Q4 2019 Earnings Call

Company Participants

- Jamie Dimon, Chairman of the Board and Chief Executive Officer.
- Jennifer Piepszak, Chief Financial Officer

Other Participants

- Alison Williams, Analyst
- Andrew Lim, Analyst
- Betsy Graseck, Analyst
- Brian Kleinhanzl, Analyst
- Erika Najarian, Analyst
- Gerard Cassidy, Analyst
- Glenn Schorr, Analyst
- Ken Usdin, Analyst
- Marty Mosby, Analyst
- Matt O'Connor, Analyst
- Mike Mayo, Analyst
- Saul Martinez, Analyst
- Steven Chubak, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Fourth Quarter 2019 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. Please go ahead.

Jennifer Piepszak {BIO 19013293 <GO>}

Thank you, operator. Good morning, everyone. I'll take you through the presentation, which, as always, is available on our website and we ask that you please refer to the disclaimer at the back.

Starting on Page 1, the firm reported net income of $8.5 billion, EPS of $2.57, and revenue of $29.2 billion, with a return on tangible common equity of 17%. Underlying performance continues to be strong. Deposit growth accelerated in the fourth quarter across consumer and wholesale with average balances up 7% year-on-year. We saw solid loan growth with card and AWM being the bright spots, as average loans across the Company were up 3% year-on-year, excluding the impact of Home Lending loan sales in prior quarters.

Client investment assets in consumer and business banking were up 27% and asset and wealth management AUM was up 19%, reflecting stronger market performance versus the prior year, as well as organic growth. We ranked number one for the full year in global IBCs with 9% wallet share and gross IB revenue in the commercial bank was a record $2.7 billion. In CIB Markets, we were up 56% year-on-year compared to a weak fourth quarter last year. However, it's important to note, the quarter was very strong in absolute terms, in fact a record fourth quarter. And credit performance continues to be strong across the Company.

On to Page 2 and some more detail about our fourth quarter results. Revenue of $29.2 billion was up $2.4 billion, up 9% year-on-year with net interest income down $220 million or 2% on lower rates, largely offset by balance sheet growth and mix and higher CIB Markets NII. Non-interest revenue was up $2.6 billion or 21% on higher revenue in CIB Markets and AWM and continued strong performance in Home Lending and Auto. Expenses of $16.3 billion were up 4% on volume and revenue-related costs. Credit remains favorable with credit costs of $1.4 billion, down $121 million or 8% year-on-year, reflecting modest net reserve releases and net charge-offs in line with expectations.

Turning to the full-year results on Page 3, the firm reported net income of $36.4 billion, EPS of $2.72 and revenue of $118.7 billion, all records and delivered a return on tangible common equity of 19%. Revenue was up $7.2 billion or 6% year-on-year with net interest income up $2.1 billion or 4% on balance sheet growth and mix, as well as higher average short-term rates, partially offset by higher deposit pay rates.

Non-interest revenue was up $5.1 billion or 9%, driven by growth across consumer and higher CIB Markets revenue. And expenses of $55.5 billion were up 3% year-on-year, driven by continued investments as well as volume and revenue-related costs, partially offset by lower FDIC charges. Revenue growth and our continued expense discipline generated positive operating leverage for the full year. And on credit, performance remained strong throughout 2019. Credit costs were $5.6 billion. In consumer, credit costs were up $210 million, reflecting an increase in card due to balanced growth largely offset by lower credit costs in Home Lending. And in wholesale, we were at $504 million, largely due to reserve releases and higher recoveries both in 2018.

Moving to the balance sheet and capital on Page 4. We ended the fourth quarter with a CET1 ratio of 12.4%, up slightly versus last quarter. The firm distributed 9.5 billion of capital to shareholders in the quarter, including 6.7 billion of net repurchases and a common dividend of $0.90 per share. And while on the topic of capital, it's worth noting, given the actions we have taken, we fully expect that we will remain in the 3.5% GSIB bucket.

Before we move into the business results, I'll spend a moment talking about CECL on Page 5. As you know, the transition to CECL was effective on January 1 and therefore there is no impact toward 2019 financials. On the page is the CECL adoption impact and overall net increase to the allowance for credit losses of $4.3 billion, which is at the lower end of the range we provided. This was driven by an increase in consumer of $5.7 billion mostly coming from cards, partially offset by a decrease in wholesale of $1.4 billion. In cards, the increase is a result of moving to lifetime loss coverage versus a shorter loss emergence period under the incurred model, whereas in wholesale modeling changes like using specific macroeconomic forecast versus through the cycle loss rates under incurred results in a decrease, especially given the forecasted credit environment. Recognition of the allowance increase has resulted in a $2.7 billion after-tax decrease to retained earnings, as you can see on the page. Also important to note, we have elected to use the transition approach to recognize the impact on capital.

And now turning to the businesses, we will start the Consumer & Community Banking on Page 6. In the fourth quarter, CCB generated net income of 4.2 billion, and an ROE of 31% with accelerating deposit growth of 5%, client investment assets of 27% and total loans down 6%. For the full year, results in CCB were strong with $16.6 billion of net income, up 12% and an ROE of 31% on revenue of $55.9 billion, up 7%.

Fourth quarter revenue was $14 billion, up 3% year-on-year. In Consumer & Business Banking, revenue was down 2%, driven by deposit margin compression, largely offset by strong deposit growth and higher non-interest revenue on the increase in client investment assets as well as account and transaction growth. Home Lending revenue was down 5% driven by lower NII on lower balances which were down 17%, reflecting higher loan sales and lower net servicing revenue, predominantly offset by higher net production revenue, reflecting a 94% increase in origination.

And in Card, Merchant Services & Auto, revenue was up 9%, driven by higher card NII on loan growth as well as the impact of higher auto lease volumes. Card loan growth was 8% with sales up 10%, reflecting a strong and confident consumer during the holiday season. Expenses of $7.2 billion were up 2% driven by revenue related costs from higher volumes as well as continued investments in the business, including market expansion, partially offset by expense efficiencies.

On credit, this quarter CCB had a net reserve release of $150 million. This included a release in the home lending purchase credit impaired portfolio of $250 million, reflecting improvements in delinquencies and home prices, which was partially offset by a reserve build in cards of $100 million, driven by growth. Net charge-offs were $1.4 billion, largely driven by card and consistent with expectations.

Now turning to the Corporate & Investment Bank on Page 7. For the fourth quarter, CIB reported net income of $2.9 billion and an ROE of 14% on revenue of $9.5 billion, a strong finish to the year. For the full year, CIB delivered record revenue of $38 billion and an ROE of 14%. In Investment Banking, IBCs reached an all-time record for the full year. We maintained our number one rank in global IBCs and grew share to its highest level in the decade. For the quarter, IB revenue of $1.8 billion was up 6% year-on-year, outperforming the market which was flat. Advisory fees were down 3% following a record performance last year.

On a sequential quarter basis, fees were up meaningfully as we benefited from the closing of some large transactions and for the year, we ranked number two in gained share. Underwriting fees were up 11% year-on-year due to higher bond issuance activity as clients accelerated their funding to take advantage of attractive pricing conditions to strengthen their balance sheets. And for the year, we maintained our number one rank overall and we were number one for (inaudible) divisions in both high-yield bonds and leveraged loans.

Equity underwriting fees were up 10% year-on-year, reflecting strong performance in the US and Latin America . The new issuance market continue to be active and for the year we ranked number one in equity underwriting, as well as IPOs. Our overall pipeline continues to be healthy as strategic dialog with clients is constructive, equity markets remain receptive to new issuance, and the rate environment is favorable for debt issuance.

Moving to markets, total revenue was $5 billion, up 56% year-on-year, driven by record fourth quarter revenue in both fixed income and equity markets. Fixed income markets was up 86%, benefiting from a favorable comparison against a challenging fourth quarter last year, but also reflecting strength across businesses, notably in securitized products and rates, driven by strong client activity and monetizing flows.

Equity markets was up 15%, driven by strength across cash and prime. Treasury services revenue was $1.2 billion, down 3% year-on-year primarily due to deposit margin compression, which was largely offset by organic growth while security services revenue was $1.2 billion, up 3%. Expenses of $5.2 billion were up 12% compared to the prior year with higher legal, volume and revenue-related expenses as well as continued investments.

Now moving on to Commercial Banking on Page 8. Commercial Banking reported net income of $938 million and an ROE of 16% for the fourth quarter and for the year $3.9 billion of net income, and an ROE of 17%. Fourth quarter revenue of $2.2 billion was down 3% year-on-year with lower deposit NII on lower margins largely offset by higher deposit fees and a gain on the strategic investments.

Gross Investment Banking revenues were $634 million, up 5% year-on-year, driven by increased large scale activity. Full year IB revenue was a record $2.7 billion, up 10% on strong activity across segments with record results for both middle market and corporate client banking. Expenses of $882 million were up 4% year-on-year, driven by continued investments in banker coverage and technology. Deposit balances were up 8% year-on-year as we continue to see strong client flows. Loan balances were up 1% year-on-year. C&I loans were up 2% driven by growth in specialized industries and expansion markets, partially offset by the run-off in our tax exempt portfolio.

CRE loans were up 1% where we continue to see higher origination in commercial term lending, driven by the low rate environment , offset by declines in real estate banking as we remain selective given where we are in the cycle. Finally, credit costs were $110 million with an NPL rate of 17 basis points, largely driven by a single name, which was reserved for in prior quarters. Underlying credit performance continues to be strong.

Now on to Asset & Wealth Management on Page 9. Asset & Wealth Management reported net income of $785 million with pre-tax margin of 28% and ROE of 29% for the fourth quarter. And for the year, AWM generated net income of $2.8 billion with both pre-tax margin and ROE of 26%. Revenue of $3.7 billion for the quarter was up 8% year-on-year as the impact of higher investment valuations and average market levels, as well as deposit and loan growth were partially offset by deposit margin compression.

Expenses of $2.7 billion were up 1% year-on-year. And for the quarter, we saw net long-term inflows of $14 billion, driven by fixed income and multi-assets and we had net liquidity inflows of $37 billion. AUM of $2.4 trillion and overall client assets of $3.2 trillion, both records were up 19% and 18%, respectively, driven by higher market levels as well as continued net inflows into long-term and liquidity products. Deposits were up 8% year-on-year, driven by growth in interest bearing products. And finally, we had record loan balances of 8% with strength in both wholesale and mortgage lending.

Now onto Corporate on Page 10. Corporate reported a net loss of $361 million. Revenue was a loss of $228 million for the current quarter, driven by approximately a $190 million of net markdowns on certain legacy private equity investments. Sequentially, revenue was down $920 million due to lower rates, the benefit recorded in the prior quarter related to loan sales as well as the PE losses I just mentioned. Year-on-year revenue was down also primarily driven by lower rates. Expenses of $343 million were down $165 million year-on-year due to the timing of our contributions to the foundation in the prior year.

And turning to Page 11 for the outlook, at Investor Day, as always, we will give you more information on the full-year outlook. However, for now, I'll provide some color and reminders about the first quarter. We expect NII to be approximately $14 billion market dependent, adjusted expenses to be about $17 billion, and as a reminder, the effective tax rate in the first quarter is typically impacted by stock compensation adjustments. And as a result, it's currently estimated to be approximately 17% with the managed tax rate about 500 to 700 basis points higher.

So to wrap up, 2019 was a year of record financial performance across revenue, net income, and EPS. Our outlook heading into 2020 is constructive, underpinned by the strength of the US consumer and despite expected slower global growth and the backdrop of geopolitical uncertainties, we remain well positioned as we continue to build on our scale and benefit from the diversification of our business model.

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

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Ken Usdin of Jefferies.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Hi, Ken.

Q - Ken Usdin {BIO 3363625 <GO>}

Thanks. Good morning. Hi, Jen, how are you? Jen, I was wondering if -- on the terms of the NII outlook, you talked about the $14 billion level, obviously getting to a point of stability. Can you help us -- outside of day count, can you help us understand just where we are in terms of repricing of the balance sheet, what happens if rates generally stay flat from here just in terms of the rate side of the equation, if we hold volume aside?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. As we look at rates paid, on the retail side, we didn't obviously have reprice on the way up. And so there is little to do on the way down. In fact, there, from a rate pay perspective, we continued in the fourth quarter to see rate pay pick up a little bit on migration from savings to CDs. And then, on the wholesale side, we did see rates pay come down as you would expect and we did see betas accelerate after the second cut. So there we saw more of a decline in CIB than we did in CB or AWM as you might expect.

Importantly, though, as we always say, on the wholesale side, we price client by client. And so we're not going to lose any valuable client relationships over a few ticks of beta. And then I would just say, in terms of the outlook, with the Fed on hold, the implied to do still had one cut later in 2020 and based on the latest implied, we'll give you more detail at Investor Day as we always do, but I would say NII for the full year of 2020, flat to slightly down as the headwinds from rates will be offset with balanced growth.

Q - Ken Usdin {BIO 3363625 <GO>}

Yes, got it. And just one question on just the volume side of things. Ex the mortgage loans, sales last year, you were still in that like 3% core growth and obviously you talk a lot about this, the environment and how there has been some settling out, but at a lower level. Just what's the status of just corporate and commercial customers now that we're closer to Phase 1 getting finalized. UMCA is on the table. So what's the backdrop of just economic activity as you guys see it?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So the fourth quarter, definitely I would say stabilized. Seeing trade certainly stabilize, things broadly speaking stopped getting worse. And so we saw sentiment improve a bit, which I think contributed to the overall success of the fourth quarter. And then certainly there are some puts and takes. I mean, the US consumer remains in very strong shape, both from a credit perspective, sentiment, spending, obviously labor market is very strong and the Fed and the ECB on hold and then capital spending is still a bit soft , but the sentiment is at least certainly better than it was six months ago. So we have a, broadly speaking, constructive outlook as we're heading into 2020 here.

Operator

Our next question is from Saul Martinez of UBS.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi, good morning. I have a question on credit and CECL. And you guys have been pretty clear that your business decisions are based on economic outcome or economic outcomes and not accounting outcomes, but CECL does materially change the way in which timing -- change the timing in which earnings accrete to book value and capital, obviously with a higher upfront hit. But you guys have also been shifting your loan book pretty materially towards cards, which have a much higher loss content than your total book. So I guess twofold question. One is, how do we think about provisioning in this context? Should we think provisioning is going to be well above charge-offs as your reserve rate moves up because I would think your ALLL ratio post CECL adoption, which is I think is about 1.8, 1.9, it should move up as cards, which have a much higher loss content and that continued to grow in the mix. So just how do we think about provisioning in the context of the mix shift and CECL's adoption? And then I guess secondly, if there is a change in the macro environment, and the credit environment does get worse and CECL, that inflection goes to your reserves and your provisioning, is there a point where CECL actually does change the way you think about pricing and underwriting in that environment?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So I'll start with the provisioning. So, look, I think it's fair to say, under CECL, you could have incremental volatility, given that reserves are more dependent on specific macroeconomic forecasts. But there, that would depend of course on our ability to have foresight into the timing and extent of those downturns. In cards, definitely, as you say, in any one period of growth or downturns, you could see an increase in reserve since that we're taking life of loan versus the next 9 or 12 months. So, that's true. And then on the wholesale side, you could see some differences, of course, because there are modeling differences between specific macroeconomic forecasts and through the cycle.

Having said that, (technical difficulty) incremental volatility would be material for us. And of course net charge-offs are not changing. And then from a (multiple speakers) perspective, we don't foresee in the near term any pricing changes. The cash flows with the customer have not changed. And so we don't see any, but it is true, as you rightly point out, that there is an increased cost of equity in the sense that we're taking reserves upfront versus through time. So over time, you could see that, but we're not expecting it in the near term.

Q - Saul Martinez {BIO 5811266 <GO>}

Got it. I guess on the provisioning side, my question is more just on an ongoing basis is, is the mix changes more towards higher loss content lending, which obviously has higher margins and higher profitability through -- over the course of the loan, but like in that context, I would -- is it fair to say your provisioning levels also could be materially above your charge-offs, because I would think that your reserve ratios or ALLL ratios do have to move up as that mix changes on your balance sheet?

A - Jennifer Piepszak {BIO 19013293 <GO>}

It could be, it could be important. So that's just timing. Particularly on the card side, it's just timing. But it's difficult to know, again because it relies on our ability that has perfect foresight into the timing and extent of the downturn.

Q - Saul Martinez {BIO 5811266 <GO>}

Got it. No, that's fair. Thanks a lot. Appreciate it.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure.

Operator

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

Q - Erika Najarian {BIO 17048573 <GO>}

Hi, good morning.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Hi, Erika.

Q - Erika Najarian {BIO 17048573 <GO>}

So I was hoping to get a little bit more credit on what happened in the quarter to produce such stellar results. Understand that obviously the fourth quarter '18 comp was light, but $3.4 billion is still a pretty heavy number for fourth quarter for JPMorgan. So, any color you could provide would be very helpful, Jennifer.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So you are talking about markets, Erika?

Q - Erika Najarian {BIO 17048573 <GO>}

Markets. Thank you.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Yeah, okay. Sure. So there, (inaudible) in early December, I did say we expect it to be up meaningfully. I would say, the performance was broad based. In rates, we call out securitized products, I'm sorry, fixed income, we call out securitized products and rates which were bright spots, but, broadly speaking, obviously equity has had a very strong quarter as well. So it's really across the franchise and we saw very strong client flow and we had success monetizing those flows. So just a very healthy environment for us and really strong performance.

Q - Erika Najarian {BIO 17048573 <GO>}

Got it. My follow-up question is that, a quarter ago or two quarters ago, the revenue backdrop for banks in general when the outlook was starting to deteriorate and I think management had -- gave us some color that you will continue to invest your efficiencies and initiatives, no matter what the changes are in the revenue environment. But you could cut back on certain expenses if revenue environment was changing. That being said, your revenue production seems to always outperform to the upside. So as you think about 2020, is the best way to think about expenses just that 55% overhead ratio?

A - Jennifer Piepszak {BIO 19013293 <GO>}

So, look, on the efficiency ratio. I would say that, like we run the Company with great discipline, whether it's relentlessly pursuing expense efficiencies or investing with discipline through the cycle, but because the efficiency ratio is an outcome, not an input and is about expenses and revenue. We're not going to give a target for any one year. We think about operating leverage over time. And as we really say, we're not going to change the way we run the Company for what could be temporary revenue headwinds. And on expenses. I would just say that at Investor Day last year, Marianne told you that we expected the cost curve to flatten post 2019. In 2019, adjusted expenses were up 3%. 2020, we expect them to be up less than that.

Operator

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

Q - Mike Mayo {BIO 1494617 <GO>}

Hi. Is Jamie on the call? I'm sorry.

A - Jennifer Piepszak {BIO 19013293 <GO>}

He is.

Q - Mike Mayo {BIO 1494617 <GO>}

I'm sorry.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Yes, he is. Yes.

Q - Mike Mayo {BIO 1494617 <GO>}

So, I just -- a question for Jamie, because in your -- the first paragraph, you mentioned easing trade issues helped market activity and I know this is a very simple question. But can you talk about the connection between easing trade issues and better trading and you said that was better toward the end of the year? Is this something that you expect to remain or is this a one-off quarter?

A - Jamie Dimon {BIO 1484062 <GO>}

Yeah, that's a good, hard question, Mike. Obviously (inaudible) that has eased off a little bit. I don't think it's going to completely go away. You still have potential ongoing trade issues with China and Europe and stuff like that. I think because that sentiment got better, trading got better, but how long that continues, we don't know.

Q - Mike Mayo {BIO 1494617 <GO>}

And then, Jennifer, you mentioned expense growth was 3%. It should be less than that this year. You guys had also mentioned that your technology spending might be leveling off. So, as that levels off, maybe you see paybacks from prior investment. Any sense of where tech spending will be this year versus the prior year and how you think about that? And I know we'll get more at Investor Day.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure, of course. So I think you can think about tech spendings on a fully loaded basis being in line with what I described for the Company. And we continue to realize efficiencies from investments in tech, but as you well know, we continuously invest in tech. And so there is a fair amount of velocity in the investment portfolio there as investments roll off and we're investing in new technology and innovation. So you can think about tech spending as being broadly in line with how I describe the Company in terms of trend.

Operator

Our next question is from Betsy Graseck of Morgan Stanley.

Q - Betsy Graseck {BIO 4799503 <GO>}

Hi, good morning.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Hi, Betsy.

Q - Betsy Graseck {BIO 4799503 <GO>}

Two questions. One on asset growth. In the last couple of years, fourth quarter, you have to go through this exercise of trying to squeeze down to hit the GSIB target and then in addition, this year I think you sold some residential mortgage loans to investors or at least the investors are taking the risk of it and then you're requesting to have regulatory capital reflect that transfer of risk to an investor pool while you're keeping the customer relationship. When I see these things, I'm wondering how you're thinking about how much room you have for asset growth as we go into 2020 and is there an opportunity to potentially do more of this residential mortgage loan trade to free up space for growth? Maybe you could speak to that.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So I mean we are bound by standardized capital and so, of course, that is a consideration for us and one of the reasons that we're looking to structure loan sales as you described in the mortgage business. So we think that there is more we can do there. And then on GSIB, we remain hopeful that we will see the refinements there and recalibration that the Fed has been talking about for some time because that will become increasingly difficult. So, both are at the margin constraints for us, but broadly speaking, I wouldn't say that we're constrained given where we are on our capital ratios.

Q - Betsy Graseck {BIO 4799503 <GO>}

And if I think about CECL, I appreciate the commentary you had earlier on the call, I'm just wondering, a couple of things. One, why do you think you ended up towards the low end of your $4 billion to $6 billion increase in reserves that you outlined earlier? And what kind of estimates you have for the economic outlook? You've got the assumption for the economic outlook in the reasonable supportable period et cetera and so I'm just trying to understand what kind of forecast you have in your model, so that I understand what's embedded in your scenarios and in your ALLR [ph] ratio?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So I think we ended up at the low end. As we, through the year, continue to get more certainty around what the macroeconomic forecasts are going to look like and so I think that's really what's driving it, obviously portfolio mix as well continue to be very strong in terms of performance of the portfolio. And then on the estimates for the economic outlook, as you rightly say, there is the reasonable and supportable period which for us is two years. And so we do use multiple weighted scenarios there, so we weigh multiple scenarios with the one most likely getting the greatest weight and that's where you went up with what looks like a reasonably benign outlook for the reasonable and supportable period which also obviously would contribute to hitting the low end of the range.

A - Jamie Dimon {BIO 1484062 <GO>}

Jen, are we going to disclose some of those variables over time?

A - Jennifer Piepszak {BIO 19013293 <GO>}

That's a great point, Jamie. I should say that. Yes, we -- I mean, there will be more disclosure about CECL in the Q for the fourth quarter.

A - Jamie Dimon {BIO 1484062 <GO>}

Relatively -- all the banks have been showing these ridiculous forecasting going forward and differences, and we'll spend time talking about that as opposed to the actual business.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Right.

A - Jamie Dimon {BIO 1484062 <GO>}

So we will disclose what you need to know and make it clear what we're doing and why we're doing it.

A - Jennifer Piepszak {BIO 19013293 <GO>}

That's right. So you'll see more in the Qs.

Operator

Our next question is from Matt O'Connor of Deutsche Bank.

Q - Matt O'Connor

Good morning. Two quick follow-ups to some things that have been talked about. I guess, first on expenses, the full-year outlook. It was pretty clear, less than 3% growth. But the first quarter seems a little bit higher than maybe I would have thought, up 4% year-over-year and I don't know if that's just rounding and I'm getting too obsessed over $100 million here or there or if you are upfronting some investment spend, and if so what that's for.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So the first quarter tend to be a bit higher for us, if you look through history. And so, there you can think about it, comparing it year-over-year. We have volume and revenue related expenses increasing, a bit of an increase on investments, but both are being partially offset by expense efficiencies.

Q - Matt O'Connor

Okay. And then the other follow-up question is just on capital allocation. Obviously, it's a good problem to have. But the ratios keep going up, the capital generation keeps going up, the stock keeps going up. You are obviously buying back a lot of stock. The goal is to get the dividend, I think, higher over time, but maybe just talk about how you think about buying back stock at these levels. If there is other accretive uses of capital. Like, I always think about all the money you spend on technology, does it make sense to buy technology versus do it organic, so just maybe address some of those things. Thank you.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So on that ratio, I'll just remind you that, of course, we have our capital distribution plan approved once a year. And so since our last CCAR filing, we have realized some RWA efficiency and we've out-earned relative to the assumptions in the CCAR filings. And so that's part of the reason why we've seen the ratios load up there. On stock buybacks, you know, as you rightly point out, our first priority is always going to be to invest for organic growth and so we are always looking to do that first and foremost and then to have a competitive and sustainable dividend and only then do distribute excess capital to shareholders through buybacks. And we have said that it makes sense to continue to do that at or above 2 times tangible book which is about where we are now. We will obviously, when distributing excess capital, always be looking at the alternatives, but at a 17% ROTCE and 2% or 3% dividend payout ratio, there is a high bar for the alternatives.

Operator

Our next question comes from...

A - Jamie Dimon {BIO 1484062 <GO>}

And you are actually right about acquisitions. We did do InstaMed this year, which hooks up with electronic -- InstaMed hooks up providers and consumers of healthcare. And I think the number that 80% or 90% is still done by check, so there are opportunities like that. We absolutely will be on hunt for them.

A - Jennifer Piepszak {BIO 19013293 <GO>}

That's right. WePay, last year, yes.

A - Jamie Dimon {BIO 1484062 <GO>}

And WePay, the year before.

Operator

Our next question is from Gerard Cassidy of RBC.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Hi, Jennifer.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Hi, Gerard.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Question on credit, you obviously put up some real good numbers once again on credit quality and I noticed that you had a nice material decline in the wholesale non-performing assets quarter-to-quarter. Can you give us any color on what brought that down? And could you tie in also any concerns that you may have about the energy portfolio? I know it's not material, but there is some concerns out there about energy credits.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So on wholesale non-performing loans, in the CIB, that was some name specific upgrade that we had in the CIB and then in the Commercial Bank that was related to charge-offs taken in the quarter. And then on energy, really nothing there thematically. I would say, like any sector, we have upgrades and downgrades and this quarter was no exception. But I wouldn't say anything thematically in our portfolio that we're concerned about.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Very good. And then, I don't know if I heard you correctly. In the last answer to the stock repurchase program, I understand of course it's driven by your CCAR results. But if the price of the stock, and that's a good problem to have, gets to a level that you consider to be too high, I think you may have said 2 times tangible book value, what then happens if the price ever gets to a point where you guys think it's just too high to buy it back, what do you do with the excess capital at that point? Have you given that much -- and again, it's a good problem to have, I understand that. But have you given any thought to that?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. We give a lot of thought to it and I agree, it is a high-class problem. And so, we said that at or above 2 times tangible book makes sense. If it continues to go up, we're going to continue to look at alternatives. Most importantly, within the Company in terms of how we should really think about the returns on buying our stock back at a higher level versus perhaps thinking about the returns a bit differently in terms of organic growth. Jamie, I don't know if there is anything you want to add.

A - Jamie Dimon {BIO 1484062 <GO>}

No. Very well.

Operator

Our next question is from Steven Chubak of Wolfe Research.

Q - Steven Chubak {BIO 18457976 <GO>}

Hi, good morning. So, Jennifer, wanted to start with a question on capital. (inaudible) has indicated in a recent interview that he plans to implement the bulk of the SEB in 2020 CCAR. Also alluded to the possibility of deploying a counter-cyclical buffer as part of that. I'm just wondering, if the counter-cyclical buffer is actually deployed or incorporated within the test, is that something that's underwritten as part of your 12% CET1 target and are you anticipating changes to the GSIB coefficient calculations that you alluded to earlier in the call as part of the coming cycle as well?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Thanks, Steven. So, I mean, you touched on a number of things that are all important and I think what's most important to us is that we end up with a cohesive framework across all of them. The comments from the Vice Chair have been constructive in the sense that he always reiterates that he thinks the level of capital in the system is about right. And so we'll have a firmer view when we see a final rule. As you say, we do expect to see something in 2020 based upon the comments that we have heard, just like you have. And we expect that our 12% target will not be impacted because we do constructively here see Vice Chair say over and over that the amount of capital in the system is about right. And then -- but we can't have a firm view until we see the final rule.

And then on GSIB, we remain hopeful that we're going to see the refinements that the Fed has been talking about, perhaps not full re-calibration until (inaudible) which is what the Vice Chair recently said. But certainly, there are a number of refinements that we've been talking about and the Fed has been talking about for years and we remain hopeful that we'll see them very soon.

Q - Steven Chubak {BIO 18457976 <GO>}

Thanks for that color, Jennifer. And just one final one for me. We saw really strong FICC results as well as really strong institutional deposit growth. And I was hoping you could speak to what impact the Fed balance sheet growth is actually having on all of your different businesses or how that's manifesting, because it seems to be providing a pretty nice tailwind whether it's some increased activity as well as some benefit in terms of deposit growth that you're seeing across the overall franchise, but institutional in particular.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So you're absolutely right. On the wholesale side, the Fed balance sheet expansion was for sure a tailwind for us. Although I would say the more meaningful portion of our deposit growth on the wholesale side in the quarter was from strong organic growth in client acquisition. Pension was a tailwind and elsewhere, I would say, obviously it was the right thing to do and provided stability in the repo markets throughout the quarter.

Operator

Our next question is from Brian Kleinhanzl of KBW.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Hey, good morning. Quick question, on the deposit costs, could you just break down maybe by segment, where the big drivers were that you saw have the big reduction in deposit costs linked quarter? Is that in security services or is it wealth management?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure, Brian. So on the -- I'll start with retail where we saw rates paid pick up a bit and that's on migration from savings to CDs. We have been CD pricing come off its peak, but continued migration from savings to CDs. And then on the wholesale side, you see bigger declines in rates paid in treasury services for sure and then a little bit less so in the Commercial Bank and AWM. And again, as we always say, these are name-specific client by client decisions. And while we feel good about where we are, these are decisions we make client by client, and we're certainly careful and have a lot of discipline not going to lose valuable relationships over a few ticks of beta.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

And then a separate question. In the Commercial Bank, I mean, you've seen loans come down quarter-on-quarter for end of period and generally modest growth year-over-year. I mean, what's the sentiment now in the middle market in the corporate client? Is it a sentiment issue, is it just timing issue, therefore seeing better loan growth?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So there are obviously some puts and takes, which I'll run through, but broadly speaking, I would say, what we're seeing is more a function of our own discipline than it is a function of demand. And in C&I, we feel good about the growth that we're seeing in the areas where we're focused in specialized industries and market expansion, but of course that's offset partially by the tax exempt portfolio that's running off. And then in CRE, good growth in commercial term lending as we continue to have opportunities there, given the rate environment and then that is offset by real estate banking where we are very disciplined, given where we are in the cycle.

A - Jamie Dimon {BIO 1484062 <GO>}

I would just add, as capital expenditures come down, all things being equal, within that -- but all things being equal, we see a reduction in some lending. This Company's (inaudible) finance receivables and inventory and plants and equipment.

Operator

Our next question is from Glenn Schorr of Evercore ISI.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Hi, Glenn.

Q - Glenn Schorr {BIO 1881019 <GO>}

Hello, there. Hi. A quick question on open APIs and what the big picture is here and how it impacts you and the rest of the banking industry, meaning there's concerns over data security and things like that. But JPMorgan has some plenty of agreements with some of the bigger providers. I'm just curious to get your big picture thoughts on what level of concerns we have, what's the good and the bad.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Yes, I mean, there, I would say, Glenn, our customers' data privacy and security is of utmost importance to us. And we think over time the best way for us to do that as securely as we can is to have third-party apps only access data through our APIs. And so we are working name by name to get those agreements in place and we hope through time that is exclusively the only way that third parties can access our customers' data. We think that's the most secure way to do it.

A - Jamie Dimon {BIO 1484062 <GO>}

But very importantly is that that data is the data the customer agrees to give them. On the basis they agree to give it them does not unlimited access to customer data and the customer will have the ability turn it off. As opposed to today, you gave your bank passcode to someone, they are taking the data every day, maybe even every minute and you won't even know about it if you forgot.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Great point and we're going to make it super easy for our customers to be able to do that.

Q - Glenn Schorr {BIO 1881019 <GO>}

So you will give them the tools to control that?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Yes. So you could imagine a dashboard where they will have the...

A - Jamie Dimon {BIO 1484062 <GO>}

That is the full sense.

Q - Glenn Schorr {BIO 1881019 <GO>}

And then, just curious if you've seen any follow-on impacts that you've seen some repricing on parts of the illiquid markets and for specifically some of the unprofitable parts of those companies and is that just a repricing and everybody that owns them will take some hits, a little bit slower progress on banking front and that's it? Or is there anything bigger there to worry about with what's going on in the illiquid side?

A - Jamie Dimon {BIO 1484062 <GO>}

Are you talking about private companies?

Q - Glenn Schorr {BIO 1881019 <GO>}

Yes, I'm sorry.

A - Jamie Dimon {BIO 1484062 <GO>}

Yeah. Look, there are lot of private companies, lot of them do well, some don't. Some fails. Some have access to capital now, they won't have access to capital in a downturn, but it's not a systemic issue. It's just in the capital market there are lot of private companies and so I don't think it's that big a deal. You just have an adjustment in access to capital, that will happen periodically.

Operator

Our next question is from Marty Mosby of Vining Sparks.

Q - Marty Mosby {BIO 14008907 <GO>}

Thank you. Jennifer, you were kind of foreshadowing lower tax rate as you kind of move into the first quarter and then the tax rate here in the fourth quarter was a little bit lower than what we expected. Is there anything that's permanent here or are there some things that are just kind of rolling through these two quarters?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Yes, there I wouldn't -- I wouldn't say there's anything permanent there. The first quarter is typically lower for us Marty. You can think about full-year '20 as being 20% plus or minus and of course that would depend on any non-recurring items we might have or any change in regulation, but 20% plus or minus. And then of course the managed tax rate is typically 500 to 700 basis points higher than that.

Q - Marty Mosby {BIO 14008907 <GO>}

And then a bigger question, when we came into 2018, the net interest margin was around 2.5% and then now as we're coming out of 2019, the net interest margin has fallen below 2.4%. So interest rates went up 100 basis points and then down 75 basis points and we've netted down at negative 10 basis points. So I was just curious, in that path, is either the way the Fed kind of inflected very quickly, the creative, little bit more pressure in the net between deposit pricing and loan pricing or do we think that this is probably just some of the competition that came in after the tax reform and maybe this is just the evidence of some of that competition with the increased profitability that we got from the benefit from the taxes?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Yes. So there, I would say, Marty, on that sort of the last several hikes, there were some catch-ups there, because we had some lag on reprice in the rising rate environment. So if you are just looking at the last few hikes, the betas would certainly be higher than what we're seeing in terms of the first three eases [ph] here, but broadly speaking, on NIM, I mean, we don't -- NIM is an outcome for us, not an input. And as we think about looking forward, certainly the environment is very competitive, it always has been and NII, the outlook for 2020 is at this point based upon the implied flat to slightly down. And we do expect balance sheet growth.

Operator

Our next question is from Andrew Lim of Societe Generale.

Q - Andrew Lim {BIO 15232581 <GO>}

Hi, morning. Thanks for taking my questions. Wondering if you could give a bit more color on your markets performance there, obviously it's done very well. Geographically, though, is there a much more weighting there on the US versus Europe and APAC?

A - Jennifer Piepszak {BIO 19013293 <GO>}

I would say, Andrew, that it was broad based. We can have Jason and team follow up specifically on a geographic breakdown, but it was largely broad based.

Q - Andrew Lim {BIO 15232581 <GO>}

Right. And would you say with confidence that you're gaining market share in both territories there?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Again, I don't have the split on market share by region, but Jason and team can certainly follow-up on that.

A - Jamie Dimon {BIO 1484062 <GO>}

Yes, I'm not sure we wanted to start disclosing that regularly. But I do believe the market share went up pretty much in most markets, but you can't say most markets and all products.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Yes.

Operator

And our next question is from Alison Williams of Bloomberg Intelligence.

Q - Alison Williams {BIO 4116861 <GO>}

Good morning. So, I had a similar question just circling back to trading and the CIB more broadly. So obviously, the bank has gained share, but can you speak to future opportunities and runway. And maybe this is more of a question for Investor Day, but specifically businesses like cash management, transaction banking, and corporate clients in general. You're a leader in the US, anecdotally we hear US banks have been making gains in Europe. Can you speak at all to that opportunity?

A - Jennifer Piepszak {BIO 19013293 <GO>}

Sure. So, as you said, we'll give you more color at Investor Day. For the treasury services business, we feel really good about where we're positioned. I think going forward there will obviously be some rate headwinds there, which we think can be offset by organic growth. But given the investments that we have made there, Jamie mentioned InstaMed earlier. We feel really good about the capabilities that we're adding and what we're seeing in terms of organic growth there, but we can talk to you more about that at Investor Day.

Q - Alison Williams {BIO 4116861 <GO>}

Okay, thank you.

Operator

And we have no further questions at this time.

A - Jennifer Piepszak {BIO 19013293 <GO>}

Thanks. Thanks, everyone.

A - Jamie Dimon {BIO 1484062 <GO>}

(inaudible) Thank you.

Operator

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