

# JPMorgan Chase & Co. (JPM) CEO James Dimon on Q3 2019 Results - Earnings Call Transcript

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JPMorgan Chase & Co. (NYSE:JPM) Q3 2019 Earnings Conference Call October 15, 2019 8:30 AM ET

## Company Participants

Jennifer Piepszak - CFO

James Dimon - Chairman & CEO

## Conference Call Participants

Glenn Schorr - Evercore ISI

Betsy Graseck - Morgan Stanley

Erika Najarian - Bank of America Merrill Lynch

Michael Mayo - Wells Fargo Securities

Saul Martinez - UBS Investment Bank

Gerard Cassidy - RBC Capital Markets

Eric Compton - Morningstar Inc.

Marlin Mosby - Vining Sparks

Kenneth Usdin - Jefferies

Matthew O'Connor - Deutsche Bank

Brian Kleinhanzl - KBW

## Operator

Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Third Quarter 2019 Earnings Call. This call is being recorded. [Operator Instructions].

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

## Jennifer Piepszak

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 \$9.1 billion and EPS of \$2.68 on record revenue of \$30.1 billion with a return on tangible common equity of 18%. Underlying performance continue to be strong with highlights including client investment assets in Consumer Banking, up 13%; strength in our consumer lending businesses, in particular on higher origination volume in Home Lending and Auto; and healthy growth in sales and outstandings in Card; number one in global IB fees year-to-date with over 9% wallet share and record growth IB revenues in middle market; and in Asset & Wealth Management, we saw record AUM and client assets.

Overall, for the firm, total loans were flat year-on-year, which includes continued mortgage loan sales. SC sales loans were up 3% on healthy growth in Card and AUM. Total deposits were up 5%, with strength across wholesale and retail. And credit performance remained strong across business.

On to Page 2 and some more detail about our third quarter results. Record revenue of \$30.1 billion was up \$2.2 billion or 8% year-on-year as net interest income was up \$293 million or 2% on balance sheet growth and mix, partially offset by higher deposit pay rates. Noninterest revenue was up \$1.9 billion year-on-year or 14%, driven by strong performance across Fixed Income Markets and consumer lending, which included a gain on mortgage loan sales of approximately \$350 million. Expenses of \$16.4 billion were up 5% on volume and revenue-related expenses as well as continued investments, partially offset by lower FDIC charges.

Credit remains favorable with credit costs of \$1.5 billion, reflecting modest net reserve build and charge-offs in line with expectations. And as we mentioned last quarter, we do not see any signs of broad-based deterioration across our portfolios, both consumer and wholesale.

Now on the balance sheet and capital on Page 3. We ended the third quarter with a CET1 ratio of 12.3%, up about 10 basis points versus last quarter. The firm distributed \$9.6 billion of capital to shareholders in the quarter, including \$6.7 billion of net repurchases and a common dividend of \$0.90 per share.

Now on to Page 4 for a look at our businesses, starting with Consumer & Community Banking. CCB generated net income of \$4.3 billion and an ROE of 32% with continued deposit growth and total loans down 4% year-on-year. Revenue of \$14.3 billion was up 7% year-on-year. In Consumer & Business Banking, we saw strong deposit and investment growth year-on-year with deposits up 3% and client investment assets up 13%, reflecting continued growth across both physical and digital channels.

Revenue was up 5%, driven by higher NII on deposit growth and margin expansion as well higher noninterest revenue on higher transaction volumes. And even though the deposit margin is higher year-on-year, not surprisingly, it is down 13 basis points quarter-on-quarter given the current rate environment.

Home Lending revenue was up 12% on higher production volumes and margins, partially offset by lower NII on lower balances, which were down 12%, reflecting loan sales.

With regards to these loan sales, it's important to note the net impact to Home Lending revenue is minimal with the gain on sale being offset by a funding charge from Corporate. And in Card, Merchant Services & Auto, revenue was up 9%, driven by higher card NII on loan growth and margin expansion as well as the impact of higher auto lease volumes. Card loan growth was 8% with sales up 10%, and merchant processing volume was up 11%. Expenses of \$7.3 billion were up 4% year-on-year, driven by continued investments and higher auto lease depreciation, partially offset by expense efficiencies and lower FDIC charges.

On credit, starting with reserves. This quarter, CCB had a net reserve build of \$50 million, which included a build in card of \$200 million, largely offset by releases of \$100 million in Home Lending and \$50 million in Business Banking. The build in Cards is primarily driven by mix as the newer vintages naturally season and become a larger part of the portfolio. Net charge-offs were \$1.3 billion, largely driven by Card and consistent with expectations.

Now turning to the Corporate & Investment Bank on Page 5. CIB reported net income of \$2.8 billion and an ROE of 13% on revenue of \$9.3 billion.

Investment Banking revenue of \$1.9 billion was up 8% year-on-year in a market that was down. It was a record third quarter for investment banking fees, driven by strong performances in debt and equity underwriting, partially offset by lower advisory. Year-to-date, we continue to rank number one in overall IB wallet and gain share across products and regions, benefiting from our leadership position in technology and health care sectors.

In advisory, we were down 13% year-on-year, reflecting lower deal activity compared to a strong prior year. However, we continue to gain wallet share, driven by our strategic investments. In debt underwriting, we were up 17% year-on-year in a market that was down. Here, we benefited from our participation in some large transactions and increased activity in investment-grade bonds.

In equity underwriting, we were up 22% year-on-year, significantly outperforming the market, driven by our strong performance in IPOs and convertibles. And for both the quarter and on a year-to-date basis, we ranked number one in wallet share for overall ECM and IPOs. We expect fourth quarter IBCs to be down both sequentially and year-on-year driven by strong performances in the third quarter and prior year. However, the pipeline remains healthy as strategic dialogue with clients is constructive, equity markets remain receptive to new issuance and the lower rate environment has made debt issuance more attractive.

Moving to Markets. Total revenue was \$5.1 billion, up 14% year-on-year. Fixed Income Markets was up 25%, a good result, which also benefited from a comparison to a somewhat quiet quarter in the prior year. This quarter was characterized by strong client activities across the board with outperformance in agency mortgage trading and improved flows in rates and commodities.

Equity Markets was down 5% against a very strong third quarter last year. Equity derivatives performance was challenged by lower client activity and unfavorable market conditions, but prime remained strong and cash outperformed relative to the prior year. Treasury Services and Securities Services revenues were \$1.1 billion and \$1 billion, down 7% and 2% year-on-year, respectively. The rate environment remains a relative headwind, primarily from the funding basis compression we've been talking about, which is largely firm-wide neutral, and to a lesser extent, client-specific repricing in Treasury Services. But importantly, the organic growth in fees and balances continues to be strong.

Expenses of \$5.3 billion were up 3% compared to the prior year with investments and higher revenue-related expenses partially offset by lower litigation and FDIC charges. And finally, credit costs were \$92 million, driven largely by reserve builds on select emerging market client downgrades.

Now moving on to Commercial Banking on Page 6. Commercial Banking reported net income of \$937 million and an ROE of 16%. Revenue of \$2.2 billion was down 3% year-on-year with lower NII, driven by lower deposit margin, partially offset by higher noninterest revenue due to strong investment banking performance. Gross Investment Banking revenues were \$700 million, up 20% year-on-year on increased M&A and equity underwriting activity, and we saw revenues increase for both large deals and flow business with a record quarter in middle market.

Expenses of \$881 million were up 3% year-on-year as investments in the business were largely offset by lower FDIC charges. Deposit balances were up 3% year-on-year on strong client flows. Loan balances were flat year-on-year across both C&I and CRE.

In C&I, while we are seeing pockets of growth in select industries, like financial institutions, technology and energy, there does continue to be significant runoff in our tax exempt portfolio. And in CRE, although there was higher origination activity in Commercial Term Lending, it was largely offset by declines in real estate banking as we remain selective given where we are in the cycle. Finally, credit costs were \$67 million with a net charge-off rate of 9 basis points.

Now on to Asset & Wealth Management on Page 7. Asset & Wealth Management reported net income of \$668 million with pretax margin of 25% and ROE of 24%. Revenue of \$3.6 billion for the quarter was flat year-on-year as the impact of higher average market levels as well as deposit and loan growth were offset by deposit margin compression. Expenses of \$2.6 billion were up 1% year-on-year on continued investments in technology and advisers, partially offset by lower distribution and legal fees. Credit costs were \$44 million, driven by net charge-offs as well as reserve builds on loan growth. For the quarter, we saw net long-term inflows of \$40 billion, driven by fixed income, and net liquidity inflows of \$24 billion. AUM of \$2.2 trillion and overall client assets was \$3.1 trillion, both record, were up 8% and 7%, respectively, driven by cumulative net inflows into long-term and liquidity products as well as higher market levels. Deposits were up 4% year-on-year, driven by growth in interest-bearing products. Finally, we had record loan balances, up 7% with strength in both wholesale and mortgage lending.

Now on to Corporate on Page 8. Corporate reported net income of \$393 million. Revenue was \$692 million, up \$795 million year-on-year, primarily due to higher net interest income driven by higher balances and balance sheet mix as well as the funding offset from the lower mortgage loan sale that I mentioned earlier, all of which was partially offset by lower rates. This quarter also included small net gains in certain legacy private equity investments compared to approximately \$200 million of net losses in the prior year. And expenses of \$281 million were up \$253 million year-on-year, primarily due to higher investments in technology and a prior year net legal benefit.

Finally, turning to Page 9 and the outlook. Our full year outlook remains in line with previous guidance. We expect net interest income to come in slightly below \$57.5 billion, based on the latest implied; and adjusted expenses to be approximately \$65.5 billion.

So to wrap up, the U.S. economy is on solid footing. And while global growth is slowing, the U.S. consumer remains healthy. Despite continued macro uncertainty and headwinds from the rate environment, this quarter showcases the diversification and scale of our business model. We remain well positioned to outperform in any environment, and we'll continue to strategically invest in our businesses.

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

## **Question-and-Answer Session**

### **Operator**

[Operator Instructions]. Our first question is from Glenn Schorr of Evercore.

### **Glenn Schorr**

Curious your take on everything that went on in the repo markets during the quarter, and I would love it if you could put it in the context of maybe the fourth quarter of last year. If I remember correctly, you stepped in, in the fourth quarter. So higher rates, threw money at it, made some more money, and it calmed the markets down. I'm curious what's different this quarter that, that did not happen. And curious if you think we need changes in the structure of the market to function better on a go-forward basis.

### **James Dimon**

So if I remember correctly, you got to look at the concept of -- we have a checking account at the Fed with a certain amount of cash in it. Last year, we had more cash than we needed for regulatory requirements. So repo rates went up, we went with the checking

account which paid IOER into repo. Obviously makes sense, you make more money. But now the cash in the account, which is still huge. It's \$120 billion in the morning, and it goes down to \$60 billion during the course of the day and back to \$120 billion at the end of the day. That cash, we believe, is required under resolution and recovery and liquidity stress testing. And therefore, we could not redeploy it into repo market, which we would've been happy to do. And I think it's up to the regulators to decide they want to recalibrate the kind of liquidity they expect us to keep in that account.

And again, I look at this as technical. A lot of reasons why those balances dropped to where they were. I think a lot of banks are in the same position, by the way. But I think the real issue when you think about it, is does that mean that we have bad markets because that's kind of hitting a red line in that checking account. You're also going to hit a red line in LCR, like HQLA, which cannot be redeployed either. So to me, that will be the issue when the time comes.

And it's not about JPMorgan. JPMorgan declined -- in any event, it's about how the regulators want to manage the system and who they want to intermediate when the time comes.

### **Jennifer Piepszak**

And it's worth noting, Glenn, that the overall impact to JPMorgan from the events in mid-September was not material one way or another to our third quarter results.

### **Glenn Schorr**

Yes. I feel bad for whoever borrowed at 10%. Okay. Just a quickie on NII. I heard you on the full year '19 commentary -- and I don't think that's surprising, maybe a little bit better. Have you done much repositioning on the balance sheet as we look forward in 2020, which is looking like an obviously lower rate backdrop? I want to ask you what your thoughts around 2020 NII, but I'd rather hear the soft call because I know you're not going to give it to us.

### **Jennifer Piepszak**

Well, I'll try. So in terms of balance sheet positioning, as you know, we have a negatively convexed balance sheet. We manage it in both directions. Some moves in interest rates are hedge-able and some are not. In a quarter like we just had, with the rally that we had, you would expect us to buy duration and we did. But in terms of 2020, the way I think you can think about it is we've given you full year 2019, which implies a fourth quarter just under \$14 billion. Frankly, that's not a bad place to start. There will be some puts and

takes. Obviously, you would have to get the full run rate of the October cut because, of course, they're developing from the implieds, and then there's one more cut next year. But an offset to that, at least a partial offset to that, would be balance sheet growth and mix. So we'll give you more color on Investor Day, as we always do, and we'll be in a better position then. But the fourth quarter of '19 in terms of run rate is not a bad place to start.

**Operator**

Our next question is from Betsy Graseck of Morgan Stanley.

**Betsy Graseck**

A couple of questions, one on your GSIB bucket. I know, as of the end of June, it showed that you had bumped up into the next GSIB bucket, and I wanted to understand how you're thinking about managing that as we go into year-end. And is there a plan to get back down? And how would you effect that?

**Jennifer Piepszak**

Sure. So as it relates to GSIB, we fully intend to be in the 3.5% bucket for year-end. As you know, most aspects of GSIB are on a spot basis, so we will manage it like we do any scarce resource and fully intend to be in the 3.5% bucket for year-end.

**Betsy Graseck**

But is there -- does that impact just your market position in general? Is there anything that you would be looking to doing to get there that might reduce your positioning in some of the businesses that you're involved in, for example, things like derivatives, et cetera? Or is it really not? Is it going to be something that we're not going to see in the revenues because it's too small to matter to you?

**James Dimon**

I couldn't say.

**Jennifer Piepszak**

Yes. What we need to do across the various GSIB buckets will not be obvious in our fourth quarter results. But like I said, we will be managing and fully intend to be in the 3.5% bucket. It's more than just leverage.

**Operator**



Our next question is from Erika Najarian of Bank of America Merrill Lynch.

**Erika Najarian**

My first question is a follow-up to Glenn's question. As you think about the cross current of resolution planning, LCR, and liquidity stress testing, could you help us -- what is the level of excess deployable cash at JPMorgan?

**James Dimon**

I said we have \$120 billion in our checking accounts with the Fed, and it goes down to \$60 billion and then back to \$120 during the average day. But we believe the requirement under CLAR and resolution recovery is that when we'd opened that account such that if there's extreme stress, during the course of day, it doesn't go below 0. You go back to before the crisis you go below 0 all the time during the day. So the question is, how far is that as a red line was the intent to regulate to a CLAR resolution to lock up that much of reserves in account of Fed. And that will be up for regulators to decide. But right now, we have to meet those rules. And we don't want to violate anything we told them we're going to do.

**Erika Najarian**

Got it. And as my follow-up, Jen, if -- you said something about the offset to the 2 Fed cuts that are in the forward curve would be balance sheet growth and mix. Could you give us a little bit more color on how you're expecting those dynamics to play out, particularly given slightly lower core loan growth this quarter and 22% increase in investment securities balances?

**Jennifer Piepszak**

Sure. Well, I'll come back to investment securities balances. But in terms of balance sheet growth in 2020, you can think about largely in deposits. And just as one example, obviously, the rate environment and the economy will matter a whole lot. But just in a declining rate environment, the higher-yielding alternatives for consumers are less attractive. And so we do expect to continue to grow the franchise. And we could see healthy growth in the deposit base. So that's what I was referring to.

In terms of investment securities, when you look at the increase this quarter, there's a few things going on. As I said earlier, we did buy duration. But importantly, what you see in investment securities are also cash deployment strategies as well as actions we took on

the back of the mortgage loan sales. So there's a few things going on in investment securities this quarter.

## **James Dimon**

In some cases, securities at a higher return on standardized capital than certain mortgage loans did.

## **Operator**

Our next question is from Mike Mayo of Wells Fargo.

## **Michael Mayo**

So you, I guess, lowered your guidance for NII, but also lowered your guidance for expenses. So how much of that lower expense guidance is due to the deployment of technology? Or just more generally, at every Investor Day, you tell us you're going to spend, what, \$12 billion on technology. And we don't really have a lot of insight into the traction that those technology investments are getting. So what's working technology-wise? What's not working? And how much of that can contribute to your improved expense guidance?

## **Jennifer Piepszak**

Okay. Sure. So I'll start, and if you want to add. So I would say, Mike, the NII guidance is not lower. At the second quarter, we said \$57.5 billion, plus or minus. At the time, the implied said 3 rate cuts: July, September and December. And we said if there were 2 or more, that would be \$57.5 billion minus; and if less than that, perhaps \$57.5 billion plus. And so we are kind of right where we said we would be. And we're a little bit higher than what we said earlier in September at Barclays, and that's because we got a little bit of a tailwind on the 10-year and some balanced growth and 1 less cut in December. So I would say NII guidance broadly in line.

On expenses in technology, there's a few things you can think about. First of all, broadly speaking, on expenses, I would say we remain committed to what we said at Investor Day in terms of the cost curve flattening from here. But importantly, you have to look at the underlying story, which I know is what you're getting at, which is there are volume or revenue-related expenses. And we're always looking for productivity there, and -- but they will be what they will be. They will come with top line growth.

In terms of investments, we will continue with the discipline we always have around business cases and net present value and payback periods. But we will also always invest in the things we think we need to need to, even if they're a table fix.

And then there's productivity, which is your point. And so we continue to realized productivity in our investments, and we continue to think we have opportunity ahead. We haven't laid that out in terms of quantifying it, but some of the things you can think about are robotics replacing repetitive processes. You can think about machine learning or AI in fraud. So machine learning assisting us in decision-making processes. Our call centers are always getting more productive. As Gordon said at Investor Day, our cost to serve in the consumer businesses are down 15%. And then digital capabilities that we're rolling out to our customers in terms of self-service is not only better for them, but more efficient for us. And so we have realized significant productivity to date in not only in our technology investments, but other investments, and think still have room to run.

### **James Dimon**

As you said, in our merchant processing systems, and API store for the CIB. The stuff we built to hooking all that into our custody business. So you can go business-by-business and see the extensive amount of stuff we're rolling out. And it's pretty good.

### **Michael Mayo**

All right. Let me have one follow-up then. So I mean how many call center personnel do you have? Or how many data centers do you have? And how does that compare to the peak?

### **James Dimon**

We're building many data centers as we speak. I forgot the total number, but it's quite a few. The new ones will be better, more efficient and more expandable and safe and more secure, all that kind of stuff. And we have to build that infrastructure. We have the best in the world. So we're not going to ever scrimp on something like that. And maybe at Investor Day, we can go a little bit more into how we try to manage the technology budget.

### **Jennifer Piepszak**

Yes. I'd like to just -- and then our call centers, Mike, we don't necessarily think about it just in terms of the number of people. We think about the productivity of the people. So the number of calls that they are able to take because you may have more people because of

more volume, but that's good, healthy volume with top line growth. But we're always making sure that the people in our call centers and the overall productivity of the call center is increasing.

### **James Dimon**

Yes. And with all the cyber stuff you read about, our fraud in cards and consumers come down, not gone up because of some of these deployed technologies in call centers. I would take you through all of them, but then we're telling them bad guys our secrets. But there are a lot of ways to stop some of the bad guys now.

### **Operator**

Our next question is from Saul Martinez of UBS.

### **Saul Martinez**

I'll start off with sort of a broader question on just the macro outlook. I think, Jen, you mentioned you feel the economy -- the U.S. economy is on sound footing, the consumer is obviously strong, but we are seeing some softening in the economic data. What are you hearing from clients? What are they telling you about whether they're concerned or whether there's increasing concern on policy, macro uncertainties? And how you're thinking about that going forward?

### **Jennifer Piepszak**

Sure. So on client sentiment, I think it's fair to say that perhaps the marginal investment is being impacted by trade fatigue in terms of the uncertainty. But broadly speaking, while it's slower growth, it's still growth. As I said, the U.S. consumer is incredibly strong. Consumer spending is strong. Sentiment is strong, so the consumer credit is good. And it is true that if you look at the ISM surveys, both manufacturing and nonmanufacturing, they were recently disappointing. So I would say, no doubt, cautionary signs, but credit remains very good, and there's still very healthy business activity.

### **Saul Martinez**

Okay. Great. That's helpful. On NII, just going back to NII, specifically in the CCB, if you adjust for the \$350 million, actually, grew sequentially, which was a pretty strong result. And I know guidance is at the consolidated level. But how do we think about the glide path in that business going forward and some of the puts and takes? Deposit pricing came in a

little bit at the consolidated level. I suspect some of that is commercial. But how do we think about that business and the NII trajectory? And is it possible that you can continue to grow that?

**Jennifer Piepszak**

So I mean there's no doubt that the business will be impacted by rate headwinds, as the implieds play out. We're not immune to that. But as I said earlier, there is at least a partial offset to that in growth. And so we still feel very good about the underlying growth that we're seeing there. And then just in terms of reprice, obviously, there's very little movement on the back of the SEBIs, given there's very little movement on the way up. And in fact, quarter-over-quarter, we saw rates paid in the consumer businesses tick up a little bit on slight migration that we continue to see into interest-bearing. But we love the platform. The branch expansion is going very, very well. And so we feel great about the continued growth there, but we won't be immune to rate headwinds.

**Operator**

Our next question is from Gerard Cassidy of RBC.

**Gerard Cassidy**

Can you guys give us some additional color on the Investment Banking backlog that you may have at the end of the third quarter? And then second, if you take a look at the success that you had Investment Banking grabbing more wallet share, is it coming here in North America or in Asia? Can you give us some color there as well?

**Jennifer Piepszak**

Sure. So on the IB pipeline, I would say it's healthy, although we do expect to be down in the fourth quarter, both sequentially and year-on-year, on very strong performances in the third quarter as well as the fourth quarter of last year. But overall, it feels healthy. And I would say, geographically, largely some strength in the U.S.

**Gerard Cassidy**

And then following up in the Markets business, again, you had good numbers. How important is the technology spending that you've been doing in Markets leading to grabbing more wallet share in both equity and FICC?

**James Dimon**

I think it's critical. If you walk on the trading floor today, the deployment of technology in automated trading algorithms in swaps and FX and equities, it's making its way into corporate buying. But I think it's critical you keep up with the technology in a very competitive business where market share matters.

## **Operator**

Our next question is from Eric Compton of MorningStar.

## **Eric Compton**

So I just want to step back and real big picture here. I mean net interest income, you're already starting to see some pressure there. Just I think the general commentary in the industry is the banks are just under pressure seemingly almost everywhere. You got to focus on expenses. And yet, you guys are still hitting returns on tangible at 18%.

So just stepping back, I mean, you still have a couple of billion to play with before you even start getting to that 17% long-term goal level. Like what worries you about potentially pushing you under that 17% level? It just seems like even with all the pressures in the industry, you're still even exceeding it. Other than onetime credit events really -- I guess stepping back, what worries you about pushing the bank to that or even below that from your perspective?

## **James Dimon**

And again, I think that you're overdoing the pressures on the banking industry. Okay. Because we've had growth in the United States for the better part of 10 years. And I'd say that the credit is extraordinarily good. So if you look at consumer credit, commercial credit, wholesale, it's extraordinarily good. It can only get worse if you have a cycle. So our 17% is -- we always sort of play just through the cycle. We are at the over-earning part of the cycle in credit today. At one point, we'll be at the under-earning part on credit. And of course, if you have a recession, it affects volumes and all these sort of things. So that's right -- that 17% is through the cycle and, frankly, not that bad.

## **Operator**

Our next question is from Marlin Mosby of Vining Sparks.

## **Marlin Mosby**

I wanted to ask you two kind of different venues of questions. First, is if you look at the balance sheet, security yields came down pretty significantly this quarter. Just wondered how much you had in premium amortization that was embedded in that. And then as you look at the interest-bearing deposit cost, we didn't get much traction on the first cut. But did you get a little bit more traction on lowering those rates as you went into the -- going into the fourth quarter?

### **Jennifer Piepszak**

Okay. Sure. So first, on securities yield. So that did play a role, Marty. But more importantly, the impact on securities yields came from mix and just lower rates overall. So predominantly, mix and lower rates, and then to a lesser extent, your point on prepaid as well as a little bit of day counts. And then on betas, broadly speaking, we'd say betas are symmetric. And so if you look at the retail side, as I said before, very little movement on SEBI. And we did see rates paid even tick up a little bit there quarter-on-quarter. Wholesale, there's obviously more opportunity to reprice, but we do that client by client. And we're not going to lose valuable client relationships over a few ticks of beta. And so what we saw there, as you might expect, in CIB, rates paid down quarter-over-quarter. And then we also saw rates pay down in both AWM and the Commercial Bank, but a little bit less so.

### **Marlin Mosby**

And then would you see retail improving next quarter? And then Jamie, I wanted to talk to you about liquidity. Two things. One, we saw the repo market. And as you looked at Volcker and the liquidity coverage ratios, you've kind of taken the big banks out of participating and being able to solve for some of those liquidity issues. So the Fed has kind of put a ring-fence around this, putting that all on their shoulders versus letting JPMorgan or Goldman Sachs or Bank of America jump in and help in those processes. And then when you sold the loans this quarter, those mortgage loans, and replaced them with securities, was that related to liquidity or just the decisioning process on that?

### **James Dimon**

So the loan decision is because we are at standardized capital now, which I think, by the way, risk -- I mean the advance is far more important, and we should probably report more than that because that's 13%. But when we're constrained by standardized, there are points in time when putting mortgage on your balance sheet just gives you a very low return. And of course, you have a portfolio decision. You can sell it or put it in your balance sheet. If you sell it, you're going to probably reinvest in securities. So it's a pure economic

calculation of what gives you a better return. And that's why, I think we need some fixes in the mortgage market about securitizations. Because I think we've pointed out, if you had built the securitizations, you have a healthy mortgage market, you keep some on them on your balance sheet. You sell some of the risk. And you wouldn't have to sell these mortgages per se.

And I do think -- and the liquidity, we've focused on liquidity at the Fed account. We have 400 -- probably total \$450 billion of cash, T-bills, repo, deposit at the Fed, and there's all -- a bunch of certain constraints. And you want to base a proper liquidity. But then I should also point out that those things go into getting multiple GSIB calculations, multiple other calculations. So you kind of calibrate, of course, all those things and optimize across all those things. But I do think you're correct. The banks are deploying now but they will not be able to redeploy a big chunk of that \$500 billion that we have in all the markets when the time comes. It's not Volcker per se. Volcker is a slightly different thing.

### **Jennifer Piepszak**

And then, Marty, I think you asked about fourth quarter. We do think we'll continue to see deposit margin compression there on the retail side. We have come off the peaks in terms of CD pricing, but you still have slight migration there into interest-bearing products.

### **Operator**

Our next question is from Ken Usdin of Jefferies.

### **Kenneth Usdin**

Jen, you had mentioned earlier just the point about that next year's earning asset growth will be led largely through deposits. But with all this mixing into your last point there about where the deposit margin pressure comes in, do you expect the constitution of deposit growth to change at all, whether it comes from the consumer business, wholesale or the Wealth Management complex?

### **Jennifer Piepszak**

Sure. Look, I think it's difficult to know. I think, in a declining rate environment, as I said, I think the higher-yielding alternatives are obviously less attractive for consumers. We do still see good organic growth in wholesale as well in both Treasury Services and Securities Services. So I think it's difficult to know. The macro environment will be a big determinant.

### **Kenneth Usdin**



Got it. Understood. And the second question, the card revenue margin you mentioned, it's kind of flattened out. And I'm just wondering, can you first walk us through the NII versus fee components there? Any -- is it partially because of that obvious NII challenge? Is there also any changes with regards to just the underlying card fee activity?

**Jennifer Piepszak**

Yes. There is really just timing. There's just seasonality there. So at Investor Day, we said that the card revenue rate would be 11 50%, plus or minus. But fourth quarter is a seasonally high quarter for us, and so we still expect to hit that 11 50%, plus or minus, for the full year guidance, so just seasonality.

**James Dimon**

And the thing I'd add here, it doesn't have the same compression that it does in deposits.

**Jennifer Piepszak**

Yes. Very different dynamic there.

**Operator**

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

**Matthew O'Connor**

Just I just want to follow up on -- you talked about the fourth quarter net interest come just under \$14 billion, and that's not a bad place to start for next year. You highlighted balance sheet growth and mix and had some puts and takes. But it's probably not as bad as I think some would have thought. Think about that \$14 billion-ish as potential run rate plus or minus. I'm just trying to better understand like what's the rate assumption that you have. And how much of a swing factor is the duration change that you did in the third quarter helping that?

**Jennifer Piepszak**

So I mean we're doing that based on the latest implieds. And it's obviously early days. We're working through our budget process as we speak. So it's based on the latest implieds, which have a cut in October and a cut in April. And 10-year, call it, 1.70% plus or minus. So relative to where we might have been just a couple of months ago, or even weeks ago, it might have been a different outlook. So I think it's important to take it with a health warning that's on the latest implied because that is, of course, what we know.

**James Dimon**

And it's assuming some balance sheet growth, as opposed to all things being equal. That would be worse.

**Jennifer Piepszak**

That's right. It would be worse. The balance sheet growth, that will partial offset to larger impacts from just rates.

**Matthew O'Connor**

And what is the rate sensitivity at this point? And how is that split between the short and long end?

**Jennifer Piepszak**

There, I would just say you can look at the earnings at risk that we'll have in the Q. I mean that's probably the best way to think about it. Because that is not an NII sensitivity, but is an interest rate sensitivity. And so that will be out in a few weeks.

**Operator**

Our next question is from Mike Mayo of Wells Fargo.

**Michael Mayo**

But Jamie, this is the first earnings call we've had since the Business Roundtable came up with a new statement that it's not about shareholder-driven capitalism, it's about stakeholder-driven capitalism. And I was hanging out at the New Yorker Festival over the weekend and your name came up, and at least one author said he spoke to you. And the real question, what is the political and regulatory risk to JPMorgan to earnings as we look out over a year? You're having the presidential debates. Over the weekend, people talked about -- and the politicians talked about the wealth tax, the transaction tax, the change in corporate tax, personal tax, basically flattening the pyramid. And it seems like a lot of people point their fingers at the banks, including JPMorgan. So my question to you is what are you doing...

**James Dimon**

They're pointing their fingers as base on what? Point their fingers as a base for what?

**Michael Mayo**

I think part of the cause, part of the cause of inequality in America. Banks should be doing more to help out the situation. And again, it's a whole -- this is just one example, Mike. The way I saw this at the New Yorker Festival, this was kind of intellectual underpinnings of a lot of the policies that are being introduced today. And so you're seeing that in the politicians' statements about wealth tax, changes to the bank business model, too much deregulation. And it's just an environment -- I mean here we are 10 years after the financial crisis, where I would summarize it as very anti-bank. And I know JPMorgan had proposals to help move the company and the country ahead. But how do you, as head of the Business Roundtable, help the industry and corporate America manage these concerns about income inequalities and these other topics that come up in the presidential debates. I know it's a big question. But hey, you're in that role as -- with the Business Roundtable.

### **James Dimon**

Okay. So the Business Roundtable, checking -- get rid of shareholder value, basically said shareholder value and customers and employees and communities, which essentially has been how many of these banks been running for years. I think part of the statement was a lot of the world looked at shareholder value and it -- that you have rapacious profit seeking. Whereas most CEOs are thinking pretty long term, building people, taking care of their employees, their customers. And we can highlight all the great things we do for employees: huge training, health, wellness, retirement, sharing the wealth inside the company. And we do, do all that. And most of these companies do that. A lot of these larger companies, they're great community citizens when it comes to trying to participate and help and stuff like that. So I do think -- and so as a JPMorgan matter, we're going to grow our businesses and serve our clients as best we can whatever the environment is.

That environment changes. Politically, it changes. Economically it changes, geopolitically. But we're just going to navigate to do the best we can, serving our clients the best we can. And I do think that we try -- and I'm speaking for a lot of -- to try to do a tremendous amount to help the communities because there have been people left behind. The inner city schools are not failing because of banks, okay? And infrastructure is not failing because of banks. So I think we can help build infrastructure, help train people, get more skills, get involved with education systems and like all the kind of stuff that a lot of us all do in Detroit, we could lift up society. And I think it's good for us to lift up society. And when society does better, everyone does better.

If you don't believe me, look at Venezuela, Argentina, Cuba, North Korea, et cetera, that doing well is a good thing for society, and we can share the wealth a little bit. So I'm not going to respond to specific political statements out there, but we'll do our part to be a great community citizen and serve our shareholders at the same time.

**Michael Mayo**

So can I put words in your mouth? I mean doing well for communities and employees and all the other stakeholders is good for the shareholders long term. Is that...

**James Dimon**

Yes. And Mike, I actually gave examples in the crisis about the amount of people that we financed at markets way -- prices way below the market. We're doing that to make rapacious profit seeking? No. And that included states, cities, hospitals, businesses, consumers et cetera. And so you won't be -- but our attitude was not going to help our clients get through this tough time. It wasn't about our profitability. Our profitability dropped dramatically, and we were fine. And I think that was a long-term thinking, but you can never get sued over that. So -- and same time we do with employees. We're constantly investing in employees and branches, in jobs and training. That stuff will benefit 3 years out, 5 years out, 10 years out, 20 years out.

**Operator**

Our next question is from Brian Kleinhanzl of KBW.

**Brian Kleinhanzl**

Quick question on equity trading. I know you gave an update on where you thought the revenues would come in, in mid-September. Looks like it came in worse than what you were looking for. Is there a way to kind of break out what was the impact of the potential marks on investments versus true equity trading revenues?

**Jennifer Piepszak**

Sure. In equity derivatives, it was a combination of weaker client activity and some losses on inventory, but it wasn't meaningful. Those losses were certainly not meaningful in the grand scheme of things, but they were part of the equity derivatives story.

**Brian Kleinhanzl**

But there wasn't any other additional investments in there that had marks on them impacting the numbers?

**Jennifer Piepszak**

No.

**Brian Kleinhanzl**

Okay. And then separately on CECL. I know you've been doing parallel runs, as all banks have been. Are you at the point now where you can kind of give what the pro forma provision will be for CECL? Or do you plan on doing that prior to the adoption date?

**Jennifer Piepszak**

Well, as we said at Investor Day, the range is \$4 billion to \$6 billion. We've done a ton of work, as you say, and a lot of modeling. The range is still between \$4 billion and \$6 billion. And we'll be able to be more precise, obviously, as we prepare for the January 1 implementation.

**Operator**

Our next question is from Betsy Graseck of Morgan Stanley.

**Betsy Graseck**

One follow-up on the equity. I mean I know DB books were in the market, and I believe that you were a winner of some of that. Is that in these numbers in 3Q or that comes in, in 4Q?

**James Dimon**

There was some fine balance I think you're referring to. I don't know the answer to that.

**Jennifer Piepszak**

It was not meaningful whatever it is.

**Betsy Graseck**

Okay. All right. And then separately, there's been some news obviously on discount brokers cutting commissions to 0. I know you have You Invest and that that's a recent launch. But how do you think about how that impacts your business model? Is that just

something that you would consider is specific to You Invest? Or do you think that that's something that would have a bigger impact and potentially more optionality for your clients across your wealth spectrum?

**Jennifer Piepszak**

So majority of our customers in You Invest already trade for free, and so we're pleased to see the market moving toward us. As we think about You Invest, it is one component of our broader investment strategy. And as I said, we're really proud of this quarter's results with client investment assets being up 13%. It was an important product launch for us in terms of meeting an unmet need with our existing customers, but we're pleased to see the market moving toward us.

**James Dimon**

Yes. And there's strength in You Invest. We still are improving the products over time. We haven't done a tremendous amount of marketing. Kind of want to get it all right both You Invest and You Invest Portfolios, and then we'll figure out all the exact specific pricing around it.

**Operator**

And we have no further questions at this time.

**Jennifer Piepszak**

Thank you.

**James Dimon**

Thank you.

**Operator**

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