon {BIO 1484062 <GO>}

Jen mentioned a number, like more than 30% of travel expense goes through our cards. Something like that. And so we want to give far better experience to our own customers, when it comes to what we offer them through travel. And you're right, Ultimate Rewards always does a good job, but why wouldn't you try to double that over time, we'll triple it.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

And we think we can do a better job for their existing clients and suppliers. So it won't just be about chained customers.

A - James Dimon {BIO 1484062 <GO>}

Exactly.

Q - Betsy Graseck {BIO 4799503 <GO>}

Okay. And then the follow-up question, just on the technology budget increasing, I mean, I know this comes after a year of being somewhat stable year-on-year. And just wanted to dig into the comments you made on the page around data analytics, cyber-security and artificial intelligence capabilities. Again you've been a leader in this for a while. So the question is where is the white space that you're moving into? And can you give us a sense as to how important this is for some of the expansion that you're doing geographically in UK digital, and some of the European footprint that you're expanding into?

A - James Dimon {BIO 1484062 <GO>}

So pull down cyber, where we're going to do, we have to do it over text. And we are going to do that in everything we do. But you mentioned we built brand new data centers pretty much around the world, which are a lot more efficient, they're going to be effectively the net cloud-based, but they have all the cloud, our technology, et cetera, for our own private cloud. We're moving other stuff to the public cloud, where we factoring application to get there, where we doing all the data. You all know, the issues with data not that things were there. But data was open only in different accounts. We're trying to build these data links, you can use AI machine learning better. And in all do haste.

The cloud is real, the cost is real, the speed is real, the security is real, the AI is real, the machine learning is real. So every single business, that was every single meeting we go through, we're talking about, what do we move into the cloud whether it's internal or external. What are we adding AI machine? Are we getting the data analytics, right? And it is global? And we don't spend that much time on, but every single business is doing it. You have a tremendous amount of AI being used, in Asset & Wealth Management, CIB, in trading, in Commercial Banking prospecting and it's literally the tip of the iceberg. But whatever we say today, 10 years now will be probably 50 times more than we're doing today. And I would spend anything to get it done faster.

Operator

The next question comes from the line of Ken Usdin with Jefferies.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Hi, Ken.

Q - Kenneth Usdin {BIO 3363625 <GO>}

Hi. Thanks. Good morning. A question on capital return and capital usage in the deck. And in your press release you mentioned that we're looking to get back into more return of capital. You mentioned $4.5 billion net and there is still the net income test. And I was just wanted to ask you to kind of walk us through, how you think about, how do you think about full usage of that $4.5 billion? And then how do you think forward vis-a-vis the comments we just talked about with regards to potential external opportunities? And what's the best use of that incremental capital given that you still have a healthy amount sitting there?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. So we always start in the same place, which is we would much prefer to do the things that Jamie has been talking about, then to buyback our stock. So we would much prefer to deploy it to organic growth or acquisitions. Having said that, we do, as you point out, has significant excess capital. At this point, when we look at the first quarter, the Fed capacity was defined by the trailing four quarters of profits. And so when you back out our dividend, that's where you get to the $4.5 billion. So that is the capacity that we had for this quarter. And we'll do up to that amount, obviously. I don't know that we'll do the full amount, but we will certainly do obviously to get to more than $4.5 billion. And then we're certainly hopeful that we can go back to BAU under the SCB framework beyond the first quarter, as we think about buybacks. But we'll wait to see with the Fed says at the end of the first quarter.

Q - Kenneth Usdin {BIO 3363625 <GO>}

Okay, great. Thanks.

A - James Dimon {BIO 1484062 <GO>}

Ken, if you imagine capital was down of the 12% or whatever we said. So with that regards, have been getting permission from the Fed. They have already applied that's what we could do that, that's way it should be done eventually one day.

Q - Kenneth Usdin {BIO 3363625 <GO>}

Yeah, I understand. (Multiple Speakers) we've been consistent that time tangible book with our earnings power and dividend and ultimately that it still make sense to buyback stock. But that diminishes every point 2.1, 2.2 or 2.3, would much rather use our capital to grow organically or inorganically.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Yeah, I mean, we'll always look at the effective return about buying back our stock for our remaining shareholders. And if we think it makes sense relative to the alternative, we're going to keep doing it.

Q - Kenneth Usdin {BIO 3363625 <GO>}

Yeah. Consistent with what you've said in the past, thanks. And just a question on the Card business. You've mentioned, how much of that spend goes through Chase? And just -- given that we still have some uncertainties with regards to true return to open. Your Card segment revenue yield actually did improve a little bit. Just wondering if you can kind of help us, just think through, just the pushes and pulls you see on the card business, with regards to your expectations of spend improving, balance is improving and competition underneath? Thanks.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Yeah. So competition remains very, very strong. As it relates to the revenue yield, it's a little bit of noise there because balances are down so much. And that's what, that's derived from. So there is a little bit of noise there. Importantly, we do -- if GDP impacted 2019 levels by the middle of the year, we expect spend to continue to recover and in perhaps significantly so in the second half. As it relates to travel whether it's the second half of '21 or '22, we are confident that our customers will continue to travel and there is pent-up demand, I'm sure for travel. And so we are excited about those opportunities whether they come in '21 or '22 or beyond.

A - James Dimon {BIO 1484062 <GO>}

And we take very seriously the new entrants like the Goldman Sachs card. And there are bunch of other folks, who are doing similar things, that we expect to see more of that.

Operator

The next question comes from Glenn Schorr with Evercore ISI.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Hi, Glenn.

Q - Glenn Schorr {BIO 1881019 <GO>}

Hello there. Thank you. So I think it's a good time of the year to get your mark to market on your thoughts on the competitive landscape. And I know every business is competitive, but I'm more curious on the new side of competitive and maybe I'm talking more about the consumer and commercial banking right now, but between all the neo banks that either want to pay much more than you guys on deposits or charge no fees or buy now pay later models or things where you also even play and banking as a service in trying to provide banking products to big technology companies with big client footprint. I'm most curious to see is this just normal evolution and not changing things or is this something bigger going on here that you want to comment on. Thanks.

A - James Dimon {BIO 1484062 <GO>}

So on the commercial bank there is probably less than you think. I do think the alternative credit providers but we will do a lot of things for our clients, they can co-investment banking FX swaps, cash management custody, asset management, et cetera. So it's slightly different. Again the consumers starting this -- we wrote in the Chairman's letter years ago that Silicon Valley is coming. And I think it's just more and faster and better and quicker. And we have to just be very conscious, that includes pay now, pay later and we have some of those products ourselves. But our job is to make sure we use our unbelievable strength and client base and capability and the Board always pointed out, when you have that kind of products say goal is to keep it simple, clear, basic with the customer wants, it just to deliver more and better and so we're quite confident.

I would also add, by the way, it's not just that. We've -- the team looks at and financial of Alipay and all these other competitors I expect one day you see other thing foreign banks back here again, including the big Chinese banks, the biggest ones or bigger than us. And that may be 5 or 10 years out, but we've got be thinking 5 or 10 years out. And so they're all coming. We were comfortable but we're still exercising and taking our vitamins, okay.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

And it's not even our investments are going up as much as we are. So we're very well aware of it.

Q - Glenn Schorr {BIO 1881019 <GO>}

Fair enough. Keep taking those assignments. Maybe along the same lines, I think you've spoken about the power that the data of your own client footprint and franchises have. I'm just curious, we haven't heard that much lately about what you're collecting, how you can use it to enhance the customer experience, accelerate growth. You have all this at your fingertips and people talk about that as being the new gold. I'm curious on how you're thinking about it right now.

A - James Dimon {BIO 1484062 <GO>}

Yes, yes and yes, that's all we're going to tell you. I mean I talked about how important AI is on this data and AI. AI is data directly related and some of it gets used very well, but if you shut down, some of it doesn't get used well. We have restrictions, far more restrictions in some of our Silicon Valley competitors, but still there are ways to use our data to a better job for our clients. And we do a tremendous amount led in marketing risk, fraud cyber, you name it. And we use a lot of that, like a lot of that stuff also protects our clients in cyber.

Operator

Your next question comes from Mike Mayo with Wells Fargo.

Q - Michael Mayo {BIO 1494617 <GO>}

Hi. I'll ask my question and go back in the queue. Just, I guess I missed your Investor Day. We have four slides to talk about that. I guess yeah. If your capital cup has run us over, maybe your expense budget could run it over too. I mean spending a certain returns are uncertain. So it seems like there is more questions this year than in the past. You did get positive operating leverage last year during the pandemic. So yes, you've earned the right to go ahead and spend more. I think most people would agree, but there's still just so many questions.

So I'll just ask on CCB, it looks like Slide 16. You mentioned going to all 48 states by mid 2021. I didn't really get all of that. So what -- how many states have you been in and by the time you get to 48, how much spending is that, what's the game plan, what's your plan with branches, others are shutting branches after the pandemic, you're expanding. If you could just give some color on that or if Gordon is on the call, we can hear from him too.

A - James Dimon {BIO 1484062 <GO>}

Gordon is not but -- so we started this a while back to expand the branches and stuff like that. We still -- we're closely plenty of branches. If you look at what we're doing, I forgot the number I believe we closed like a 1,000 last four or five years. We've opened like a 1,000 or something like that. But -- and I think when we do the Bank One JPMorgan deal we were in 21 states, 23 states. And when we started the expansion originally, we were very conscious that the world need less branches and to shape the branch differently. And you made a hub-and-spoke and always tested new things and stuff like that. But we still have almost 1 million people a day who visit branches. And that's down but it's 1 million people a day. I've forgot the number 60% to 70% accounts are still opened in branches, small businesses still need branches. And the new branches that we opened in Boston, Philadelphia, DC, they've been doing quite well and the shocking thing is doing quite well in card, consumer, investments, small business.

So as we go to all the other states, we just want to be and we know we have that certain side, we are not going in new state than one just to plant the flag, that will be kind of waste of time. If you look at the major markets, number of people already know what the Chase and stuff like that. And so we're optimistic that this strategy will pay off and will -- it will enhance our businesses, our capabilities. And the other thing I'm not going to tell you because it's very competitive. I think we've shared too much with our competitors in the past. So I'm going to kind of shut myself up a little bit.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

So but, Mike, I can just add a little bit of color on the numbers. So we had said that we were going to open up 400 new branches in market expansion. So we have done 170 so far. Importantly, in 2020 we did fewer than 90 and in 2021, we're going to do 150. And so of course we by 2022 or 2023, that's going to start to sunset. So there are, in the numbers, multi-year investments that will -- they're ramping maybe in 2021 but they will ramp down now that will obviously give us capacity to reinvest those dollars. But we have a lot of capacity within the numbers you see on the page to continue to increase investments without necessarily the absolute number going up.

In tech as an example, 10% or 20% of that number in any given year is completed. So that gives us more dollars to reinvest. And then the only other thing I'd add on branches is this like the franchise value that comes with opening of these branches in new states is extraordinary. And I think underestimated because it gives us the ability to do state and municipal business that we wouldn't have otherwise been able to do. So it's not just about consumer banking.

A - James Dimon {BIO 1484062 <GO>}

And it gives me a chance to the North Dakota which is the only state I've never been it. Believe it or not, we really do a lot of middle market, credit card and mortgage in North Dakota. We just didn't do consumer banking. So I do the second where I'm allowed, I am on my way to like Bismarck of Fargo or something like that. The new Head of Investor Relations, who is sitting in this room right now, Reggie Chambers who I'm sure you all get to know. This was part what he did for the Sun Belt, which is all the branch expansion that we -- though I'm going to restrict of how much he can tell you, but -- and then including looking at different formats.

We're not blind and we make sure that you have the world's changing in digital and all that. So -- and we can very quickly, it just so you know I've forgot the number change the fleet. Like if you said you've got the world changing more rapidly, we're completely comfortable that in a five-year period, you can dramatically reduce the size of the fleet or the cost of the fleet, et cetera while serving clients.

Q - Michael Mayo {BIO 1494617 <GO>}

So this is kind of like what you did with commercial bank in a few years back, going to every state I guess. But, so 48 states, where were you say a year ago or three years ago? Just to give final context to that.

A - James Dimon {BIO 1484062 <GO>}

48 states, three years ago. By the way, in commercial bank, same thing, we talked about expansion. So we bought WaMu, it took years but we said we're going to do $1 billion in the WaMu stage, which is mostly California and Florida, Atlanta. So we've got -- well, we're very close to hitting that. And in fact governor is like $908 million this year or something like that. I told the teams we reviewed it yesterday that when we hit a $1 billion, I want to send the case of really expensive wine to a guy called Steve Walker, who did it for us and he grade -- and we told him that's right but great bankers, great capabilities and stuff like that.

We were doing $400 million of investment banking business when we did the Bank One deal, JPMorgan through the commercial bank, we set a target of $1 billion, $2 billion and $3 billion. We exceeded $3 billion, I think which is $3.5 billion. The new target is $4 billion. It's now 25% to 30% of domestic US, our investment banking in which DCM, ECM, M&A through that network. And the Investment Bank -- these commercial bank expanded into healthcare, technology. And we have a couple other areas we're going to be rolling out soon. So these expansions are rolling out soon. So these expansions really makes sense, they pay for themselves, they're relentless, they're hard to do. They're hard to convey [ph].

Q - Michael Mayo {BIO 1494617 <GO>}

Okay. I'll re-queue.

A - James Dimon {BIO 1484062 <GO>}

And then remember, the commercial bank generally needs branches. It's very hard to -- and we've done it, but it's very hard to build the quality of business without a retail branch in your commercial bank. But you will see very few commercial banks, that don't have retail branches.

Operator

Your next question comes from the line of Brian Kleinhanzl with KBW.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Hi Brian.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Hey, good morning. Just a quick question on the expense outlook. I know that there is a small piece in there, related to the workforce optimization. But I guess thinking of broader context, as we get through COVID-19 and move to the post COVID-19 world, the general thought process was that there would be this big expense save opportunity coming from that work-from-home environment. But it doesn't really show in your expense outlook, is that something that you didn't expect to see beyond 2021? Is this a step-down expenses?

A - James Dimon {BIO 1484062 <GO>}

But in the big picture, where our people expense is $33 billion. Our real estate expense is, I must say $3 billion. So, yeah, and I do think it could be much more efficient in that, but I don't think it's like a game changer.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

And we can't move our footprint that quickly anyway. So do we have time here to make sure that we do it, really thoughtfully.

A - James Dimon {BIO 1484062 <GO>}

But Jen is thinking about moving the finance function to Florida.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Hawaii.

A - James Dimon {BIO 1484062 <GO>}

Yes, Hawaii.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Hawaii, that's right.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

And then just a follow-up, maybe on the international, I thought still the billion hopes of additional revenue on the international. If you just give a update on how that tracking so far?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

It's exciting (Multiple Speakers)

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

On the international revenue expansion, that you were looking for.

A - James Dimon {BIO 1484062 <GO>}

Well, certainly, the Investment Bank is expanding broadly everywhere as best we can. And so as asset the management and we always build at China and stuff like that. The commercial bank started international expansion effort to cover company's overseas, we do business with (inaudible) that we're not covering. And is doing fine, it's mostly expense right now. We added bankers and products and services and legal and compliance. And we didn't add -- we've been adding clients as we're quite happy with it. I should point out that, we just had the best year ever in Asia. I mean, I think it was up by 20% or something like that. So, Asia is still will be one of the best-growing markets in the world. So our -- and that's kind of country-by-country to make sure we get that right.

Operator

Your next question comes from Gerard Cassidy with RBC Capital Markets.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Hi, Gerard.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Hi Jennifer. Hi Jamie. Can you guys share with us, obviously there has been a change in the administration in the senate. And a number of our regulatory body heads are going to be replaced this year, including the OCC and the Consumer Protection Bureau. Can you guys give us some color what you're thinking about, what may change from a regulatory standpoint, with the different political party controlling Washington now?

A - James Dimon {BIO 1484062 <GO>}

Yeah. Our focus is always the same. We've got, we've got 60 million U.S. clients, we've got 6,000 investment clients around the world. We got -- we run this companies to serve clients, communities, hospitals. We financed $100 billion in states, cities, schools, hospital this year. That's what we do, obviously we want to satisfy all of our regulators. So, I do expect that there'll be a new set of regulators, there'll new set of demands. Some we agree with. We want to do a better job in the climate for the world. We wanted to be more green, we want to help the disadvantaged more, we rolled out, an enormous amount of progress for racial equality and things like that.

So, yeah, but they'll be tougher, that's life. It's life around the world. We're going to -- we have to deal with whole bunch of new regulators, which we're trying to satisfy and the ECB, et cetera. And so, I don't know, the things you change or like there much. And competitively everyone is in the same kind of boat. And so it will be fine. And we want the new President to be successful.

Q - Gerard Cassidy {BIO 1505265 <GO>}

And then following up to, Jennifer you talked about on Page 17 of your slide deck, the issue with deposits and the marginal benefit of these deposits. And you guys are wrestling with this issue. Can you share with us and you already have talked about the branch expansion in all 48 states, could save your states. How is this going to be managed as best you can over the next 12 to 24 months, because obviously long-term you want that branch expansion. But simultaneously, as you've pointed out, you may be getting a negative ROE, if you don't get relief on the SLR. And is there a chance that you will get that extension on the SLR from the regulators?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

So I'll start with, we certainly remain hopeful, that we'll get the extension. Importantly, as we think about branch expansion, near term rate headwinds, we certainly consider that. But that SLR margin there not a factor, given the long-term franchise value associated with the branch expansion. And the fact that it's not just about deposits for any one consumer anyway, because we have the opportunity to have a much broader relationship with them, and all of that is factored into the branch expansion. But we do consider, in the analytics there, the near term headwinds from rates, but there is a steady state number, which is more of a normalized level of rates. So, it doesn't -- as a margin, it might change some decisions around marketing, but it doesn't have a big impact on us.

A - James Dimon {BIO 1484062 <GO>}

And the bigger decisions on that, which we have a lot of leeway on is out of the Investment Bank. It's repo deposits, corporate clients, trade finance. All of the other things -- this is managed very, very closely. Remember GSIB is just one of -- I'm going to say 20 constraints we managed by business, by product, by region, by...

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Yeah. And we bring it up, obviously it is an issue for us in the near to medium term, should we not get the extension and it's one that's important for people to understand. But we bring it up more so, because it's another example of where lack of coherence around this, that these rules can have an impact, not just on JPMorgan. So we don't bring it up, just because of the impact on JPMorgan. We bring it up because it is perhaps one of the better examples of the need for recalibration. You have to have the right incentives in the system for it to work through time. And we're just seeing that, that's not the case.

A - James Dimon {BIO 1484062 <GO>}

Remember, we were able to reduce deposit to $200 billion within like months last time.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Yeah.

A - James Dimon {BIO 1484062 <GO>}

But we don't want to do it. It's is very customer-friendly to say, please take your deposits elsewhere. But they do have a lot of these larger corporate clients who have other options, and bunch of deposits. But money market fund or something like that. So, no matter -- none of these is going to be an issue for 2021, folks. I mean, fundamentally just how we run our company. And even if that temporary relief goes away, and I'm always against temporarily relief, because for this exact reason, it creates another clip. Even if it goes away, we're fine. We just have to manage it much tighter.

Operator

The next question comes from the line of Matt O'Connor with Deutsche Bank.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Hi, Matt.

Q - Matthew O'Connor

Hi. Maybe a bit of a basic question. But why is Markets revenue or trading so good still? Not just for you, but the overall wallet? I get it to be Investment Banking business, the CEDAR [ph] businesses are very good. There is lots of liquidity, banks have lots of capital, but of course rates are near zero, because budget is high, volatility is low. Well, I'll take away some of the answers, but just conceptually, it's been very strong, it sounds like the hope is, it will remain strong. What's really driving it?

A - James Dimon {BIO 1484062 <GO>}

There is $350 billion of global financial assets -- $350 trillion. And probably in 10 or 20 years that was going be $700 trillion. Keep up the buy and sell to hedge for demands money around the world. Our FX currencies, our pension plans. Obviously, volumes go up and down, spread generally over time has been coming down, which you expect in a competitive market. So with the expansion of the balance sheets of the central banks around the world that Jen showed you, of the $3 trillion or $4 trillion in the Fed, pretty globally it's $12 trillion. And companies have a lot of financing to do. And then of course when you have higher DCM and higher ECM, and higher M&A that also drives a lot of trading. And so you got to kind of put that all in the mix.

Q - Matthew O'Connor

And obviously, the question is how sustainable is this? And I guess one argument could be that technology has allowed banks to increase the velocity. You've been talking about this for some time. Do you think that is a structural change that will benefit the businesses and specifically for you guys -- over the longer (Multiple Speaker).

A - James Dimon {BIO 1484062 <GO>}

The way to look as we kept our share, what things we're trying to find digitized. And the business has done a kind of the way we expected them to do it. So yeah, we think scale matters, technology matters and the hope, we think we can grow our share, this is just trench warfare. So we expect to grow it, but we -- I don't -- it's very hard to say, what the base level is. And we thought that the base level kind of bottomed out sometime last year. But it will stay as high as they stayed in 2020. Then I doubt, we may not go back to what it was, it may be higher than that.

Operator

The next question comes from the line of Charles Peabody with Portales.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Hi, Charles.

Q - Charles Peabody {BIO 2346511 <GO>}

Good morning. I have a couple of questions related to FinTech and unfortunately I was born in a wrong generation, I need a lot of help. How dependent is the FinTech world on the banking system? I mean as I understand they lay on top of the pipes in the plumbing of the banking system. Do you have any leverage in a competitive world against the FinTech world? And then secondly, I noticed that the OCC gave banks the green light to use public blockchain networks and stable points. Can you explain how -- what important that has to JPMorgan?

A - James Dimon {BIO 1484062 <GO>}

Jen, you go ahead with blockchain there.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Okay. Sure. So that guidance enables an offering of stable going on a public blockchain so that doesn't impact JPM coin, JPM coin, you should think about as tokenization of our customer deposits. So it's obviously very early, we'll assess use cases and customers demand, but it's still too early to see where this goes for us.

A - James Dimon {BIO 1484062 <GO>}

And we're using blockchain for sharing data with banks already. And so we're at the forefront of that which is good. The other question was about, in fact, look first of all, we are very good competitors. And I pointed out to a lot of people, PayPal's were $250 billion, Squares were down $20 million, Tribus were $30 billion Ant Financials down quite a bit now, but it's still there, they're stronger, some effectively that we ride the rails. So some, we bank a lot of them.

We helped them accomplish what they want to accomplish. And you have -- so my view is we're going to compete, we'll need to and we have to look at our -- look inside about what we could do better or could have done better. I think like there's only couple going be or complete. I think we now are facing old generation of newer, tougher, faster competitors who -- and they don't mind to rail the JPMorgan, they can ride the rail of someone else. So you've seen -- I told you before everyone is going to be involved in payments. Some banks going to white label which makes -- which makes FinTech competitors white label the bank and then build sort of thing on top of it and we have to be prepared for that. I expect it to be very, very tough competition the next 10 years. I expect to win. So help me God.

Q - Charles Peabody {BIO 2346511 <GO>}

Thanks. So do they need the banking system to complete their loop of service or can they work completely outside the banking?

A - James Dimon {BIO 1484062 <GO>}

The motion do for now, but I think it's mistake because it's going to be forever. The game of bank licenses Utah is giving people industrial licenses. Like I said, banks are white labeling. So it's affecting the same thing. If a FinTech company use the white label bank to process their business, they're basically a bank. And when the regulator do better to know but we have to assume that they're going to do it. And then some don't need, will find ways not to use the banking system, which they've done. I mean if you look at a whole bunch of the things, they do stuff around the banking system, which is fine, I'm not against that, the regulators may have a point of view, but that one day, but I will let them worry about that, I'm going to worry about us.

Operator

The next question comes from the line of Andrew Lim with Societe Generale.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Hi, Andrew.

Q - Andrew Lim {BIO 15232581 <GO>}

Hi, good morning. So...

A - James Dimon {BIO 1484062 <GO>}

(Multiple Speakers) There are examples of unfair competition, which we will do something about it eventually. People who have made a lot more on debit because they activate on the certain things. The only way they compete because of that. People basically don't do KYC AML and create risk for the system. I go on and on but that part we will be a little bit more aggressive on. People who improperly use data has been given to them by plan. Okay. So you can expect that there will be other battle to take place here.

Q - Andrew Lim {BIO 15232581 <GO>}

Hi, sorry. It's Andrew Lim here. So I just wanted to pick your brains on inflation, and hopefully inflation metrics is picking up if we look at the rates, if you look at the inflation indicators. And that's like a lot of people are jumping on this replacement bandwagon. But I just wanted to see what you are seeing on the ground in the real world as to how this might be manifesting itself even commercial banking or in Investment Banking in terms of like demand for products or volatility. Is that something that you see as a theme developing?

A - James Dimon {BIO 1484062 <GO>}

I mean, look, we don't have that much more insight than you do. You do see sign of inventory commodities in certain products and goods and stuff like that, it's hard to tell that's supply lines that they can keep up with demand or you have long-term trends. China is no longer entering the world. That can change inflation. I think and we've looked at when -- Jen gave those numbers, so we always use the implied curve. I think the best way to think about it is, I think it should be a much better conversation next year because we have a good growth.

I think the good thing to have good growth in partner inflation, but that will become part of the compensation, how bad, what's if they're going to do and things like that. I just as a risk management thing you've got to build into your mindset that you've got to look at there has been a possibility. So I think a year ago, people that said it's not possible before COVID and now because the world has done $12 trillion of QE and something like $10 trillion to $12 trillion of fiscal stimulus, you've got to put on that thing a scenario where you have higher inflation and not 2% that would be great. So that's like Goldilocks, like 3%, 4%. I just so you understand what the risk is that how we manage through that, something worst in the world by the way, the worst in the world is no growth.

Q - Andrew Lim {BIO 15232581 <GO>}

Great. Okay. And so my follow-up question, you talked about how you resolve the issue of excess deposits by pricing way but $200 billion of those. So I'm just wondering why you don't do that now or is the quantum of the problem that much bigger?

A - James Dimon {BIO 1484062 <GO>}

We don't have to. It's also like...

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Yeah. We don't have to. It's also -- it is slightly different in the sense that there was capacity in the system then to absorb it. This is an issue for everyone. So that could be a challenge. You can make some go away.

Operator

Your next question comes from Betsy Graseck with Morgan Stanley.

Q - Betsy Graseck {BIO 4799503 <GO>}

Hi. Just a couple of quick follow-ups. One, Jamie on the topic of payments and competition, Libra's -- Facebook's Libra is back out there getting re-branded as Diem. And their goal is basically to be a global payment network or at least to create one. And I'm wondering does the OCC stable coin approval do anything for you? You already have JPM coin, obviously that's internal to your own footprint. But I'm wondering, is there any benefit of the OCC stable coin approval or anything with regard to now the Libra competition that's coming that would drive changes that you're making in your own platforms.

A - James Dimon {BIO 1484062 <GO>}

I don't think so. But -- I don't think. So we expect stable coins. And obviously just to talk about several banks have been digital currencies and stuff like that. But your currency is digital when you're moving around the world. It's in central banks where it all moved by electronics and stuff like that bode. So, I do expect that stuff is coming and it may not change our world that much, but some of the competitors we want to do, but they want to be in payments. They want the pay to data they want to move the money. Again, it's going to be a regulatory issue about what that means. The gold is not unfair. That's the only thing (inaudible) as always, we can be the safe in the competition we do, then it's hard to argue, that's unfair.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

And Betsy, I mentioned earlier, you might have missed that, it does not impact JPM coin. JPM coin is different, you should think about that as tokenizing deposits to make payments easier for client.

Q - Betsy Graseck {BIO 4799503 <GO>}

Right. Yeah. No. I totally get that. I was just thinking, hey, if OCC is allowing stable coin maybe they're trying to help move the center of this back into the banking system that was kind of a question. The follow-up was just on, back to Slide 14 and the other purple area or the non-technology expenses are moving up year-on-year and part of that is the $30 billion commitment to the path forward initiative. And Jamie, I wanted to understand, like how you're thinking about that $30 billion? What kind of time frame is that over and where that money is going? I mean we put a note out as you know, this past quarter on housing and on housing in a quality and wondering how you're thinking about, how you're going to be investing that $30 billion in kind of output that you want from it?

A - James Dimon {BIO 1484062 <GO>}

So we believe that inequality is a real problem. And people don't always know but like 40% of Americans make $15 an hour or less which is $32,000 a year, something like that. 50 million don't have unemployment. And people at the lower end are dying quicker than they die before. So the first time in our lifetime their grandparents lifetimes, Americans mortality is getting worse, not better. And if society have to fix these problems, that we need healthy growth -- healthy growth (inaudible) but you also need education and infrastructure, health care and affordability. The racial problem has been around for hundreds of years. And with all the things that took place after -- even after the civil rights, we haven't made the progress, we should be made. So we -- and fortunately much of the people and companies take this really seriously.

How can we help all of the Americans citizen in particular, the black community who has been left behind for so long. So our effort is five years. The $3 billion includes, has got the exact numbers we published, $8 billion of mortgages to lower-middle income neighborhoods, black neighborhoods, primarily black neighborhoods, it includes affordable housing. Building affordable housing includes billions of dollars for entrepreneurs of color, includes financial education.

We recently went over one million secure cards, which is what we expected to do, these are Visa cards, that have all the benefits to banking, ATMs, online bill pay, for $4.95 a month. For lower-paid individuals we're doing more and more education. Of those 400 branches, roughly in 25% and more to be in LMI neighborhoods. Our financing NBIs and CBFIs, so it's a serious effort, it cost hundreds of million dollars a year. There are hundreds of people volunteer. So we have a doubt, that how many also will put in this neighborhood, and now many loans we're putting in that neighborhood. And we're going to be report it out to you. We're not going to -- we could take what worked and what didn't work. We don't mind if things are not working, we're going to change course and stuff like that. And so, and obviously includes hiring more open black community training here and stuff like that.

So I think these efforts, my own view is that, that the corporate world have to do this, if you want to fix it. It's not going to happen -- we need good government, but if it's not going to happen just with good government. The jobs are at the local level. Unemployment itself brought just 28% [ph] or 20%, it's still high. The kids didn't have computer to go home and do their Zooming, and the schools didn't have. And then fortunately, a lot of philanthropists including my wife, sent a lot of computers to people there. But we have to do something about this. We are always on for it. And my view is we just do for more purposes of loan that would be sufficient. But for commercial purposes to do it. If all the parts of America is doing better, you yield better outcomes and more jobs and healthier people, less crime and less prisons, and less drugs. So it's time to get act together.

And again, I mean, business has to work in collaboration with government to do. I just don't think it's going to happen alone, and it's not going to happen just by yelling at people. The successful companies do not create the slums, but they can help fix them.

Operator

The next question comes from the line of Mike Mayo with Wells Fargo Securities.

Q - Michael Mayo {BIO 1494617 <GO>}

Hi, just following up more on the market expansion. In the Commercial Banking, could you just drill down deeper on the international part of that expansion, and what's left to be done in the U.S.?

A - James Dimon {BIO 1484062 <GO>}

I think, you -- I'll answer the U.S. But I think the U.S. again, well, I'm going to share so much information from now on. But it's the same thing we looked at over major SMSAs or the middle market companies, we're doing a deep dive in how many there are. And I think we're now in 75 of the top 75, roughly. So that expansion is now just going deeper not maybe more at this point. They'll be helped a little bit by the retail expansion. I think overseas, I just don't remember number what's in.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

I don't know either.

A - James Dimon {BIO 1484062 <GO>}

Okay. But you're talking about that will eventually cover -- and I could be dead wrong in this, 1,000 more clients overseas. These are headquarters, our subsidiaries of foreign companies that we probably do business with headquarters subsidiaries in the U.S. And we could share more of this view later down the road. (Multiple Speakers) surely, can't take me in this one.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Mike, I would just add just from an expense perspective, it's important to remember on the international front that we're riding existing rails, that are already there in the CIB. So again this is -- this is an extraordinary opportunity to hire bankers and we already have the infrastructure.

A - James Dimon {BIO 1484062 <GO>}

And we're using generally bank in the U.S. subsidiary, for the U.S. headquarters.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

So it's not the way, you might think, from an expense perspective.

Q - Michael Mayo {BIO 1494617 <GO>}

Okay. And then just a follow-up on the other questions that have been asked related to FinTech. Jamie, you said you're going to win, right, but based on the valuations of the PayPals and Stripes and Visa and Mastercard, anything that Fintech related. I mean they trounce the valuation of your stock. So I think the market saying that others are going to win. So how is JPMorgan is going to -- I mean you said Silicon Valley is coming, that was like six years ago or something? And then each year we say, yeah, we missed it, we missed it, we missed it. Well...

A - James Dimon {BIO 1484062 <GO>}

No. No. We didn't tell you. Mike, we never said we missed it. We've been doing fine in the last five years. But I miss the -- but I do agree with you. And I gave that to the management team, my whole operating committee, a little deck that showed Visa at $500 billion; and Mastercard, $350 billion; PayPal is $220 billion; Ant Financial is $600 billion; Tencent is $800 [ph] billion, Alibaba is (Technical Difficulty), Facebook, Google, Apple, Amazon, you go on and on. But absolutely we should be (inaudible) about that.

Q - Michael Mayo {BIO 1494617 <GO>}

So how are you going to win, I mean, just like...

A - James Dimon {BIO 1484062 <GO>}

I'm not going to tell you. But we have plenty of resources, a lot of very smart people. We just got to get quicker, better, faster and that's -- which we do. We've got -- we've done an exceptions, but if you look at what we've done, you would say, we've done a good job. But the other people done a good job, too. Some of monopolies, virtually if at all big issue, but...

Operator

The next question comes from the line of Gerard Cassidy with RBC Capital Markets.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Hi, Gerard.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Thank you. Hi. Just one follow up. Obviously, Jennifer you pointed out that your mortgage production revenue was quite healthy in the quarter and you've penetrated the correspondent channel. Can you guys share with us on the servicing side with the new, with the forbearance programs that the government has put into place. Is that a positive or negative for servicing revenue as we go forward?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Oh gosh.

A - James Dimon {BIO 1484062 <GO>}

Jen will answer that one.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Yeah. I don't even know exactly how to answer it, Gerard. All I can say is that, when you give -- when we give customers the help that they need. If that's what bridges them to the other side of this thing, for sure, it's good. So I don't know precisely what the math is, but there is no doubt it's good, if it helps get our customers to the other side. (Multiple Speakers) service their mortgage.

Q - Gerard Cassidy {BIO 1505265 <GO>}

In the past when loans go into delinquency, obviously and there is, in a mortgage-backed security, obviously you guys have to advance the funds and stuff. But the deferral loans are not in that, I'm assuming you're not in that category. Is that correct?

A - James Dimon {BIO 1484062 <GO>}

Not yet. But you are absolutely right. The cost of servicing, the defaulted loan is like 10 times the (inaudible) and non-deposit loans. So, Jen is right, the loans they don't permanently default, is probably a small benefit.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Okay. Great. Okay.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

I got you. You're talking about advancing the servicing costs. Got it.

A - James Dimon {BIO 1484062 <GO>}

That's not an issue either for the (Multiple Speakers)

Q - Gerard Cassidy {BIO 1505265 <GO>}

Okay. Thank you. Appreciate it folks.

A - James Dimon {BIO 1484062 <GO>}

Folks, thank you very much for spending time with us. We'll talk to you all soon.

Operator

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