1Q19 FINANCIAL RESULTS

EARNINGS CALL TRANSCRIPT

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JPMorgan Chase & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's First 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 stand by.

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

Marianne Lake

Chief Financial Officer, JPMorgan Chase & Co.

Thank you, operator. Good morning, everybody. I'm going to take you through the earnings presentation, which is available on our website. Please refer to the disclaimer at the back of the presentation.

Starting on page 1, the firm reported record net income of $9.2 billion, and EPS of $2.65 on record revenue of nearly $30 billion, with a return on tangible common equity of 19%. The results this quarter were strong and broad-based. Highlights include core loan growth ex-CIB of 5%, with loan trends continuing to progress as expected.

Credit performance remained strong across businesses. We saw record client investment assets in Consumer of over $300 billion and record new money flows this quarter, and double-digit growth in both Card sales and Merchant processing volumes, up 10% and 13% respectively. We ranked number one in Global IB fees and gained meaningful share, with share well above 9% this quarter.

In the Commercial Bank, we had record gross IB revenue. In Asset & Wealth Management, record AUM and client assets, and the firm delivered another quarter of strong positive operating leverage.

Turning to page 2 and talking into more detail about the first quarter. Revenue of $29.9 billion was up $1.3 billion or 5% year-on-year, driven by net interest income which was up $1.1 billion or 8% on higher rates as well as balance sheet growth and mix.

Non-interest revenue was up slightly as reported. But excluding fair value gains on the implementation of a new accounting standard last year, NIR would've been up 5%, reflecting Auto lease growth and strong Investment Banking fees, and while Markets revenue was lower, there were other items more than offsetting.

Expense of $16.4 billion was up 2% relating to continued investments we're making in technology, real estate, marketing and front office, partially offset by a reduction in FDIC charges of a little over $200 million.

Credit remains favorable across both Consumer and Wholesale. Credit costs of $1.5 billion were up $330 million year-on-year, driven by changes in Wholesale reserves. In Consumer, charge-offs were in line with expectations and there were no changes to reserve this quarter.

In Wholesale, we had about $180 million of credit costs, driven by reserve builds on select C&I client downgrades. And recall that there was a net release last year related to energy. Once again, these downgrades were idiosyncratic. It was a handful of names and across sectors. Net reserve builds to this order of magnitude are extremely modest given the size of our portfolio, and we are not seeing signs of deterioration.

Moving on to page 3 and balance sheet and capital. We ended the quarter with a CET1 ratio of 12.1%, up modestly from last quarter, with the benefit of strong earnings and AOCI gains given rallying rates being partially offset by slightly higher risk-weighted assets.

RWA is up, primarily due to higher counterparty credit on trading activity, but notably this quarter being offset by lower loans across businesses on a spot basis. Quarter-on-quarter loans were down in Home Lending as a result of a loan sale transaction, and in CIB as a result of a large syndication, and in Card and Asset & Wealth Management seasonally.

Also on the page, total assets are up over $100 billion quarter-on-quarter, principally driven by higher CIB trading assets, in part the normalization from lower levels at the end of the year given market conditions. Lower end-of-period loans are partially offset by treasury balances including higher securities.

In the quarter, the firm distributed $7.4 billion of capital to shareholders, including $4.7 billion of share repurchases. And last week, we submitted our 2019 CCAR capital plan to the Federal Reserve.

Moving to Consumer & Community Banking on page 4, CCB generated net income of $4 billion and an ROE of 30%, with consumers remaining strong and confident. Core loans were up 4% here year-on-year, driven by Home Lending and Card, both up 6%, and Business Banking up 3%. Deposits grew 3% in line with our expectations and we believe we continue to outperform.

Client investment assets were up 13%, driven by record new money flows, reflecting growth across physical and digital channels, including You Invest. We also announced plans to open 90 branches this year in new markets. Revenue of $13.8 billion was up 9%. Consumer & Business Banking revenue up 15% on higher deposit NII driven by continued margin expansion.

Home Lending revenue was down 11%, driven by net servicing revenue on both lower operating revenue and MSR. But notably, while volumes are down, production revenue is up nicely year-on-year on disciplined pricing. And Card, Merchant Services & Auto revenue was up 9%, driven by higher Card NII on loan growth and margin expansion and higher Auto lease volumes.

Expense of $7.2 billion was up 4%, driven by investments in the business and auto lease depreciation, partially offset by expense efficiencies and lower FDIC charges. On credit, net charge-offs were flat as lower charge-offs in Home Lending and Auto were offset by higher charge-offs in Card on loan growth. Charge-off rates were down year-on-year across lending portfolios.

Now turning to page 5 and the Corporate & Investment Bank. CIB reported net income of $3.3 billion and an ROE of 16% on strong revenue performance of nearly $10 billion. For the quarter, IB revenue of $1.7 billion was up 10% year-on-year and, outside of an accounting nuance, all of advisory, DCM and total IB fees would've been record for a first quarter.

Advisory fees were up 12% in a market that was down, benefiting from a number of large deals closing this quarter. We ranked number one in announced dollar volumes and gained nearly 100 basis points of wallet share.

Debt underwriting fees were up 21%, also outperforming a market that was down, driven by large acquisition financing deals and our continued strong lead-left positions in leveraged finance. We maintained our numbed one rank and gained well over 100 basis points of share.

And Equity underwriting fees were down 23% but in a market down more, as the combination of the government shutdown uncertainty around Brexit and residual impacts from December volatility weighed on issuance activity across the regions in the first quarter. But already in the second quarter, we've seen a major recovery in U.S. IPO volumes back to normalized levels, and we're benefiting from our leadership in the Technology and Healthcare sectors, which again dominate the calendar.

Moving to Markets, total revenue was $5.5 billion, down 17% reported or down 10% adjusted for the impact of the accounting standard last year that I referred to. Big picture, on a year-on-year basis, we're challenged by a tough comparison. The backdrop in the first quarter of 2018 was supportive, clients were active, and we saw broad-based strength in performance with a clear record in Equities last year. In contrast, this quarter started relatively slowly, and overhanging uncertainties kept clients on the sidelines despite a recovered and more stable environment.

So, with that in mind, I would characterize the results as solid and a little better than we thought at Investor Day just a few weeks ago, largely due to a better second half of March. And for what it's worth so far, the environment in April still generally constructive, but it's too early to draw any conclusions in terms of P&L.

Fixed Income Markets revenue was down 8% adjusted, driven by lower activity particularly in Rates and in Currencies & Emerging Markets, which normalized following a strong prior year. However, we did see relative strength in Credit Trading on strong flow as well as in Commodities.

Equities revenue was down 13% adjusted, speaking more to the record prior year quarter than this quarter's performance, which was still generally strong across products. Although Derivatives got off to a somewhat slower start, Cash in particular nearly matched last year's exceptional results.

Treasury Services revenue was $1.1 billion, up 3% year-on-year, benefiting from higher balances and payments volume, being partially offset by deposit margin compression. Securities Services revenue was $1 billion, down 4% as organic growth was more than offset by fee and deposit margin compression, lower market levels and the impact of a business exit.

Of note, deposit margin in both Treasury Services and Securities Services is impacted by funding basis compression rather than client betas, and at the firm-wide level was an offset.

Finally, expense of $5.5 billion was down 4%, driven by lower performance-based compensation and lower FDIC charges, partially offset by continued investments in the business. The comp-to-revenue ratio for the quarter was 30%.

Moving to Commercial Banking on page 6; a strong quarter for the Commercial Bank with net income of $1.1 billion and an ROE of 19%. Revenue of $2.3 billion was up 8% year-on-year on strong Investment Banking performance and higher deposit NII.

Record gross IB revenue of over $800 million was up more than 40% year-on-year due to several large transactions. And the pipeline continues to feel robust and active. Deposit balances were down 5% year-on-year and 1% sequentially as migration of non-operating deposits to higher yielding alternatives has decelerated and we believe is largely behind us. From here, we expect deposits to stabilize given the benign rate outlook. Expense of $873 million was up 3% year-on-year as we continued to invest in the business in banker coverage and in technology.

Loans were up 2% year-on-year and flat sequentially. C&I loans were up 2% or up 5% adjusted for the continued runoff in our tax-exempt portfolio. We continue to see solid growth across expansion markets and specialized industries. CRE loans were up 1% as competition remains elevated and we continue to maintain discipline given where we are in the cycle.

Finally, credit costs of $90 million were predominantly driven by higher reserves from select client downgrades and net charge-offs were only 2 basis points on strong underlying performance.

Before we move on, I want to address the perceived gap between our reported C&I growth statistics and those that we all see in the Fed's weekly data. If we look across all of our Wholesale businesses, we also show strong growth year-on-year at about 8%. So there are three comments I would make.

The first is there can be reasonable noise in the Fed weekly data. Second, CIB is a big contributor for us, and CIB loan growth this quarter was supported by robust acquisition financing and higher Markets loans. And third, as previously noted, the definition of C&I for the Fed does not include our tax-exempt portfolio, which has seen significant year-on-year declines given tax reform. So while it's true that the Fed data is showing strong growth year-on-year and apples-to-apples so are we, in the mainstream Middle Market lending space, we're seeing good mid-single-digit demand, in line with our expectations.

Moving on to Asset & Wealth Management on page 7; Asset & Wealth Management reported net income of $661 million with a pre-tax margin of 24% and an ROE of 25%. Revenue of $3.5 billion for the quarter was flat year-on-year as lower management fees on average market levels as well as lower brokerage activity were offset by higher investment valuation gains.

Expense of $2.6 billion was up 3% year-on-year, as continued investments in our business as well as other head count-related expenses were partially offset by lower external fees. For the quarter, we saw net long-term inflows of $10 billion with strength in fixed income, partially offset by outflows from other asset classes. Additionally, we had net liquidity outflows of $5 billion.

AUM of $2.1 trillion and overall client assets of $2.9 trillion were both record, up 4%, driven by cumulative net inflows into liquidity and long-term products and with first quarter market performance nearly offsetting fourth quarter declines.

Deposits were up 4% sequentially on seasonality and down 4% year-on-year, reflecting continued migration into investments, although decelerating, and we continue to capture the vast majority of these flows. Finally, we had record loan balances up 10% with strength in both Wholesale and mortgage lending.

Moving to page 8 and Corporate; Corporate reported net income of $251 million with net revenue of $425 million compared to a net loss of over $200 million last year. The improvement was driven by higher NII on higher rates as well as cash deployment opportunities in Treasury. And recall last year, we had nearly $250 million of net losses on security sales relative to a small net gain this quarter. Expense of $211 million is up year-on-year and includes the contribution to the Foundation of $100 million this quarter.

Concluding on page 9; to wrap up, this is the sort of quarter that really showcases the strength of the firm's operating model, benefiting from diversification and scale and our consistent investment agenda. We delivered record revenue and net income in a clean first quarter performance despite some hangover from the fourth quarter.

Underlying drivers across our businesses continue to propel us forward; and in March and coming into April, the economic backdrop feels increasingly constructive. Client sentiment has recovered and recent global data shows encouraging momentum.

Investor Day is only six weeks behind us, so our guidance for the full year hasn't changed. We do remain well-positioned and optimistic about the firm's performance.

With that operator, we'll take questions.

QUESTION AND ANSWER SECTION

Operator: Your first question comes from John McDonald with Autonomous.

John Eamon McDonald
Analyst, Autonomous Research

Q

Hi. Good morning. Marianne, you had good expense control this quarter and, Jamie's letter, you show goals of improving the efficiency ratio in each of the main business units for the next few years. Just kind of wondering what's driving that. Is there any kind of cresting of investment spend that's going to occur in 2020 or is this just kind of positive operating leverage carrying through?

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. Hey, John. So, I would say, just big picture is a combination of both, obviously. We talked at Investor Day about the fact that we're always going to make the net incremental investment decision based on its own merits, but in total with the amount we're spending now and the amount of dollars that roll off every year that get repositioned for investment, we feel like we should see our net investment spend reach a reasonable plateau over the course of the next several years.

And so that is part of it. Obviously, a lot of the investments that we've been making in technology are also not only to do with customer service and risk management and revenue generation, but they're also to do with operating efficiency. So, we would also expect to start to see some of that drive operating leverage. But it's also the case that we're looking for revenue growth too, so it's a combination of both.

John Eamon McDonald
Analyst, Autonomous Research

Q

Okay. And then just on the NII outlook, it's reassuring to be able to hold the Investor Day outlook of the $58 billion for this year even though the curve's flattened, there were some concerns there. What are the dynamics that enable you to keep the guidance even with the change in curve that we've seen?

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. So, the first thing I would say is that we've said this before when we've seen these periods where you get kind of short-term fluctuations in the curve is that it's a bit dangerous to chase it up and down every month or so. And so, in the big picture, we said $58-plus-billion. Yes, it's true that a persistent flatter curve would have a small net drag on carry, and we're not immune to that. So, there is a little bit of pressure as a result of that if it is persistent at this level throughout the year, but we continue to grow our loans and our deposits. And against that, there's a mixed bag of lower for longer.

So, while we may not have a tailwind of higher rates, we also may not have the same kinds of pressures that we would see on betas necessarily. And while lower long-end rates may be a net small drag in the short term on earnings, they're good for credit on the balance sheet and you could argue a patient Fed and lower rates for longer may elongate the cycle.

So, net-net, there are pluses and minuses. I would say there may be some pressure as a result of that if it's persistent, but it's modest.

Operator: Your next question comes from the line of Mike Mayo with Wells Fargo.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

Hi. You mentioned consumer deposit growth is outperforming when you get average consumer deposits up over $20 billion year-over-year. So those are the numbers. I just – I was hoping for a little bit more on the why? And to what degree does that reflect your build-out of branches? How is that deposit growth growing? How much of this is related to digital banking? And then how much would be due to simply a perception that you have superior strength? I know that came up during the CEO hearings, the IMF study saying that you get a benefit due to a perception of being too big to fail. Thanks.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Yes. So, look, I would say there's lots of different opportunities for people to get insured deposit. We'll come back to the third point. But all of that plays a piece. So you'll recall that we built a large number of branches following the financial crisis as we identified our position in new markets being California and Florida and Nevada and the like. And so, we do have a decent portion of our branches that are still in their maturation phase and so we're definitely seeing some growth in deposits there.

I also firmly believe, and we've talked about it many, many times, that we've been investing consistently over the last decade in customer experience. Customer satisfaction in our Consumer Bank is at an all-time high and continues to increase consecutively. Digital products, new products and services, value propositions to our customers, convenience, new markets, all of which I think are increasingly important to our customers, as well as obviously a number of other factors. So, for me, it's a combination of all of the above and less so, at this point, a perception of a flight to quality. The people have a lot of choices.

Year-over-year I would say we're seeing deposit growth slow exactly in line with our expectations, but this year the slowdown speaks a little bit more, as far as we can see, to higher consumer spend and a little bit less to do with deposit flows out to rate-seeking alternatives. So, customers are voting with their business. They're bringing deposits to us. And I think it speaks to a combination of the investments we're making and also including branches.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

So how much of the deposit growth is due to digital banking? Can you quantify that or give us a ballpark figure?

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Well, I can tell you that – and so it's not just about deposit growth as well, remember, it's also about investment assets. And we talked about our digital offerings providing headwinds there. So I don't have a breakout for you. We can follow-up. It's decent, but our branch growth, the reason why we continue to believe in a physical and digital combined channel presence both are important, but we can get back to you.

Operator: Your next question comes from the line of Glenn Schorr with Evercore ISI.

Glenn Schorr
Analyst, Evercore ISI

Q

Hi. Thanks very much. On Sec (sic) [Securities] Services, I heard you loud and clear about the funding basis compression being part of the answer on revs down. Could you talk about the business exit? I wasn't aware of that and how big that it is. And then, flip to the better side, you also did mention about organic growth. We haven't heard too much since the big trillion-dollar win, but I know there's stuff going on underneath the covers. Talk about what type of business you are winning there?

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Yes. So, on the business exit, this is – it's the sort of feature of always talking about year-over-year that, to me, this feels like really old news. It was the U.S. broker-dealer exit that we talked about many quarters ago, but obviously we're still on a year-over-year basis for another couple of quarters going to see the impact of that on our revenues. It's about just over $20 million year-on-year revenue negative impact, but it's, relatively speaking, old news in terms of the exit took that place last year. Lower market levels were about an equivalent drag on revenues.

And then, we are seeing solid underlying growth, but this is a very competitive environment, and as we are growing our custody assets and as we're growing and winning new mandates, fees are under competitive pressures, and it also depends on mix. So there's a bunch of factors going on. What we're focused on is for both of these businesses that the long-term growth opportunities are very big and the organic growth in the underlying businesses are performing well. And even with these revenue pressures, we're focused on continuing to drive efficiencies, and these are good ROE businesses above mid-teens.

Glenn Schorr
Analyst, Evercore ISI

Q

[indiscernible] (24:32)

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Can I just – I'm sorry. Can I just make one more comment? Mike, I didn't say this on the digital space, but I think it's important as we think going forward that as we think not just about our digital assets, the digital account opening, and that as being a feature of how we're attracting new account, 25% of checking production, 40% of savings production now able to be opened digitally. So, increasingly, digital will be a driver, but we will get back to you with the mixes. Sorry.

Glenn Schorr
Analyst, Evercore ISI

Q

Marianne, just one quick qualifier on the 7-hour marathon the other day in D.C. Besides finding out Jamie's a capitalist, that's shocking news, one of the risks that I think the group talked about was in the private credit markets and non-bank lending, and I just wanted to get a little qualifier of that – I'm pretty sure you didn't mean the exposure JPMorgan has to those, it's just more risk being taken, but if you can just expand on that that would be helpful.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. So, for sure, the comment is more about the overall risk in the environment and not about our risks to those sectors. And our risks are at all the things that we've always told you about which are relatively modest, relatively senior, well secured, well diversified. We look at losses under a variety of stressed scenarios that are manageable.

The comments are really about the percentage of leveraged lending or the percentage of some of our businesses that have now been taken outside of the banking market. And while we wouldn't say necessarily that that's systemic, being not systemic and suggesting that there won't be problems are two different things. Not all non-banks are situated similarly. So there are some healthy, thriving, well-capitalized, well and responsibly run companies, and there are some others who may not be standing at the end of another downturn.

So the real question for all of this business that has migrated outside of banks is how much of it will be unable to be rolled over, refinanced on the same terms and with the same prices as it is now. So, it's not about us, but it's about understanding that we would want to be able to be there to support and intermediate risk in these markets going forward. But, for a variety of reasons, whether it's structure, whether it's capital liquidity pricing, that may not be as easy as it sounds in a downturn for portions of that market.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah. Can I just add? So just take the big numbers, put those – growing, so obviously regulators keep an eye on it. And we're not particularly worried about it. And just to give you some facts, the banks there is $2.3 trillion, the banks have the generally, the senior piece, the A piece of about $800 billion or $900 billion. Then institutional investors, some of them are quite bright. These are life insurance companies, funds, et cetera, own the B piece is about $900 billion. And there's $500 billion which they call direct. And think of these as large funds.

For the most part, large funds, some of them are very capable, very bright, they have long-term capital. And the institutional piece I mentioned, a lot of it is CLOs. And I know there's people worried about that. But if you actually look at the CLOs, there's more equity in those CLOs, they're more funded and both the direct piece and the CLO piece has more capital – permanent capital. And so the system is okay. It's just getting bigger and it's more outside the regulated system. It should be something that should be watched, but it's not a systemic issue at this point.

Operator: Your next question comes from the line of Betsy Graseck with Morgan Stanley.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good morning.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Good morning.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

I had a question for Jamie. Jamie, in the shareholder letter, you mentioned, because of some significant issues around mortgage, that you are intensely reviewing your role in origination, servicing and holding mortgages, and the odds are increasing that we will need to materially change our mortgage strategy going forward. Could you give us some color and context for that statement and what kind of things you're thinking about there?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah. So, if you look at the business, it is costly. You have 3,000 federal and state origination and servicing requirements. It is litigious. If you just look at history, you can see that. And it's becoming a huge – non-banks are becoming competitors. And they don't have the same regulations, the same requirements on either servicing or production. So you're having that issue.

Servicing itself is a hard asset. And so we just want to – we know it's an important thing for a bank. We also want – and also standardized capital, since a lot of banks are constrained by standardized capital, it's this capital hog far more than it should be if you look at it relative to the real risk of a bank holding mortgages. So, we just want to have our eyes open, look at that, go through every piece, and structure it in a way that we're very happy going forward. We don't mind the volatility. We don't mind staying in the business. But you got to look at that and ask a lot of questions about whether banks should even be in it.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then separate topic but just a question I want to ask because I got a couple of questions on it yesterday. The whole group of CEOs was asked who do you think could succeed you, would a woman or would a person of color succeed you. And I don't think you raised your hand. And just wanted to understand why and just hear from you why you answered the question that way.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah. So, what I should have just said is that we don't comment on – or speculate on succession plan. That's a board level issue. It's not something you do in Congress or you play your hand out in Congress. But, also, I was confused by the question likely without a timetable.

But we have exceptional women and my successor may very well be a woman, but it may not. And it really depends on the circumstance at the time. And it might be different if it's one year from now versus five years from now. So that's all that was. I think a bunch of people were kind of confused and seeing what does the word likely mean and all – stuff like that. So it's been blown out of proportion. There are several people on the Operating Committee who can succeed me.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Thanks, I appreciate that, because that's the answer I expected you were going to give, but wanted to hear from you. So I appreciate that thanks.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

You're welcome.

Operator: Your next question comes from the line of Steven Chubak with Wolfe Research.

Steven Chubak
Analyst, Wolfe Research LLC

Q

Hi I just wanted to follow-up on the remarks on the mortgage business. We did see a healthy decline in resi mortgage loans. And Marianne, I know you spoke at Investor Day of the balance sheet optimization strategy which could drive more growth in securities versus loans.

And I'm wondering is that what's really driving the slowdown that we saw in resi loan growth and maybe, more broadly, how we should think about core loan growth or a sustainable pace of core loan growth in 2019?

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. So, mortgages – and 2018-2019 are at the epicenter of it for mortgage. So, the market itself is smaller year-on-year, it's about 15% smaller because, notwithstanding all of the discussion about lower rates, they're still higher year-on-year than they were this time last year. So that obviously is having an impact and as we've been – and we're down similarly.

So we've added about $6 billion of core mortgage loans to our portfolio, but against that, as you saw last year, we did a number of loan sales and we did another sale again in the first quarter, and that speaks to optimizing the balance sheet. We're trying to take loans off of our balance sheet, core loans off our balance sheet, and sell them if we can reinvest in agency MBS and non-resi assets that have better capital and liquidity characteristics.

So, there's going to be – it's going to a little bit harder to look at a trend. You're going to need to look at things close. So we are originating high-quality loans; we are adding a number of those to our portfolio. We're distributing based on best execution as that would go, but we will continue to optimize our balance sheet.

Steven Chubak
Analyst, Wolfe Research LLC

Q

Very helpful. And just a follow-up for me on CCAR. The Fed released a document recently highlighting the changes to the loss models this year...

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.
A

Yes.

Steven Chubak
Analyst, Wolfe Research LLC
Q

...including some higher card and auto losses in the upcoming exam. I'm just wondering how does that inform the way you're thinking about capital return capacity and are you still confident in that sustainability of 75% to 100% net payout as well as the 11% to 12% CET1 target.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.
A

Yeah. So, I didn't hear the second part of the question on losses, which losses were up this year that you were mentioning, but here's what I would say...

Steven Chubak
Analyst, Wolfe Research LLC
Q

The card and auto losses.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.
A

Yeah. So, I would – I applaud transparency for sure and we love to be able to get more detail as we think about the way that the Fed models losses for our portfolios. And we've been observing that over time. Necessarily, it's the case that the Federal Reserve models are typically less granular and less tied to our specific risks necessarily because they're industry wide.

Net-net, it doesn't change our point of view that, as we're at 12.1% CET1 right now, so arguably a little bit above the high-end of our range and continuing to grow earnings that we ought to be able to distribute a significant portion of earnings, but we always invest in our businesses first. So, we are growing our businesses as responsibly as we can; we're adding branches, we're adding customers, we're adding advisers across our businesses. But, to the degree that we have excess earnings, we'll continue to distribute them. And the ranges that we gave you at the end of February, nothing's changed.

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

Brian Kleinhanzl
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Hi. Good morning, Marianne.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.
A

Good morning.

Brian Kleinhanzl
Analyst, Keefe, Bruyette & Woods, Inc.
Q

A quick question. I know you mentioned that the increase in NPLs within Wholesale was, again, idiosyncratic. But, last quarter, there was also an increase and then it was five credits last quarter. Is there any way you can give more color as to specific drivers in there? I know you said in the past that you expect to normalize, that you're off a low base, I got that, but just a little bit of additional color perhaps.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. So, the color is there is really no color, which is to say, if you were to go back over the course of the last eight quarters and take oil, gas, energy releases out, you would've seen quarters where reserve builds were close to home and other quarters where there are $100 million and $50 million. So there's always been the propensity for there to be one or two or three or four downgrades.

The thing we look for is whether or not, as we look at the portfolio facilities we have, whether we're seeing pressure on corporate margins and free cash flow, and whether we're seeing that broadly across the sectors and companies we're banking and we're just not. So, it's not to say that we aren't playing close attention to real estate given where we are in the cycle, it's not to say we aren't playing close attention to retail, but the color is there is no real color that these are genuinely a handful of names across a handful of sectors. That was true last quarter. And even if you look quarter-over-quarter-over-quarter there's no trends to call out. And we have a large Wholesale lending portfolio; these are extremely modest in the context of that.

And remember, every quarter, like we talk about a few, because it's non-zero, but we downgrade and upgrade hundreds of facilities every quarter, and it's not just downgrades, it's upgrades and they're approximately of equal measure. So, we're looking very carefully at it. We understand why people are questioning, concerned, and these are cyclical businesses and the cycle will turn, but we're not seeing it yet.

Brian Kleinhanzl
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. And then a separate question in the mortgage banking. It looks like gain on sale margins were at a high point over the last five years this quarter. Was that something in the market? Something with the rates or was there a one-off impacting that number this quarter?

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

So you may recall that we did a mortgage loan sale last quarter and realized and there's geography. In the Home Lending business, when we do these mortgage loan sales, because we're match funded, net-net, there's very little P&L. But there's – last quarter there was a loss in NIR and an offset in rate funding in NIR (sic) [NII]. This quarter there's a gain.

So you've got a loss last quarter, a gain this quarter, both small, but nevertheless that's driving the majority of the production margin going up. But, in addition, if you just strip all that noise out, which is not material, but nevertheless significant quarter-over-quarter. We are seeing better revenue margins on better pricing.

Brian Kleinhanzl
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Great. Thank you.

Operator: Your next question comes from the line of Gerard Cassidy with RBC.

Gerard S. Cassidy
Analyst, RBC Capital Markets LLC

Q

Good morning, Marianne.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Good morning.

Gerard S. Cassidy
Analyst, RBC Capital Markets LLC

Q

Can you share with us – obviously, you've got your de novo branching strategy moving forward. And what have you guys discovered? And how long does it take for the branches to reach break-even and then eventually get to your desired return on investment numbers?

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. So, we're really, really excited to be able to open these branches in these markets and serve more customers across the United States. But when you talk about branches, you are talking about investment for the long term, and when I say long term, multiple years, decades. So, with respect to the new markets that we're entering, these are extremely nascent investments, the branches, in many cases, we haven't even broken ground on.

However, that said, early indication is – very, very early indications are strongly positive. We're seeing a lot of excitement in the market. We're seeing new accounts in production, a little bit better than we would have expected at this very early stage. On the whole, you see branches break-even over several years and mature in terms of deposit and investments and relationship closer to 10 years but below that.

Gerard S. Cassidy
Analyst, RBC Capital Markets LLC

Q

Very good. And then following up on some comments you made at Investor Day and, I believe, touched on today about technology spending. If I recall correctly, next year, technology spending should be self-funding and stabilized at just about where you are today. When you compare it to the past five years, what has changed where the growth trajectory of technology, nominal dollars, has now kind of stabilized versus what it was like again in the past five years?

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

So, I just want to reiterate something that I want to make sure you guys completely internalize, which is we believe given the level of spend and the continued efficiency we're getting out of each dollar of spend that, overall, our net investment should be more flat going forward than they have in the past, but we will continue to look at every investment on its own merit.

That said, we've been growing our technology spend and, in particular, we've been growing the portion of it that is invested in changing the bank, and that runs the gamut from platform modernization and cloud to controls and security and customer experience and digital, R&D, the whole lot.

It's a large number and, each year, a lot of those dollars that we've been investing roll off and we get the ability to re-decision and reinvest them. So, this is not that we're going to be doing anything other than continuing to invest very, very heavily in the agenda and, in particular, in the technology agenda. It's just that, each year, [audio gap] (40:29) decisions and we'll continue to make the right decisions and we see that being flatter going forward than it has been.

Gerard S. Cassidy
Analyst, RBC Capital Markets LLC

Q

Thank you.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

And we're getting more efficient. So, in the past, the way that technology was delivered was very different and the more that we're in a modern, virtualized cloud-ready way with new technology, each dollar of technology is more productive.

Gerard S. Cassidy
Analyst, RBC Capital Markets LLC

Q

Great. Thank you.

Operator: Your next question comes from the line of Al Alevizakos with HSBC.

Alevizos Alevizakos
Analyst, HSBC Bank Plc

Q

Hi. I've got a quick question and a follow-up basically. My question is on the Treasury Services. Year-on-year the growth going from double-digit you just grew to 3%, where apparently the volumes remained healthy but the margins started to deteriorate. I wonder how you feel going into the remaining of 2019, especially given that the trade talks are still ongoing and, therefore, volumes could actually be a bit more problematic. Do you still believe that we can go back to kind of double-digit growth year-on-year for the remaining quarters?

And my follow-up question is you talked about change the bank versus run the bank for IT budget. Can you give us a number just to get an indication of how much you're spending on innovation? Thank you.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Yes. Okay. So, first point on Treasury Services, obviously, last year revenue growth was in double digits, for this year's quarter, 3% year-on-year. I mentioned earlier that for both of our Wholesale businesses, we happen to have basis compression between the funding spreads that we provide to the businesses and pricing declines, and so that sort of just given where rates have moved may be a headwind this year as the segment results are reported, but for the company, it's obviously net zero.

The more important point is that organic growth underlying all of that balances and payments that is holding up very well and we do expect that to continue. So, you will see margins mainly compress on that. It's not speaking to deposit flows, it's not speaking to volumes, and it's not speaking to escalating payouts at this point. So, we feel good about the underlying organic growth in the business.

With respect to technology spend, you'll recall last year we were kind of 60/40 run the bank, change the bank, and it's more 50-50 this year. So $11.5 billion of spend about half and half. But remember that it's...

Alevizos Alevizakos
Analyst, HSBC Bank Plc

Q

Thank you very much.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Remember, in the change the bank, it runs the whole gamut from platforms and controls to customer experience, digital, data, R&D. So it's the whole spectrum.

Operator: Your next question is from the line of Matt O'Connor with Deutsche Bank.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

Good morning. I just wanted to follow up on the net interest income and it came in a lot better than expected this quarter. Is there anything that's lumpy or a one-time that you'd flag? Because, if you annualize it, you're already above the full-year target at $58 billion-plus and, obviously, there was day count drag this quarter and really just puts and takes with rates and balance sheet growth. But it seems like the guidance is conservative versus where you're at right now.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Okay. So, we did slightly better in the first quarter, two things driving it. One is small but nevertheless is arguably non-recurring, which is we've talked about the fact that, overall in the company, when we do these loan sales that net-net there may be a small residual gain or loss that resides in Treasury and it was a small gain in the first quarter in NII, call it, $50 million approximately.

And then, in addition, we talked in the fourth quarter about the fact that we were seeing the opportunity to deploy cash in short duration liquid investments that were higher yielding than IOER. That continued into the first quarter, so we did benefit from that. And it may or may not continue, but we're not necessarily expecting that to continue all the way through.

So I would say that day count was a drag. As we look forward with some opportunities, honestly, obviously there's a risk associated with the flat yield curve, not big, but nevertheless net neutral to downward pressure or downward pressure, if long-end rates stay lower for longer. As we don't have the tailwind anymore from higher rates and we continue to process the December rate hike, you could see more rate pace a little bit more into the second quarter. So there are risks and opportunities.

We still think it's a decent outlook. But I don't think it's conservative. I think it's – $58 billion is straight down the middle at this point. The trouble with the yield curve is it can fluctuate dramatically over the short term, and we shouldn't over interpret it or over chase it. At this point, I think it's a decent estimate and we'll continue to update you.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And then just on the repositioning of the balance sheet and the approach to adding securities, are you thinking any differently going forward than maybe you were six weeks ago? You clearly seem more positive on the macro and, obviously, things can change there, but are you approaching from the balance sheet management a little bit differently given may be a more positive macro outlook?

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Well, so, we only spoke to you most recently, about six weeks ago, so the sort of overall answer is no, not really. We expected at that point that we would have a patient Fed. It turns out that all the central banks are pointing to being a little bit more dovish, which could generally be constructive for the environment and for credit risk or the balance sheet.

Obviously, the curve being flatter is not sort of a compelling situation to add more duration, but there's natural risk in our balance sheet. So, overall, very little; we feel good about credit. The curve's flat and we'll continue to manage the overall environment and company as we see the economy unfold.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Thank you.

Operator: Your next question comes from the line of Erika Najarian with Bank of America.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Yes. Hi. Good morning. I just wanted to follow-up, Marianne, on the comment. In the backdrop for lower rates for longer, could you give us a sense on how you're thinking about your deposit strategy in retail and wholesale? In other words, I know you discussed some dynamics on pricing for the first quarter, but when do you expect competition to taper off? And do banks have room to actually lower deposit costs if the rate curve stays this way for a prolonged period of time?

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

So, I'll just put – the big contextual answer will always be the same, which is when we think about our strategy around deposits and deposit pricing, it is 100% driven by what we're observing in our consumer behaviors and what we're seeing in deposit flows. And so that's the environment that we look at to determine what's happening. And you've seen naturally over the course of the last couple of years as rates have been rising that we've seen flows of deposits to higher-yielding alternatives, whether it's investments or whether it's more recently in CDs and that may continue. We'll continue to watch that.

It is our expectation that rates will be relatively stable from here in terms of the short end and it's the short end that predominantly drives the sort of deposit pricing agenda. So, even if the curve is flatter, as long as it's – because the front-end is stable, I don't necessarily see deposit costs going down, but we're going to continue to watch our customer behaviors and deposit flows and respond accordingly.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Thank you. And my follow-up question is we heard you loud and clear during your prepared remarks that the increase in Wholesale non-accruals was idiosyncratic. And I'm wondering as we look at a tick-up in non-accrual loans in the Corporate & Investment Bank for the past two quarters, are we just in the part of the cycle where we're just growing from a low base, or should we expect a step-down in the second quarter in non-accruals similar to how we saw last year?

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

There are a couple of situations that we would expect to maybe not be present in the second quarter, but I would say it's a feature more of an extremely low base. And so from that, any movement whether they're up or down is somewhat exaggerated. But we would continue to call the credit environment benign.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you.

Operator: Your next question comes from the line of Ken Usdin with Jefferies.

Ken Usdin
Analyst, Jefferies LLC

Q

Thanks. Marianne, just if I could ask you, you mentioned that some signs that the economy is strengthening and I wanted to just ask you to – can you split that between just what you're seeing on the Consumer side versus the Wholesale Corporate side in terms of – the spend numbers are obviously still double-digit year-over-year, some others have talked about a little bit of a slowdown, you're just still saying quite good. And then there's this unevenness about just CapEx and spending and corporate side. So just could you just kind of walk us through just where you're seeing pockets of relative strength and improvement?

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah, I think that as it relates to U.S. and in particular looking at the U.S. consumer, you've got all odd jobs, more recently auto, housing spend all generally encouraging and holding up well and robust. And whether it's double-digits or whether it's not, we're continuing to see those – and consumer confidence, by the way, which is still very high and has recovered from any sort of hangups from the equity market actions over the fourth quarter. So, for us, U.S. consumer has always been strong and confident. And even if we're not all-time highs in confidence, it's still very high. And generally, the data is – and even something like housing and auto that hasn't necessarily been super strong is looking encouraging.

And then on the global front, it is a little harder. But, as you look at some of the areas that have been struggling a bit, and Europe would be a good example, we would think that – and the first quarter sort of transitory factors around social unrest and politics and Brexit, and they seem to be fading a little, business confidence has recovered a little. Businesses are still spending on labor, which is generally a good sign of underlying confidence, notwithstanding any kind of sentiment numbers. And even there there's job growth, there's wage growth, helped by dovish monetary policy and general financial conditions having improved and eased. And I think, generally, we feel optimistic across the consumer and the rest of the sectors, and albeit that it's sort of green shoots on the wholesale side. So, it's early, but it's what we were expecting to see and so that will continue.

Ken Usdin
Analyst, Jefferies LLC

Q

Yeah. And one follow-up just on Investment Banking business, you had mentioned that the pipelines look good and, obviously, we've seen the reopening of the ECM market. Your general outlook just again on that global point about a bit unevenness between U.S. and global, just how do you feel about the Advisory backdrop and, obviously, some big deals on the tape again today? But had there been a little bit of an air pocket here partially probably because of the soft fourth quarter, but how's that side of the business feeling and sounding from a backlog perspective?

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Yes. So, I would say that – a couple of things. Obviously, there were some deals that moved into the first quarter out of the second half of 2018. And so, we did benefit from that. But, just as a general market matter, M&A is still attractive in a low growth environment, albeit a growth environment. Investors are still constructive. North America, which is by far the biggest market for M&A, is still healthy. And so Europe was a big driver last year and Europe has seen a sharp drop-off in volumes and wallet, and so that may continue, although we have a pretty good position there. So, I would say that the pipeline is down, but still M&A is attractive and people are looking for synergistic growth.

Ken Usdin
Analyst, Jefferies LLC

Q

That makes sense. Thanks very much.

Operator: Your next question comes from the line of Jim Mitchell with Buckingham Research.

James Mitchell
Analyst, The Buckingham Research Group, Inc.

Q

Hey. Good morning. Maybe just a follow-up on the NII outlook. I think we talked a lot about a flat curve. What kind of levers do you have to pull if we were to see what some are speculating? It doesn't sound like you're in that camp, but if you were to get a rate cut, how do you manage that? How do you think about balance sheet reacts and NII reacts to a potential for a rate cut over the next 12 months?

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Right. So, the market, which is usually more, I wouldn't say pessimistic, but more in that camp that us is still only expecting an ease at the end of the year. So, we are not, by the way, as you point out. So I think, for 2019, the NII outlook, it's not a clear and present danger that there will be an ease. Obviously, we have on the way up on rates, been over-indexed to short-end rates. And so, clearly, if we were to have an ease, it would have an impact on our NII.

If we felt generally that that was the direction that the economy and rates were going in, then it might change our view on how we position the balance sheet. But, right now, the Fed is on course. Right now, that's constructive for corporate profit margins, constructive for credit and generally constructive for how we're positioned on the balance sheet.

James Mitchell
Analyst, The Buckingham Research Group, Inc.

Q

Do you feel like you have room to, I guess, extend duration to kind of protect NII and NIM if that were to happen?

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Yes. Yes, we do.

James Mitchell
Analyst, The Buckingham Research Group, Inc.

Q

Okay.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Obviously.

James Mitchell
Analyst, The Buckingham Research Group, Inc.

Q

All right. Thank you very much.

Operator: Your next question comes from the line of Saul Martinez with UBS.

Saul Martinez
Analyst, UBS Securities LLC

Q

Hi. Good morning. I wanted to follow-up on Matt's question on sort of idiosyncratic items in the quarter and lumpiness. This is obviously a pretty strong quarter from an earnings standpoint; earnings well ahead of my estimates and consensus and especially in CCB. But there weren't a lot of obvious non-core items really called out.

So, Marianne, can you just comment on the sustainability of the results and whether there's some idiosyncratic things that weren't necessarily called out during the call. You mentioned corporate cash deployment, revenue is really high relative to historical levels there. So, are there any sort of idiosyncratic items that call into question how sustainable the results are?

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

So, first of all, just sort of big picture – first of all, really high I think is a bit of an over-statement. Higher, I think, is fair. No, not really. If there were we would have called them out. There are a few little things. So I'm just going to call out a few of the things that we have mentioned.

We contributed $100 million to the Foundation this quarter. Net-net, legal was a very, very small, but nevertheless positive this quarter. There's a few little bits and pieces like that. But if you look at revenue performance, we did a little better across the board than you all were expecting. We did better in IB fees and we gained a lot of share. We did a little better in Markets. We did a little better in NII. So it was just a little bit of a wind at our backs sort of phenomenon.

Probably, my best answer to you is, as happy as we are with performance, and we are, gaining share and continuing to see our underlying drivers propel us forward and the momentum we got in our businesses, we are not making material changes to our full-year outlook. So we'll still see how markets perform for the year.

We do still expect, as Daniel mentioned at Investor Day, that while we feel great about our positioning in Investment Banking in the first quarter. Coalition is still expecting the wallet to be down between 5% and 10% year-on-year. So, we do expect to gain share to help offset that, but last year was a record. So we haven't changed our full-year guidance at all yet. We'll take this as a very good down payment for that. And if markets are constructive and wallet expands, we'll benefit from that but...

Saul Martinez
Analyst, UBS Securities LLC

Q

Okay. No, that's...

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

...we're not reading it across and changing everything.

Saul Martinez
Analyst, UBS Securities LLC

Q

That's helpful. I'll change gears a little bit. Any update on the stress capital buffer? What the Fed is thinking there and when you think we could see a little bit more details or a little bit more clarity on the proposal?

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

So, the fact I know there is a chance, but not necessarily a probability that there could be an SCB proposal for 2020 CCAR. So there's a set of meetings or a meeting that's coming up sometime in the summer that I think might be an important moment. But we continue to work as constructively as we can to help understand a better way to bring stress capital together with point-in-time capital, but it's complicated.

As we said the most important thing is not to issue an SCB proposal that doesn't deal with the entire landscape of capital and look at it cohesively. So, we're talking about G-SIB, we're talking about minimums, we're talking about Basel, we're talking about SCB, it's complicated. I'd say there's a chance, but not a probability that we might have something in time for 2020 CCAR.

Saul Martinez
Analyst, UBS Securities LLC

Q

Got it. Thanks a lot.

Operator: Your next question comes from the line of Marty Mosby with Vining Sparks.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Good morning, Marty.

Marty Mosby
Analyst, Vining Sparks IBG LP

Q

Thanks for taking the question. Hey. Good morning. First, I want to ask is going to CCAR, now we're getting into that season again, one of the things that I think has an impact is that what we had was a significant 30%-plus growth in earnings last year. So, if you kind of look at the plan for your capital going forward and you think of holding payout ratios to say they were just constant, doesn't that kind of presume that you have kind of some wind behind the sales just to increase fairly significantly just off the increase in earnings last year?

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Yes. If you look at payout ratios, obviously, sort of described as a percentage, then we said, over the longer term, we'd expect to pay out in a benign environment between 75% and 100%, and analysts have estimates of 90%-plus. And obviously, as earnings grow, that would be a bigger dollar number. But, again, we'll always calibrate that relative to our opportunity to invest in our businesses, and its capacity not a promise. So we'll continue to see how the whole environment unfolds. But you're right. As earnings continue to grow, a strong payout ratio, we're above the top-end of our capital range, so we are starting at a robust level, would be a higher dollar number, yes.

Marty Mosby
Analyst, Vining Sparks IBG LP

Q

And then, Jamie, I was just curious. I think one of the issues facing the industry and just we get pushed from the outside is that the cycle is 10 years old, and my thought is that that internal time clock is just off this time. And so, if we look at it, I think there's things that you're seeing or, Marianne, that you see inside the company that probably dispel that the recession is kind of on the horizon. So, just wanted to get your comment on that as well as my follow-up question. Thanks.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. So I think I – sorry, go ahead, Jamie.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah. Someone showed a number the other day that Australia has had growth for 28 years. And just so I'm saying in notional, but do you have to have a recession? Now, they've had a lot of backwinds, there is growth in Asia and stuff like that. But if you look at the American economy, the consumer's in good shape, the balance sheet is in good shape, people are going back to the workforce. Companies have plenty of capital and capital expenditure is still up year-over-year, a little bit less this quarter than last quarter. Capital is being retained in the United States. Business confidence and consumer confidence are both rather high, not at all-time peaks, rather high.

So, you can just easily – it can go on for years. There's no law that says it has to stop. We do make a list and look at all the other things, geopolitical issues, lower liquidity. So, there may be a confluence of events that somehow cause the recession, but it may not be in 2019, 2020, 2021. Obviously, at one point though, it would probably be something. And I think the biggest short-term risk would be something going wrong with China, the trade issue with China. So, I just wouldn't count on there having to be a recession in the short run in the coming years.

Marty Mosby
Analyst, Vining Sparks IBG LP

Q

I agree. Thank you.

Operator: Your next question comes from the line of Andrew Lim with Société Générale.

Andrew Lim
Analyst, Société Générale SA (UK)

Q

Hi. Good morning. Thanks for taking my questions. So, my first question is on the end-of-period loans. So, if we look across the board, it looks like there's some contraction there on a quarter-to-quarter basis of about 3% to 4%. And I was just wondering if you saw that as a one quarter issue relating to what happened in 4Q 2018. And if you can give some color maybe on the quarters ahead speaking to company CEOs whether you see growth reemerging again.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Yes. So, quarter-on-quarter, and I think I mentioned a couple of these things, but across our businesses for a variety of reasons, on an end-of-period basis, loans are down. So, like stepping through them, the first one I would point out is mortgage, and we just talked about that, I think, earlier in the call, which is we continue to originate mortgage loans; we continue to distribute them and portfolio them. But we did do a loan sale, which is part of the discussion that we've been having with you about optimizing our balance sheet. We did a sale at the end of the quarter. So that's impacting our mortgage loans.

In the CIB, and one of the reasons why we call out core loan growth ex-CIB isn't because we don't consider CIB loans core, it's because they are, just by their nature, often times more episodic and lumpy. And so, we did see a large funded syndicated loan at the end of last quarter, which was fully syndicated into the first quarter. And then, in our other businesses, in Asset & Wealth Management, a bit of seasonality, a few pay-downs, in Card seasonality. So, it's a sort of combination of factors, but I would say two drivers, CIB and Home Lending; CIB on sort of a large syndication, Home Lending on a loan sale.

Going forward, we'll continue to optimize the loan versus security part of our balance sheet as best we can for cash and liquidity purposes. But just underlying core business demand for bank balance sheet lending, I look at the middle-market space and say we're still seeing solid demand. It is in our investment areas in our expansion markets and specialized industries, but we're still growing that portion of our loans in the mid-single-digit year-on-year.

Andrew Lim
Analyst, Société Générale SA (UK)

Q

Great. Thanks. So, my follow-on question is on...

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

I'm sorry, Andrew. There are going to be other areas where we just won't grow loans. In Commercial Real Estate, you see loan growth is much lower. It's very competitive. Spreads have come down. We continue to provide financing and funding for our core loans, but we're not going to chase it down, and similarly Auto.

Andrew Lim
Analyst, Société Générale SA (UK)

Q

Sure. Okay. Thanks. So, my follow-on question is on CLOs. So, I understand Japanese institutions are big buyers of U.S. highly rated CLOs, but a few weeks ago the Japanese FSA introduced some new rules saying that there had to be 5% risk retention by U.S. issuers in order for the Japanese institutions to buy them.

So, I'm just wondering if you see if you're seeing yet any change in demand from Japanese institutions and, likewise on the other side, if there's any change in behavior from U.S. CLO issuers in terms of trying to integrate 5% risk retention.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

So that is a great question. The answer I'm going to give you is not that I'm aware of at this point, but I'll have to follow-up with you. Jamie, are you aware? No. Sorry, Andrew. We'll come back to you. Not that I'm aware of, but it's a good but nevertheless quite detailed question.

Andrew Lim
Analyst, Société Générale SA (UK)

Q

Okay. Thanks.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

A

Thanks.

Operator: And there are no further questions at this time.

Marianne Lake
Chief Financial Officer, JPMorgan Chase & Co.

Thank you, everyone.

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