Jason M. Goldberg, CFA +1 212 526 8580 jason.goldberg@barclays.com BCI, US

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JPMorgan Chase & Co.

JPM 4Q20 EPS Instant Insight

Stock Rating/Industry View: Overweight/Positive
Price Target: USD 164.00
Price (14-Jan-2021): USD 141.17
Potential Upside/Downside: 16%
Tickers: JPM

Bottom line

EPS was ahead of expectations, driven by a provision for credit losses at a net benefit of $1.9bn ($2.9bn of net reserve releases and $1.1bn of NCOs), compared to expectations of a provision expense. Still, revenues (fee income followed by net interest income) and expenses were both also better than forecasted. Looking out, it guided up its 2021 net interest income expectations, though this will be accompanied by expense growth (up 4%-plus). Of note, it kept its business line ROE targets (normalized environment) unchanged.

Outlook

Net interest income: ~$55.5bn (was $54bn in 10-Q) for 2021 (up +$0.5bn from 2020) including ~$13.6bn in 1Q21 and $14bn+ in 4Q21
Expenses: $68bn-plus for 2021 (vs. $65.5bn in 2020, including $2.4bn of incremental investments (non-tech +$1.5bn, tech +$0.9bn); said above $67bn prior
Share repurchase: it intends to begin share repurchase in 1Q21

Business Line targets

CCB - ROE of 25%+/- (NO CHANGE) and an overhead ratio of 50-55% in a normalized environment; Net charge-offs expected to be higher in 2H21 vs. 1H21
CIB - ROE of ~16% (NO CHANGE), revenue of ~$43B, and an overhead ratio of 54%+/- in a normalized environment
CB - Revised long-term gross IB target of $4bn (from $3bn); Maintained long-term targets of $1bn each of expansion market revenue and international revenue and ~18% ROE (NO CHANGE); In a normalized environment continue to expect a 40%+/- overhead ratio
AWM - In a normalized environment continues to expect long-term AUM flows of 4% of book, revenue growth of 5%, pre-tax margin and ROE of 25%+ (NO CHANGE)
Firm – We note this looks to imply a 17% ROTCE on ~12% CET1

Key takeaways

EPS beat. JPM reported 4Q20 EPS of $3.79. Our estimate was $2.51 and consensus was $2.62. EPS was $3.07, excluding a $2.9bn ($0.72) loan loss reserve release (it noted positive vaccine and stimulus developments contributed to its reserve release). The quarter also included $540mn of net gains on certain legacy equity investments, $243mn of revenues from credit adjustments & other largely driven by funding and credit spread tightening on derivatives, and $70mn of investment securities gains. These were partially offset by a $276mn of legal expense and $152mn of MSR risk management losses ($425mn net benefit; $0.11).

Revenues up. Managed revenues increased 3% y-o-y and rose 1% linked quarter to $30.2bn. Tangible book increased 3.4% to $66.11 (2.1x). It posted a 1.42% ROA, 19% ROE and 24% ROTCE. Its CET1 ratio was unchanged at 13.1%, while its SLR was declined 10bps to 6.9% (5.8% ex. temporary relief). Its LCR was 110%, down from 110%. Its average share count was unchanged.

NII higher. Net interest income rose 2%. Average earning assets rose 3% with loans (+1%) and securities (+4%) higher and trading assets lower (-1%). Period-end loans increased 2% with wholesale (+4%) and credit card (+3%) up and consumer (-1%) lower. CCB loans were little changed with increases in auto (+7%) and card (+3%) offset by declines in home lending (-2%) and consumer & business banking (-2%).

NIM slips. Its net interest margin declined 2bps to 1.80%. Its yield on average earning assets fell 8bps (-4bps ex CIB markets) to 1.97% (loans +3bps, securities -19bps), while its cost of interest bearing liabilities declined 7bps to 0.23% (IBD -2bps to 0.05%). Deposits rose 7% linked quarter with NIBD and IBD posting similar growth rates.

Fees income little changed. Fee income declined 1% with increases in credit card, asset management, investment banking and lending & deposit fees more than offset by a seasonal decline in principal transaction and lower mortgage fees.

Costs controlled. Expenses declined 2% y-o-y and decreased 5% from 3Q20 to $16.0bn. The y-o-y decline was driven by lower volume- and revenue-related expense partially offset by higher investments in the business. Its managed overhead ratio was 53%. Its effective tax rate was 19.4% (+40bps), while managed was 24.2%.

Asset quality benign. Its NAL ratio improved 7bps to 1.04%. Its NCO ratio declined 5bps to 0.44%. Wholesale NCOs increased 12bps to 0.19%, consumer declined 3bps to 0.05%, and credit card fell 75bps to 2.17% (-84bps y-o-y). The provision for credit losses was a net benefit of $1.9bn ($2.9bn of net reserve releases and $1.1bn of NCOs), compared to an expense of $0.6bn in the prior quarter. It had a wholesale reserve release of $2.0bn, reflecting an improvement in the macro-economic scenarios and the continued ability of clients to access liquidity and capital markets. The consumer reserve release was $0.9nm, in Home Lending, primarily due to improvements in HPI expectations and portfolio run-off. It had a $0.6bn release in 3Q20. Its reserve/loan ratio declined 31bps to 2.95%.

Line of Business Revenue Drivers

Consumer & Community Banking - Revenues rose 3% y-o-y and increased 12% sequentially to $4.3bn. Consumer & Business Banking revenues increased fell 14% y-o-y, driven by the impact of deposit margin compression largely offset by growth in deposit balances. Home Lending revenue increased 16% y-o-y, driven by higher net production revenue, largely offset by lower net interest income on lower balances and spread compression as well as lower servicing revenue. And, Card & Auto revenue decreased 7% y-o-y, driven by lower Card net interest income on lower balances.

Corporate & Investment Banking - Revenues rose 17% y-o-y and slipped 2% linked quarter to $11.4bn. Total trading revenues rose 20% y-o-y (guided to +20%) but declined 10% linked quarter to $5.9bn. FICC rose 15% y-o-y, driven by strong performance in Credit, Currencies & Emerging Markets and Commodities. Equities increased 32%, predominantly driven by strong client activity in derivatives and Cash Equities. Securities Services was little changed. Investment banking fees increased 34% y-o-y (guided to up 20%) and rose 18% linked quarter to $2.6bn as advisory jumped 95%, debt underwing was unchanged, and equity underwriting declined 2%.

Commercial Banking - Revenues rose 7% y-o-y and increased 8% from 3Q20 to $2.5bn. Relative to the prior year, growth was driven by higher deposit balances and fees, higher lending revenue due to increased portfolio spreads, and higher investment banking revenue largely offset by lower deposit margin.

Asset & Wealth Management - Revenues rose 10% y-o-y and increased 9% q-o-q to $3.9bn. Relative to 4Q19, it benefited from higher performance and management fees, as well as higher deposit and loan balances, partially offset by deposit margin compression.

8:30am conference call

- **listen only: domestic 866-541-2724; int'l 706-634-7246**
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EPS Reconciliation ($mn, except per share amounts)

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Source: Barclays Research and Company

Results Relative to Expectations (FULL MODEL ATTACHED)

download image

Source: Barclays Research, S&P Global Market Intelligence, and Company

Jason M. Goldberg, CFA | Managing Director | Equity Research – LARGE-CAP BANKS
Tel +1 212 526 8580 | Mobile +1 917 566 3090 | jason.goldberg@barclays.com
Barclays, 745 7th Avenue, 17th Floor; New York, NY 10019 | www.barclays.com
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JPMorgan Chase & Co. (JPM, 14-Jan-2021, USD 141.17), Overweight/Positive, A/CD/CE/D/GE/I/J/K/L/M/N/S

Valuation Methodology: Our price target is $164 and is based on 15.5x our 2022 EPS estimate of $10.60.
Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Main risks to valuation include ongoing litigation risk, unanticipated movements in interest rates, slower than forecasted capital markets revenues, and the uncertain regulatory environment. Like other big banks, its legal and regulatory risks are above-average.

Ratings and Price Target History:
JPMorgan Chase & Co.

Currency=USD

JPM
Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target
04-Jan-2021	125.87		164.00
08-Apr-2020	94.30		144.00
14-Jan-2020	138.80		170.00
06-Jan-2020	138.23		168.00
02-Jan-2019	99.31		140.00
16-Jan-2018	112.27		135.00

On 15-Jan-2018, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 132.00.

Source: Bloomberg, Barclays Research

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