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Q2: 2023-07-14 Earnings Summary

Play Call | 10-Q

EPS of $4.75 beats by $0.99 | Revenue of $41.31B (34.48% Y/Y) beats by $2.46B

JPMorgan Chase & Co. (NYSE:JPM) Q2 2023 Earnings Conference Call July 14, 2023 8:30 AM ET

Company Participants

Jamie Dimon - Chairman and CEO
Jeremy Barnum - CFO

Conference Call Participants

Jim Mitchell - Seaport Global Securities
Erika Najarian - UBS
John McDonald - Autonomous Research
Ken Usdin - Jefferies
Gerard Cassidy - RBC Capital Markets
Ebrahim Poonawala - Bank of America
Mike Mayo - Wells Fargo Securities
Steve Chubak - Wolfe Research
Glenn Schorr - Evercore ISI
Betsy Graseck - Morgan Stanley
Matt O'Connor - Deutsche Bank
Charles Peabody - Portales Partners

Operator

Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Second Quarter 2023 Earnings Call. This call is being recorded. Your line will be muted for the duration of the call. We will now go to the live 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, Jeremy Barnum.

Mr. Barnum, please go ahead.

Jeremy Barnum

Thanks, operator. Good morning, everyone. Presentation is available on our website and please refer to the disclaimer on the back.

Starting on Page 1, the firm reported net income of $14.5 billion, EPS of $4.75 on revenue of $42.4 billion and delivered an ROTCE of 25%. These results included the First Republic bargain purchase gain of $2.7 billion and credit reserve build for the First Republic lending portfolio $1.2 billion as well as $900 million of net investment securities losses in Corporate. Touching on a few highlights, CCB Client investment assets were up 18% year-on-year, we had record long-term inflows in AWM and we ranked number one in IB Fee wallet share.

Before giving you more detail on financials, let me give you a brief updates on the status of the First Republic integration on Page 2. The settlement process with the FDIC is on schedule, the number of key milestone being recently completed. Systems integration is also proceeding at pace and we are targeting being substantially complete by mid-2024.

First Republic employees have formally joined us as of July 2, and we're pleased to have had very-high acceptance rates on our offers. And although it's still early days, as we get the sales force back in the market, we are happy to see the client retention is strong with about a $6 billion of net deposit inflows since the acquisition.

Now, turning back to this quarter's results on Page 3. You'll see that in various parts of the presentation, we have specifically called out the impact of First Republic where relevant. To make things easier. I'm going to start by discussing the overall impact of First Republic on this quarter's results at the firm-wide level. Then, for the rest of the presentation, I will generally exclude the impact of First Republic, in order to improve comparability with prior periods.

With that in mind, in this quarter, First Republic contributed $4 billion of revenue, $599 million of expense and $2.4 billion of net income. As noted on the first page, this includes $2.7 billion of bargain purchase gain, which is reflected in NIR in the Corporate segment as well as $1.2 billion of allowance build. And remember that the deal happened on May 1, so the First Republic numbers only represent two months of results.

You'll see in the line-of-business results that we are showing First Republic revenue as allowance in CCB, CB and AWM. And for the purposes of this quarter's results, all of the deposits are in CCB and substantially all of the expenses are in Corporate. As the integration continues, some of those items will get allocated across the segments.

Now turning back to firm-wide results excluding First Republic. Revenue of $38.4 billion was up $6.7 billion or 21% year-on-year. NII, ex-markets, was up $7.8 billion or 57%, driven by higher rates.

NIR ex-markets was down $293 million, largely driven by the net investment securities losses I mentioned earlier, partially offset by a number of less notable items, primarily in the prior year. And markets revenue was down $772 million or 10% year-on year.

Expenses of $20.2 billion were up $1.5 billion or 8% year-on year, primarily driven by higher compensation expense including wage inflation and higher legal expense. And credit costs of $1.7 billion included net charge-offs of $1.4 billion, predominantly in card.

The net reserve build included a $389 million build in the commercial bank and $200 million build in card and a $243 million release in corporate, all of which I will cover in more detail later.

On to balance sheet and capital on Page 4. We ended the quarter with a CET1 ratio at 13.8%, flat versus the prior quarter as the benefit of net income less distributions was offset by the impact of First Republic. And as you can see in the two charts on the page, we've given you some information about the impact of the transaction on both RWA and the CET1 ratio.

And as you know, we completed CCAR a couple of weeks ago. Our new indicative SCB is 2.9% versus our current requirements of 4% and it goes into effect in 4Q '23. The new SCB also reflects the Board's intention to increase the dividend to $1.05 per share in the third quarter.

On liquidity, our bank LCR for the second quarter ended at 129%, in line with what we anticipated at Investor Day. About half of the reduction is associated with the First Republic transaction. And while we're on the balance sheet, as we previewed in the 10-K, we will be updating our earnings at-risk model to incorporate the impact of deposit repricing ladders.

So when we released this quarter's 10-Q, you will see the up 100 basis point parallel shift scenario will be about positive $2.5 billion, whereas in the absence of the change, it would have been about negative $1.5 billion.

Now, let's go to our businesses starting with CCB on Page 5. Both U.S. Consumers and Small Businesses remained resilient and we haven't observed any meaningful changes to the trends in our data we discussed at Investor Day. Turning now to the financial results, which I will speak to excluding the impact of First Republic for CCB, CB and AWM. CCB reported net income of $5 billion on revenue of $16.4 billion, which was up 31% year-on year.

In Banking & Wealth Management, revenue was up 59% year-on-year, driven by higher NII on higher rates. End-of-period deposits were down 4% quarter-on-quarter, as customers continue to spend down their cash buffers, including for seasonal tax payments and seek higher-yielding products. Client investment assets were up 18% year-on year, driven by market performance and strong net inflows across our adviser and digital channels.

In Home Lending, revenue was down 23% year-on-year, driven by lower NII and higher loan spreads and lower servicing and production revenue. Originations were up quarter-on-quarter, driven by seasonality, although still down 54% year-on-year.

Moving to Card Services & Auto, revenue was up 5%, largely driven by higher card services NII on higher revolving balances, partially offset by lower auto lease income. Card outstandings were up 18% year-on-year, which was the result of revolve normalization and strong new account growth. And in Auto, originations were up $12 billion, up 71% year-on-year as competitors pulled back and inventories continued to slowly recover.

Expenses of $8.3 billion were up 8% year-on-year, driven by compensation, predominantly due to wage inflation and headcount growth as we continue to invest in our front office and technology staffing as well as marketing.

In terms of credit performance this quarter, credit costs were $1.5 billion, reflecting the reserve build of $203 million, driven by loan growth in Card Services. Net charge-offs were $1.3 billion, up $640 million year-on-year, predominantly driven by Card as 30 day past delinquencies have returned to pre-pandemic levels, in line with our expectations.

Next, the CIB on Page 6. CIB reported net income of $4.1 billion on revenue of $12.5 billion. Investment Banking revenue of $1.5 billion was up 11% year-on-year or down 7% excluding bridge book markdowns in the prior year. IB fees were down 6% year-on-year and we ranked Number One with year-to-date wallet share of 8.4%. In advisory, fees were down 19%. Underwriting fees were down 6% for debt and up 30% for equity with more positive momentum in the last month of the quarter.

In terms of the second-half outlook, we have seen encouraging signs of activity in capital markets, and July should be a good indicator for the remainder of the year. However, year-to-date announced M&A is down significantly, which will be a headwind.

Moving to Markets, total revenue was $7 billion, down 10% year-on-year. Fixed-income was down 3%. As expected, the macro franchise substantially normalized from last year's elevated levels of volatility and client flows. This was largely offset by improved performance in the Securitized Products Group and Credit.

Equity markets was down 20% against a very strong prior year quarter, particularly in derivatives. Payments revenue was $2.5 billion, up 61% year-on-year. Excluding equity investments, it was up 32%, predominantly driven by higher rates, partially offset by lower deposit balances. Security services revenue of $1.2 billion was up 6% year-on-year, driven by higher rates, partially offset by lower fees.

Expenses of $6.9 billion were up 1% year-on-year, driven by higher non-compensation expense as well as wage inflation and headcount growth, largely offset by lower revenue-related compensation.

Moving to the Commercial Bank on Page 7. Commercial Banking reported net income of $1.5 billion. Revenue of $3.8 billion was up 42% year-on-year, driven by higher deposit margins. Payments revenue of $2.2 billion was up 79% year-on-year, driven by higher rates. Gross Investment Banking and Markets revenue of $767 million was down 3% year-on-year, primarily driven by fewer large M&A deals.

Expenses of $1.3 billion were up 12% year-on-year, predominantly driven by higher compensation expense, including front office hiring and technology investments, as well as higher volume-related expense. Average deposits were up 3% quarter-on-quarter driven by inflows related to new client acquisition, partially offset by continued attrition in non-operating deposits.

Loans were up 2% quarter-on-quarter. C&I loans were up 2%, reflecting stabilization in new loan demand and revolver utilization in the current economic environment as well as pockets of growth in areas where we are investing. CRE loans were also up 1%, reflecting funding on prior year originations for construction loans and real-estate banking as well as increased affordable housing activity.

Finally, credit costs were $489 million. Net charge-offs were $100 million, including $82 million in the office real-estate portfolio and the net reserve build of $389 million was driven by updates to certain assumptions related to the office real-estate market as well as net downgrade activity in Middle Market banking.

Then, to complete our lines of business, AWM on Page 8. Asset & Wealth Management reported net income of $1.1 billion with pretax margin of 32%. Revenue of $4.6 billion was up 8% year-on-year, driven by higher deposit margins on lower balances and higher management fees on strong net inflows.

Expenses of $3.2 billion were up 8% year-on-year, driven by higher compensation, including growth in our private banking adviser teams, higher revenue-related compensation and the impact of Global Shares and JPMorgan Asset Management China, both of which closed within the last year.

For the quarter, record net long-term inflows were $61 billion, positive across all channels, regions and asset classes, led by fixed-income and equities. And in liquidity, we saw net inflows of $60 billion.

AUM of $3.2 trillion was up 16% year-on-year and overall client assets of $4.6 trillion were up 20% year-on-year, driven by continued net inflows, higher market levels and the impact of the acquisition of Global Shares. And finally, loans were down 1% quarter-on-quarter, driven by lower securities-based lending and deposits were down 6%.

Turning to Corporate on Page 9. As I noted upfront, we are reporting the First Republic bargain purchase gain and substantially all of the expenses in Corporate. Excluding those items, Corporate reported net income of $339 million; revenue was $985 million, up $905 million compared to last year; NII was $1.8 billion, up $1.4 billion year-on-year due to the impact of higher rates; NIR was a net loss of $782 million and included the net investment securities losses I mentioned upfront.

Expenses of $590 million were up $384 million year-on year, largely driven by higher legal expense. And credit costs were a net benefit of $243 million, reflecting reserve release of the deposit placed with First Republic in the first quarter was eliminated as part of the transaction.

Next, the outlook on Page 10. We now expect 2023 NII and NII ex-markets to be approximately $87 billion, the increase driven by higher rates coupled with slower deposit repricing than previously assumed across both consumer and wholesale.

And I should take the opportunity to remind you once again that significant sources of uncertainty remained and we do expect the NII run rate to be substantially below this quarter's run-rate at some point in the future, as competition for deposits plays out. Our expense outlook for 2023 remains approximately $84.5 billion. And on credit, we continue to expect the 2023 card net charge-off rate to be approximately 2.6%.

So, to wrap up, we are proud of the exceptionally strong operating results this quarter. As we look forward, we remain focused on the significant uncertainties relating to the economic outlook, competition for deposits and the impact on capital from the pending finalization of the Basel III rules. Nonetheless, despite the likely headwinds ahead, we remain optimistic about the Company's ability to continue delivering excellent performance through a range of scenarios.

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

Question-and-Answer Session

Operator

The first question is coming from the line of Jim Mitchell from Seaport Global Securities. You may proceed.

Jim Mitchell

Thanks. Good morning. Hey Jeremy, you talked about NII guidance up. Clearly, Fed funds futures are up, so it makes some sense. But maybe, I guess first, could you kind of discuss, I guess, comment on deposit behavior broadly around betas and mix and what you're seeing there? So far, it seems to be coming in a little better expected. And then secondly and probably more importantly, can you help us think about the implications of higher for longer rates on the outlook for NII next year and beyond. I guess the intermediate term outlook that you guys have talked about.

Jeremy Barnum

Yes, sure. Thanks, Jim. So -- yes, so when we talk about the drivers of the upward revision, as I said, it's higher rates coupled with lower deposit reprice, hard to untangle the two drivers. And specifically, I think when you look at consumer, the combination of the passage of time and the positive feedback we're getting from the field and the CD offerings in particular has meant that it's quite a stable environment from that perspective. And similarly in wholesale, we're just seeing slower internal migrations.

You asked about mix. I think that obviously, we're seeing the CD mix increase and we would continue to expect -- we would continue to -- we would expect that to continue to take place, probably even past the peak of the rate cycle into next year as we continue to capture money in motion.

But as you say, the most important point is the fact that, as I said earlier, we don't consider this level of NII generation to be sustainable and we talked previously about the medium-term run-rate in the mid-70s. That was before First Republic and you could argue that maybe that number should be a little higher, but whatever it is, it's a lot lower than the current number.

We don't know when that's going to happen. We're not going to predict the exact moment. That's going to be a function of competitive dynamics in the marketplace, but we want to be clear that we do expect it at some point.

Jim Mitchell

Okay. But, I guess I just one to follow-up on that, just if we don't get rate cuts, sorry, until middle of next year or later, does that sort of give some confidence to the outlook for next year or are you still worried about significant reprice?

Jeremy Barnum

I wouldn't necessarily assume that the evolution from the current run-rate into that mid-70s number is that sensitive to the rate outlook in particular. When we put that number out there, we looked at a range of different types of rate environments and the reprice that we think would be associated with that. It was really meant to capture more of what we consider to be a through-the-cycle sustainable number. So, I wouldn't think of it as being particularly rate dependent.

Jim Mitchell

Okay, great. Thanks.

Operator

Next, we'll go to the line of Erika Najarian from UBS. You may proceed.

Erika Najarian

Hi, good morning, Jeremy. I'm just laughing to myself, because I said to you at Investor Day, do you have any more NII rabbits to pull out of the hat and I guess you do. So I guess, I want to ask a broader question really here, and maybe Jamie I'd like to get your thoughts. So you earned 23% ROTCE on 13.8% CET1. And we hear you loud and clear that your more normalized NII generation is not $87 billion. That being said, and fully taking into account the potential haircut from Basel III end game, is it possible that your natural ROTCE is maybe above that 17% through the cycle rate when rates aren't zero, because when you first introduced that ROTCE target, we were in a different role from a rate scenario and everybody is talking about, even if the Fed cuts, the natural sort of bottom in Fed funds is not going to be zero. So, any input on that would be great.

Jeremy Barnum

Yes. Thanks, Erika. I mean it's a good question. There is a lot in there obviously. I guess I would start by saying that when we talked about the 17% through-the-cycle ROTCE, even though we may have introduced that in a moment where we about the lowest zero bond, it was always premised on a sort of normalized rate environment. And at some level, that remains true today.

Furthermore, you didn't ask this explicitly, but in the context of the proposed Basel III end-game, one relevant question might be, if you have a lot more capital in the denominator, what happens to that target. So, I think as I said in my prepared remarks, we feel very confident about the Company's ability to produce excellent returns through the cycle. There's a lot of moving parts right now in that. Some of them could be good, some of them could be bad.

Narrowing on the capital one, the one thing to point out is that the straight-up math, simply diluting down the ROTCE by expanding the denominator misses the possibility of reprice, you know repricing on products and services, which of course goes back to our point that these capital increases do have impacts on the real economy.

So, I'm not suggesting that we can price our way out of it, but we obviously need to get the right returns on products and services, and where we have pricing power, we will adjust to the higher capital.

So a lot of moving parts in there, but I think the important point is that through a range of scenarios, we feel good about our ability to deliver good results and we'll see how the mix of all the various factors plays out, especially after we see the Basel III proposal and it goes through the common period.

Jamie Dimon

Erika, I'd say one thing. First we have a mix of businesses that earn from like 0% ROTCE to 100%. We have some which are very capital intensive, so we look at kind of all of them and I think 17% is a good number and a good target. The other thing we're earning on is credit. We've been over earning credit for a substantial amount of time now, we're quite cautious about it. We know that it's going to kick-off just as a normalized it will be, considerably more than that is now. Like, we would consider credit card normalized to be close to 3.5%.

Erika Najarian

And, so my follow-up question there, maybe Jeremy, could you remind us what unemployment rate has embedded in your ACL ratio as of the second quarter?

Jeremy Barnum

Yes, it's still 5.8%.

Erika Najarian

Thank you.

Operator

Next, we'll go to the line of John McDonald from Autonomous Research. You may proceed.

John McDonald

Hi. Good morning. Jeremy, wanted to ask about capital in the wake of the Barr speech, we don't have the details yet, but just kind of want to ask about options that you have and strategies for mitigation, both on RWA and potentially on the G-SIB front as well as you contemplate what you heard recently?

Jeremy Barnum

Yes, thanks, John. So, obviously, we're thinking about that a lot. On the other hand, as much as there have been a lot of very detailed rumors out there that might lead you to start to try to do some planning, it does seem like this time it's real and we are actually going to get a proposal, ultimately sometime this month or something. So soon enough, we'll get to see something actually on paper and we can stop kind of the guesswork.

Having said that, indulging in a little bit of guesswork, it does seem like the biggest single driver of the increase that people are talking about including Chair, Powell's 20% number or Vice Chair Barr's 2% of RWA which runs up being roughly the same, is just the way operational risk is getting introduced into the standardized pillar.

And that is a little bit of a straight-up across-the-board tax on everything. It's kind of hard to optimize your way out of that, with the exception, obviously, of the fact that you can simply increase price, assuming you have pricing power, but that's obviously not what we want and that's what we sort of mean by impacts on the real economy.

So there are details, there is a lot of the FRTB stuff, we can get way into the weeds there within the markets business and we do have a good track-record of adjusting and optimizing. But this time around, it may be a more fundamental set of questions around business mix as opposed to the ability to sort of optimizing in a very technical way.

John McDonald

Okay, that's helpful. And with a number of years for this to phase-in and you generating capital at a high level, even if the ROTCE comes down a bit. How should we think about your pace of building capital for these new changes versus doing your everyday course of investing and buybacks and things like that over the next couple of years?

Jeremy Barnum

Yes. I mean, I guess I'm sort of tempted to give you our standard capital hierarchy here. I mean, we're not going to stack back investments, right, that won't come as a surprise to you. Generally speaking, we're always going to try to comply with new requirements early. So, when we know the requirements, I mean when we have visibility, obviously given how much organic capital we're generating right now, whatever the answer winds up being, it will be pretty easy to comply, narrowly speaking.

But that's not the same as saying that there won't be consequences to returns or to pricing. And if for whatever reason, things aren't exactly as we're anticipating, I don't see us sacrificing investments that we see are strategically critical in order to comply with higher capital requirements ahead of the formal timing or whatever.

John McDonald

Okay. And there is some room for buybacks?

Jeremy Barnum

Unlikely, obviously. That would be an unlikely outcome.

John McDonald

Okay, thank you.

Jeremy Barnum

Sorry, John, go ahead. Did you have a follow-up?

John McDonald

Yes. No, just do buybacks play a role in the next couple of years, strategically, just episodically you buyback?

Jeremy Barnum

I mean, capital hierarchy again, right. In the end, when we have nothing else to do with the money, we'll do buybacks and we've talked about the $12 billion for this year. Obviously, lot of new moving parts there, although all else equal, given what we've done so far, that's still probably a reasonable number for the full year. But, yes, that's always going to be at the end of the list, but, yes.

John McDonald

Got it. Okay, thank you.

Operator

Next we'll go to the line of Ken Usdin from Jefferies. You may proceed.

Ken Usdin

Well, thanks, good morning. I just wanted to ask a little bit about, how you're feeling about the trade-off between like the commercial economy and what might come through in terms of future loan growth versus the kind of green shoots that people are talking about in the investment banking pipeline. And just how it feels in terms of like reopening of markets and the trade-off between getting similar to those fees and versus what's happening on the loan demand side. Thanks.

Jeremy Barnum

Sure. Good question, Ken. So I think in terms of investment banking end markets, yes, slightly better than expected last month. While there's talk about green shoots, especially in capital markets generally still definitely some headwinds in M&A, lower amounts of activity, some regulatory headwinds there. So we'll see -- I think it's a little too early to call a trend there based on recent results, but we'll see.

In terms of the broader economy and loan growth expectations. Generally, we do still expect reasonably robust card loan growth. But away from that, for a variety of different reasons at different products, whether it'd be mortgage or C&I, after revolver normalization, and especially if we see a little bit of a cooling off of the economy, I would expect loan demand to be relatively modest there.

So we're not really expecting meaningful growth away from card. But of course, we're there for the right deals, right products, right terms, we went through the cycle. So, I see that as more of a demand-driven narrative, which will be a function of the economy rather than any tightening on our side.

Ken Usdin

That makes sense. And as a follow-up to that. On the consumer side, you mentioned that consumers continue to spend, albeit a little more slowly and you mentioned that consumers are also using their excess deposits, a little bit more as well. Could you just elaborate a little bit more on just your feeling about the state-of-the consumer and is that card growth continue to be driven by people needing to revolve as opposed to wanting to have more in their deposits just kind of what the trade-off on that side to.

Jeremy Barnum

Yes. I mean to us, I think we still see this as a normalization not deterioration story when we talk about consumer credit. Actually revolve per account has still not gotten to pre pandemic levels actually. So, I would definitely say there's a wanting rather than needing at least for our portfolio at this point. And yes, I think that consumer continues to surprise on the upside here.

Ken Usdin

Got it. Okay, thank you.

Operator

Next we'll go to the line of Gerard Cassidy from RBC Capital Markets. Please go ahead.

Gerard Cassidy

Good morning, Jeremy and good morning, Jamie. Jeremy, can you give us your view on how you're measuring the treasury functions and the asset-liability of your balance sheet as we go forward versus the way you guys were positioning and managing it a year-ago in view of the fact that it looks like maybe we're approaching the terminal rate on Fed funds rates?

Jeremy Barnum

Yes. Gerard, I would say, honestly, not much change there actually, no. We've been pretty consistently concerned about the risk of higher rates. Of course, we always try to position things to produce reasonable outcomes across a broad range of scenarios. But at the margin, we've been biased towards higher rates and that maybe a little less true at these levels than it was before, although lot of that is just the consequence of deposit comp actually playing out in the modeling. But in any case, all else equal, I think we are going to continue to focus on making sure we're fine in a higher-rate scenario, while staying balanced across a range of scenarios.

So not really a lot of change in our positioning and that's obviously, including the fact that we took on First Republic, which even net of some of the liabilities, had a long structural interest rate position. We did not actually want to get longer as part of the deal, and so as a result, we took actions to ensure that net-net, we were still about the same as we were last quarter.

Gerard Cassidy

Very good. And then as a follow-up, you mentioned in giving us the read-through on the Commercial Banking segment of the business that you'd had some reserve building tied to some office real-estate and also some downgrades in the middle-market area. Can you go a little deeper? What are you guys seeing in this area of both commercial real estate but at also the C&I loans, what's happening in that segment as well?

Jeremy Barnum

Yes, so. I would caution you from drawing too broad a conclusion from this. I mean. I think that when we talk about office versus, for example. Our portfolio, as you know is quite small, and our exposure to sort of so-called urban dense office is even smaller. The vast majority of our overall portfolio is multifamily lending. So as a result our sample size of observed valuations on office properties is quite small, but you know, we'd like to be sort of ahead of the cycle.

And based on everything that we saw this quarter it's just felt reasonable to build a little bit there to get to what felt like a comfortable coverage ratio. Across the rest of - the middle market segment, we saw downgrades and excess of upgrades. But, I don't see that as sort of necessarily indicative of anything terribly significant in the broader read-across.

Gerard Cassidy

Thank you.

Operator

Next we'll go to the line of Steve Chubak from Wolfe Research. Please go ahead. Steve you there?

It looks like his line dropped. Next we'll go to the line of Ebrahim Poonawala from Bank of America. You may proceed.

Ebrahim Poonawala

Good morning. I guess just first question, following-up on the outlook for the economy, like we've all been worried about a recession for year and there is a debate about the lagged effects of the Fed rate hike cycle when you think about -- Jeremy, I think you mentioned you have an unemployment outlook relatively similar today versus a quarter ago. How worried should we be in terms of the credit cycle six months to 12 months from now or are you leaning towards concluding that maybe U.S. businesses, consumers have absorbed the late-cycle a lot better than we expected a year ago.

Jeremy Barnum

Yes. So I'm sure, Jamie has some views here. But in my view, I would just caution against jumping to too many super positive conclusions based on a couple of recent trends. And I think generally our point is less about trying to predict a particular outcome and more about trying to make sure that we don't get too much euphoria that over concentrates people on one particular predictions when we know that there is a range of outcomes out there.

So obviously, people are talking a lot about the potential for a soft lending right now. No lending, immaculate dis-inflation or whatever and whether our own views on that have changed meaningfully. I don't know, but the broader point is we continue to be quite focused on, Jamie's prior comments that loss rates still have time to - room to normalize even post-pandemics we're probably over-earning on credit a little bit

Obviously, we've talked about the expectation that the NII is going to come down quite a bit, so even, forgetting about whether you've got some surprisingly negative outcomes on the economy from where we stand today even in the central case, you just need to recognize that there should be some significant normalization.

Jamie Dimon

Yes. And I would just add, the 5.8% is not our prediction, that is the average of the unemployment under multiple scenarios that we have to use which are hypothetical for CECL. So you asked us predictions, we're going to look something different and we don't know the outcome. We trying to be really clear here, the consumer is in good shape. They're spending down their excess cash. That's all tailwinds. Even if we go to recession, they're going with rather good condition, low borrowings and good high price-value still but the headwinds are substantial and somewhat unprecedented.

This war in Ukraine, oil gas, market timing, unprecedented fiscal, needs of governments, QTs which we've never experienced before, I just think people should take a deep breath of that and we don't know if those things could put us in a soft landing in mild recession or hard recession. And obviously, we still hope for the best.

Ebrahim Poonawala

Got it. And just a follow-up on the upcoming Basel reforms. Two questions. You've talked about the impact of the U.S. economy like others have said the same, at this point is that falling on deaf ears. And secondly, maybe, Jeremy if you can touch upon, just structural changes that you expect to make in the capital markets business because of FRTB. Thank you.

Jeremy Barnum

Yes, so on your first point I mean, I think you can just read Vice-Chair Barr's speech, right? He addressed that point fairly directly. He clearly doesn't agree as this is right. So we'll see what happens. We continue to feel that all else equal, higher capital requirements, definitely are going to increase the cost of credit, which is bad for the economy. So we'll see what happens on that.

On FRTB, it's really very nuanced, it's probably like too much detail for this call to be honest, but just to give you like one immaterial and insignificant but useful example. One product under FRTB is yield curve spread options and if the FRTB proposal goes through, as currently written, that product becomes not viable. So obviously, if we need to stop doing that product, no one really cares, but it's just one example of the way, sometimes when you're really disciplined about allocating capital thoroughly, all the way down to new products and responding accordingly, you can wind-up having to change our business mix there.

Obviously, more significant products that matter much more of a real economy like mortgage where, the layering on of the operational risk in the way it's being proposed, especially if some of the other beneficial elements of the proposal don't come through, you're once again, making the product even harder to offer the homeowners, so we'll see, we'll see what happens.

Jamie Dimon

And I would just add to that even if you're product doesn't make money, you might do it for clients who are great clients. You got managed by product, by client and by effectively business mix and further adjustments. Roughly loans don't make sense for your balance sheet as a whole, almost any loan. And it's you have to recognize that and we just have to manage through all the various complications here and you're know what to do.

Ebrahim Poonawala

Got it. Thank you.

Operator

Next we'll go to the line of Mike Mayo from Wells Fargo Securities. You may proceed.

Mike Mayo

Hi. I had another question on Vice-Chair Barr's speech from this week. To the extent the capital ratios do go up 20% for you. And perhaps others to what degree would you think about changing your business model in terms of remixing, will you do business repricing or simply removing activities that you used to do it. Kind of ironic, or maybe it's not ironic but Apollo hit an all-time stock price high the same week as to speech. So does that - how much business leaves JPMorgan or the industry if capital ratios do go up as much as potentially proposed.

Jamie Dimon

Yes. Before Jeremy answers your question, I think this is great news for hedge funds, private-equity, private credit, Apollo, Blackstone and the [gas industries].

Jeremy Barnum

Exactly. And I was going to say Mike, yes to everything. So, we mean, repricing, yes, definitely. To the extent that we have pricing power and the higher capital requirements, mean that we're not generating the right returns for shareholders, we will try to reprice and we'll see how that sticks and how that flows into the economy and how that affects demand for products. And if the repricing is not successful then in some cases, we will have to remix and that means getting out of certain products and services.

And as Jamie points out, that probably means that those products and services we have the regulated perimeter and go into elsewhere and that's fine, as Jamie pointed out, those people are clients and I think that point was addressed also in Vice-Chair Barr's speech. So, but traditionally, having risky activities we have a regulated perimeter has had some negative consequences. So these are all important things to consider.

Mike Mayo

All right. And a separate question, I appreciate the Investor Day. It gives a little bit more color on the degree that your investment may or may not pan-out. We are still all watching that closely. Having said that you've just increased revenue guidance by $10 billion for NII, between this quarter and the first quarter without changing expense guidance by even $1. Are you tempted to spend a little bit more, why not then more if you're gaining share and I'm not saying you should. I'm just wondering like, aren't you tempted to do so. You've $10 billion more revenues, you're not spending $1 more of expenses like why not?

Jamie Dimon

Mike, let me get this right. You're actually complaining that our expenses aren't high enough, is that right?

Mike Mayo

Wait, just to be clear, just a flip side of the question I asked for two years, going back, whether or not, but -

Jeremy Barnum

Fair enough. I appreciate the balance. Now in all seriousness, we've always been pretty clear right that our spending is through the cycle spending, based on through the cycle investment, through the cycle spending based on our through the cycle view of the earnings generating power of the company and the goal to produce the right returns. So broadly speaking, NII tends to flow straight through to the bottom-line, both when it's going up, and by the way, when it's going down too and we've been through those moments, as you all remember.

So, whether or not there are opportunities to deploy some more dollars into marketing and stuff like that, we had actually looked at that recently. I don't see that being a meaningful item this year, which is part of why we have not revised the expense guidance so far. But this is about investing through-the-cycle and being honest and disciplined about which revenue items flow will carry expense loading and which of them don't.

Mike Mayo

And then last quick follow-up.

Jamie Dimon

I think we're kind of running as fast as we can. So you actually set down the risk credit compliance, audit market bankers recruiter trainers -- this is it. We're a full effort right now. And we want to make sure we get things right and get things thoughtful and careful. So it's not just the money, it's the people and how many things can change all the once and add to all at once.

Mike Mayo

And then one quick follow-up to that. Your efficiency ratio this quarter is the lowest we've seen in a long, long-time. And I guess you're saying don't extrapolate this efficiency ratio because NII will come down at some point, but when you just simply look at you benchmark yourself against the low-cost providers. Where do you think, you're there now and where can you still go because extrapolate this quarter you're getting closer?

Jeremy Barnum

Yes. I mean, you saw it yourself right? You definitely can't extrapolate the current numbers, but. I think more broadly on benefiting our benchmarking ourselves too low-cost providers that sort of speaks to an area that you've been interested in for a long-time, which is all of the investment that we're doing in technology to improve generally scalability and get more of our cost base to be variable versus fixed in terms of how we respond to volumes. That's a big part of the reason that we're doing the investments that we're doing and modernization and cloud and AI and all that type of stuff that we're talking about. So I think we feel really good about our efficiency as a company, but there definitely is room for improvement.

Mike Mayo

All right. Thank you.

Operator

Next we'll go to the line of Steven Chubak from Wolfe Research. You may proceed.

Steve Chubak

Hi, thanks for taking the question and apologies for the technical issues earlier. Wanted to ask on the deposit outlook, just with signs at recent liquidity drawdown has come predominantly out of our RRP versus industry deposits. I just wanted to get your thoughts on what expectations you have for deposit growth in the second-half, both for you and even the broader industry, especially as treasury issuance really begins to ramp-in earnest.

Yes, good question, Steve. So, let me say a couple things about this. So obviously our deposit numbers have bounced around a little bit as a function of some of the turmoil that we saw in regional banks, as well as obviously the public transaction, but now if you look at our kind of end-of-period deposits this quarter and you project forward.

Our core view is that we would expect a sort of modest downward trend to reassert itself from this higher starting point broadly as a function of QT playing through the system. But, noting that we do have some hope for offset by taking shares, just to give a couple of examples like in consumer. We've got some of our branch expansion markets seasoning and so their share increased their and in wholesale, we've obviously invested a lot in products and services. And so we think we have compelling offerings that are helping us win mandates. And so there are potentially some share offsets there. But broadly we - our core view remains modest deposit declines across the franchise.

Within that, you note the same thing, we have noted that as we got through the debt ceiling and the TGA build has come into effect. And you've seen a lot of bill issuance. The big question in the market about whether that was going to come out of reserves or come out of RRP. And so-far, with most of the TGA build, I guess they're targeting [600 and they're at 550] or something. So they're almost done.

Jeremy Barnum

You know more of it and some people feared has kind of RRPs. So, as you say. I think that's a relatively good sign and highlights. So the system works better when you've got ample supply of short video collateral the front-end of the yield curve. So that whole RRP TGA bank reserve dynamics is going to continue to be significant, but it is good to see RRP coming down a little bit.

Steve Chubak

Helpful color. And just follow-up on card income. Revenues were muted in the quarter. I was hoping you could unpack just the sources of pressure, maybe more specifically, how much of a drag is associated with FAS 91 versus some other factors.

Jeremy Barnum

Yes, so actually that card income number, Steve is a little bit of a one-off thing. So we had a rewards liability adjustment this quarter kind of a technical thing. So that's just a temporary headwind and also the sequential comparison is also getting hurt by a small positive one-off item in the prior periods. So and obviously, I know you guys look better the card income is sort of thing that we look at that much ourselves.

Steve Chubak

Can you size the reward liability impact?

Jeremy Barnum

Why don't you get Michael to get that to you. It's not that significant, but it's enough to just make the sequential number look a little bit lumpy. .

Steve Chubak

Great, thanks for taking my questions.

Operator

Next, we'll go to the line of Glenn Schorr from Evercore ISI. You may proceed.

Glenn Schorr

Thank you. Just want to follow up on this pricing power conversation. Because you've been consistent over time that you have a limited ability to sustain pricing power due to the competitive landscape. But I guess my question is, if not now when, meaning a lot has changed on the institutional side, the European bank side, the regional bank side -- and I would think that there'd be certain businesses that you have a greater ability and willingness to push price on?

And then maybe you could tie that to your comments in the press release on what are the material -- what are the real-world consequences for markets and end users that you're referring to when talking about material regulatory changes? Thanks a lot.

Jeremy Barnum

Sure. So look, on pricing power, you're right. It really depends on the product, and it depends on the competitive landscape across different banks. And so it's very granular. It's very product specific. And in some cases -- we'll have more pricing power than in other cases. I think the overall point that we're trying to make in connection with Basel III end game is just that like we think the capital increases are excessive.

Does it put pressure on returns, all else equal that obviously puts pressure on us to increase price where we can. That is generally a bad thing for the real economy. -- and how all of that plays out in detail across different products and services remains to be seen. Importantly, since we don't actually have the proposal yet. So we need those details.

I'm sorry, Glenn, I forgot the second half of your question. What was it?

Glenn Schorr

Actually, I think you hit on it. So I'll just do a follow-up on a related -- so the notion of private credit doing large traditional investment-grade lending activity, it may be part of the competitive landscape that limits the ability to push price in Jamie's letter, you talked about the downside or my question is, what's the downside if more of the mortgage credit asset-backed intermediation business is pushed out of the banking system?

Jeremy Barnum

I mean, I guess it depends on what you mean by downside, but I just think societally speaking, I think we've seen in recent history that when home lending is happening outside the regulated perimeter and things get bad, when you have economic downturns, it produces bad outcomes for individuals and homeowners and society as a whole.

So I mean, Jamie has written about this extensively. Beyond that, financially, we've talked about how mortgage lending -- I mean, the profitability swings obviously is reasonably cyclical. And in the recent past, it's actually been very profitable, then it was less so like the correspondent channel right now is actually picking up a little bit. But it's a thin margin business, it's challenging. And when you increase the capital requirements, it makes it even harder.

So that just becomes one of the areas where you're in that tension between remixing versus pricing power that we talked about a second ago. And it might impact me in fact we do less, less credit available for homeowners and more regulatory risk as the activity moves outside the perimeter.

Glenn Schorr

Appreciate. Thanks, Jeremy.

Operator

Next, we'll go to the line of Betsy Graseck from Morgan Stanley. You may proceed.

Betsy Graseck

Hi, good morning. Yes, I just wanted to unpack a little bit more the drivers of the change you outlined that's coming in the 10-Q, Jeremy, regarding the asset sensitivity going from liability sensitive to asset sensitive, at least that's the way I read it. I just wanted to understand what the drivers of that is?

Jeremy Barnum

Yes, sure. No problem, Betsy. I mean, as you know, that's always been a challenging number. It's meant as a risk management measure of sorts, although it's also somewhat limited in that respect. And it has been of uneven usefulness in terms of potential to be able to predict our NII trajectory when rates change.

But as we've looked at that and tried to improve it and spoken to all of you through this latest rate hiking cycle, we've come to the conclusion that it would improve the usefulness of the disclosure, if we included in the modeling the effect of deposit repricing lags -- and so we've done that, and that just has the effect that I talked about, it increases the EAR number by about $4 billion from minus $1.5 billion, which is roughly what it was last quarter and what it would have been this quarter without the change to something more like $2.5 billion. But all the usual caveat supply, right? I mean it's never - the answer is going to hold for any given change in rates, the change in our NII is always going to be for one reason or another different from what that disclosure shows. But we do our best to...

Betsy Graseck

Okay. And so is it fair for me to think about that change as a mark-to-market to where we are today. And when I think about your forward guide here, longer term, you're saying, look, deposit betas are accelerating. So as I go through the 10-Qs over the next four or five quarters, I should expect that, that $2.5 billion should come down because deposit betas you're anticipating are going to be accelerating from here? I'm just trying to put those two things together.

Jeremy Barnum

Yes, it's a good question. It's quite a technical issue. So I think in the past, the way this number was constructed was to assume through the cycle betas and all the deposits. And so your notion that like the number would include deposit beta acceleration would not have been the case because it would have been using essentially terminal deposit betas for the based on the forward curve and then based on a 100% shock to the forward curve.

The nuance that we've introduced now is to recognize that given the shock, the reprice at the beta predicts will not be instantaneous. And so you get sort of just the mathematical consequences of that. But I think translating that into a statement about our expectation for beta for the next 12 months relative to our NII guide might be a bridge too far. I'm not sure you can actually draw that thing.

Betsy Graseck

Right. But you were saying earlier, deposit betas you do anticipate are going to be accelerating from here, and that's part of the outlook for NII longer term to normalize in the mid-70s. Is that right?

Jeremy Barnum

Yes. But let me emphasize some of that. Go ahead, Jamie.

Jamie Dimon

I mean basically, yes, is you have - if the next round is going to be the beta built from 30 to 40 to 50, and whatever the product is, yes, that's the ladder. And the $2.5 billion will go down over time as that actually happens if rates actually go up. The rates don't actually go up to $2.5 billion will be exactly $2.5 billion again.

Jeremy Barnum

And what I was going to say, Betsy, is just that the projection of the $87 billion coming down to a significantly lower number contains both the element of internal migration, as well as the potential, which is by no means guaranteed, at product level reprice. And furthermore, then obviously, the dynamics are a little bit different in the different business segments as we move from large corporate wholesale to consumer.

Betsy Graseck

Okay. All right. Thank you. Appreciate it.

Operator

Next, we'll go to the line of Matt O'Connor from Deutsche Bank. You may proceed.

Matt O'Connor

All right. Good morning. So I'm in your camp that, at came eventually consumers will want more deposit rate sensitivity here. But I guess what would make you change your rates meaningfully? So the top two banks have about 50% consumer market share, loan-to-deposit ratios are low. Your outlook for loan growth, and I think others is fairly sluggish at least outside of card. So I get that it's common sense, and that's what we've seen historically, but there really is this kind of big divergence among big banks and everybody else where the big banks just don't need to pay that much for deposits for some of the reasons. So what would make you change that?

Jeremy Barnum

Yes. In the end Matt, it's just feedback from the field. It's competition and feedback from the field. Jamie, go ahead.

Jamie Dimon

I think every bank is in a different position about what they need. And so, you have a whole range of outcomes. But remember, we do this also by city. So you have different competition. Arizona and Phoenix, then you have Chicago, Illinois, and we do have high interest rate products. So it's a combination of all those things.

I wouldn't call it a big bank versus small bank, and you're going to see whenever we report, who kind of payable the more things and who didn't and things like that. So look, I would take as a given - I think it's going to say there is very little pricing power in most of our business and betas are going to go up. You take it as a given. There is no circumstance that we've ever seen in the history of banking where rates didn't get to a certain point that you had to have competing products and rates go through migration or direct rate or move into CDs or money market funds. And we're going to have to compete for that. You already see it in parts of our business and not in other parts.

Jeremy Barnum

Okay. And I'll add there, Matt, is just that it's really just about primary bank relationships. And that's the core of the strategy.

Matt O'Connor

Yes. I mean, again, I 100% agree, but we've never seen kind of loan-to-deposit ratios for banks like yours this low. So you could just let deposits run off at a modest amount for quite some time to make the decision not to pay up. I mean I assume that's a trade-off that eventually you'll.

Jamie Dimon

That's a little more complicated because that - a lot of that loan to value ratio is lower because of regulatory stuff, LCR, capital ratio, et cetera.

Matt O'Connor

Got it. All right. Thank you.

Jeremy Barnum

Thanks.

Operator

And for our final question, we'll go to Charles Peabody from Portales Partners. You may proceed.

Charles Peabody

Good morning. Jeremy, on Page 4 of your presentation, you showed some liquidity metrics. And there's been a meaningful deterioration or I shouldn't say deterioration, depletion of some of that excess liquidity obviously for First Republic primarily. So my question is how quickly do you want to rebuild that liquidity because as I look out towards '24, there's probably a half dozen variables that are going to make liquidity a premium event to have excess liquidity, so that's my first question is what's your plans for replenishing that liquidity?

Jeremy Barnum

Yes, Charles. So I know we talked about this a little bit at Investor Day, right? So as I said in my prepared remarks, yes, when you think about half of the change in the bank LCR number is consequence to First Republic. And the rest of it is just the expected decrease in to some deposits flowing through into our HQLA balances and the bank LCR ratio. So that's all entirely as expected. And therefore, I think that the replenishing notion is not correct.

In fact, obviously, we still have ample of liquidity. Now if you want to project trends forward, that's a different story, but that's sort of the business of banking, we'll adjust accordingly in terms of our asset and liability mix across different products and to ensure compliance of the ratios and fortress balance sheet principles as you would expect from us.

Jamie Dimon

And I would just add that just look at the top of the page in the press release, $1.4 trillion of cash and marketable securities even we get down to no excess, we're going to have like I've got the exact number, $1.2 trillion. I think we have excess liquidity. And the liquidity ratio is slightly some different. I think there's plenty of liquidity in system and of course, we do multiple things to change this overnight if we wanted to.

Charles Peabody

So sort of wrapped into that as a follow-up. If you take your $87 billion forecast for NII this year and that implies at least one quarter of maybe $22 billion of NII, and you take your eventual forecast of mid-$70 billion of NII at some point in the future, that would imply at least one quarter of $18 billion of NII. So that's about an 18% drop. And if you hold the balance sheet steady, you're talking about a 30 basis point drop in your margin - your NIM in order get to that from $22 billion to $18 billion. I mean what is driving - is it really the deposit? Or are you thinking in terms of interest reversals as credit deteriorates? Or is it rebuilding of liquidity? I'm just trying to get a better sense of what the impact is?

Jeremy Barnum

Yes, Charlie, I would think about that as being really entirely a deposit story. It's not that complicated, right? I think we did this. I think it was either in the fourth quarter or in the first quarter, but we put a little chart on the page just in very simple terms, it shows like what the dollar consequences are whatever, like a 10 basis point change in deposit rate paid in terms of NII run rate.

So whether it's as a consequence of migration from lower-yielding to higher-yielding going from 0% to 4% CD is obviously a big impact on margin or whether it's because savings reprices relatively small changes in rates there are kind of a lot of money when you've got a couple of trillion dollars of deposits. So it's really not any more complicated than that. And that's why we're being so forceful about reminding people about what we expect that trajectory to be

Charles Peabody

Thank you.

Operator

And we have no further questions at this time.

Jamie Dimon

Thank you very much.

Operator

Thank you all for participating in today's conference. You may disconnect at this time. And have a great rest of your day.

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