Some Observations on Traditional JP Morgan Read Through

The Python Jupyter Notebooks supporting this analysis can be found at our Candas Github Repository

JPM reports on January 13. Given that it is so well run, it historically has been the first money center bank to report earnings. Given that it is a money center bank, JPM touches on many subsectors within financials such as:

- Card Processing (V MA GPN)
- Credit Cards (COF DFS)
- Capital Markets (GS MS)
- Securities Servicing (STT BK)

Consensus opinion holds that these stocks should trade on their corresponding line items from JPM.

In this brief report we outline some surprising conclusions looking at a few of these consensus relationships using Candas.

Quick conclusions:

1. JPM comparable line items do have a **.95+ R-squared** with MA debit and credit volumes and V debit volumes.

```
df = pd.merge(df_jpm_credit_volume,df_mastercard_credit_volume,
cdr.regress_dataframe(df,'value_y','value_x',y_filter="").table
```

OLS Regression Results

Dep. Variable:	value_y	R-squared:	0.968

   a. **However, JPM only has a .65 R-squared with V credit volumes**. We looked into the reason, and noted on p. 37 footnote 1 of V annual report: "Service revenues in a given quarter are assessed based on nominal payments volume in the prior quarter."

   b. **Bottom line: Don't use JPM results to trade V credit volumes even though V payments volume is a key driver of V stock.**


V US Key Drivers Price Sensitivity
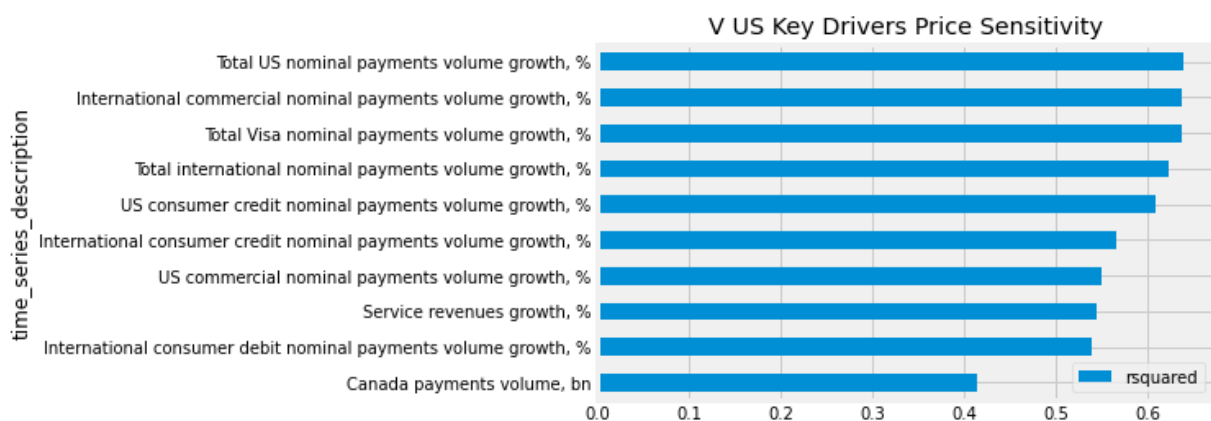
2. JPM FICC trading has a .90 R-squared with Goldman FICC trading.

```
df = pd.merge(df_jpm_ficc,df_gs_ficc,how='inner',lef
cdr.regress_dataframe(df,'value_y','value_x',y_filte
```

OLS Regression Results

| Dep. Variable: | value_y | R-squared: | 0.900 |

a. However, FICC trading isn't a key driver of Goldman stock.
b. Assets under management are much more important to Goldman stock. (Possible reason: FICC trading is a volatile and low multiple business, and investors prefer stickier asset management revenue.)
c. Bottom line: **Use JPM equity flows as a better read through to Goldman**. The R-squared is .49, but it's a better read for Goldman.

GS US Key Drivers Price Sensitivity
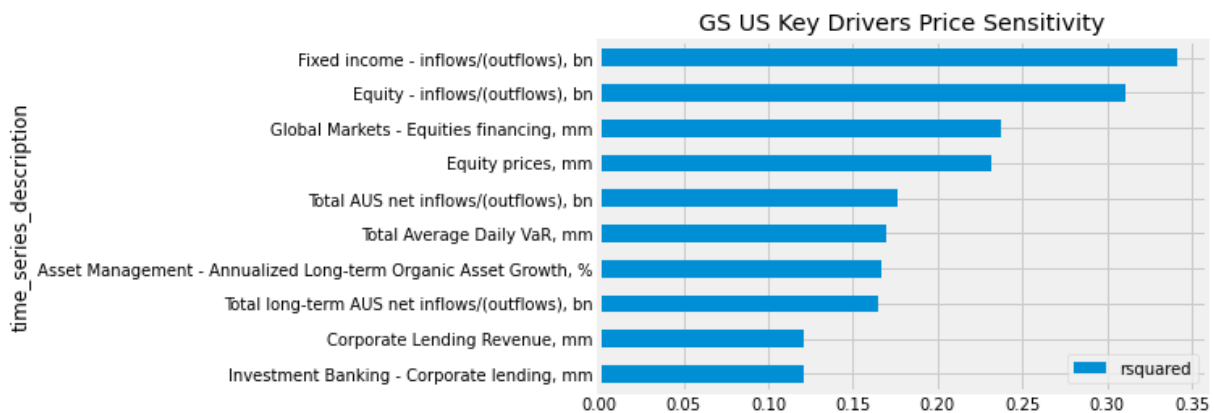
3. JPM credit card credit has a .90 R-squared with COF and DFS credit.
   a. However, **credit isn't a key driver of DFS stock.**
   b. Loan fee income (late charges), net interest income, and opex margin are much greater drivers.
   c. Bottom line: if DFS stock moves on JPM credit, consider a contrarian position looking at the three key price / KPI drivers.

DFS US Key Drivers Price Sensitivity