Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Fourth 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. 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 $8.5 billion; EPS of $2.57 and revenue of $29.2 billion with a return on tangible common equity of 17%. Underlying performance continues to be strong. Deposit growth accelerated in the fourth quarter across consumer and wholesale with average balance up 7% year-over-year. We saw solid loan growth with Card and AWM being the bright spots as average loans across the company were at 3% year-on-year excluding the impact of home lending loan sales in prior quarters.

Client investment assets and consumer business banking were up 27% and asset and wealth management AUM was up 19% reflecting stronger market performance versus the prior year, as well as organic growth. We've ranked number one for the full year in Global IB fees with 9% wallet share. And growth IB revenue in the commercial bank was a record $2.7 billion.

In CIB Market, we were up 56% year-on-year compared to a weak fourth quarter last year, however, it's important to note the quarter was very strong in absolute terms. In fact, a record fourth quarter. And credit performance continues to be strong across the company.

On to Page 2 and some more detail about our fourth quarter results. Revenue of $29.2 billion was up $2.4 billion or 9% year-on-year with net interest income down $220 million or 2% on lower rates largely offset by balance sheet growth and mix and higher CIB markets NII. Noninterest revenue was up $2.6 billion or 21% on higher revenue in CIB markets and AWM and continued strong performance in home lending and auto. Expenses of $16.3 billion were up 4% on volume and revenue related costs. Credit remains favorable with credit costs of $1.4 billion, down $121 million, or 8% year-on-year, reflecting modest net reserve releases and net charge-offs in line with expectations.

Turning to the full year results on Page 3. The firm reported net income of $36.4 billion; EPS of $2.72 and revenue of $118.7 billion all records. And delivered a return on tangible common equity of 19%. Revenue was up $7.2 billion, or 6% year-on-year with net interest income up $2.1 billion or 4% on balance sheet growth and mix as well as higher average short-term rates, partially offset by higher deposit pay rates.

Noninterest revenue was at $5.1 billion, or 9% driven by growth across consumer and higher CIB markets revenues. And expenses of $55.5 billion were up 3% year-on-year driven by continued investments as well as volume and revenue related costs, partially offset by lower FDIC charges. Revenue growth and our continued expense discipline generated positive operating leverage for the full year. And on credit, performance remains strong throughout 2019. Credit costs were $5.6 billion.

In consumer, credit costs were up $210 million reflecting an increasing card due to balance growth, largely offset by lower credit cost and home lending. And in wholesale, we were at $504 million largely due to reserve releases and higher recoveries both in 2018.

Moving to balance sheet and capital on Page 4. We ended the fourth quarter with a CET1 ratio of 12.4%, up slightly versus last quarter. The firm distributed $9.5 billion of capital to shareholders in the quarter including $6.7 billion of net repurchases and a common dividend of $0.90 per share. And while on the topic of capital, it's worth noting given the actions we have taken; we fully expect it will remain in a 3.5% G-SIB buckets.

Before we move into the business results, I'll spend a moment talking about CECL on Page 5. As you know, the transition to CECL was effective on January 1st and therefore there's no impact to our 2019 financials. On the page is the CECL adoption impact, an overall net increase to the allowance for credit losses of $4.3 billion which is at the lower end of the range we've provided. This was driven by an increase in consumer of $5.7 billion mostly coming from card, partially offset by a decrease in wholesale of $1.4 billion.

In Card, the increase is a result of moving to less time lost coverage versus a shorter lost emergence period under the incurred model whereas in wholesale modeling changes like using specific macroeconomic forecast versus through the cycle loss rates under incurred result in a decrease especially given the forecast to credit environments. Recognition of the allowance increase has resulted in a $2.7 billion after-tax decrease retained earnings as you can see on the page. Also important to note, we have elected to use the transition approach to recognize the impact on capital.

And now turning to businesses, we'll start with Consumer & Community Banking on Page 6.

In the fourth quarter, CCB generated net income of $4.2 billion and an ROE of 31% with accelerating deposit growth of 5%. Client investment assets at 27% and total loans down 6%. For the full year, results in CCB were strong was $16.6 billion of net income, up 12% and an ROE of 31% on revenue of $65.9 billion, up 7%.

Fourth quarter revenue was $14 billion, up 3% year-on-year. In Consumer and Business Banking, revenue was down 2% driven by deposit margin compression largely offset by strong deposit growth and higher noninterest revenue on the increasing client investment assets as well as accountant and transaction growth.

Home Lending revenue was down 5% driven by lower NII on lower balances which were down 17% reflecting prior loan sales and lower net servicing revenue predominantly offset by higher net production revenue reflecting a 94% increase in origination.

And in Card, Merchant Services and Auto, revenue was up 9% driven by higher card NII on loan growth as well as the impact of higher auto lease volumes. Card loan growth was 8% and sales up 10% reflecting a strong and confident consumer during the holiday season.

Expenses of $7.2 billion or up went by 2% driven by revenue related costs from higher volumes as well as continued investments in the business including market expansion largely offset by expense efficiencies. On credit, this quarter CCB had a net reserve release of $150 million. This included a release in the home lending purchase credit impaired portfolio of $250 million reflecting improvements in delinquency and home prices, which was partially offset by a reserve build in card of $100 million driven by growth. Net charge-offs were $1.4 billion largely driven by Card and consistent with expectations.

Now turning to the Corporate and Investment Bank on Page 7. For the fourth quarter, CIB reported net incomes of $2.9 billion and an ROE of 14% on revenue of $9.5 billion, a strong finish to the year. For the full year, CIB delivered record revenue of $38 million and an ROI of 14%. In Investment Banking, IB fees reached an all-time record for the full year. It maintained our number one rank in Global IB fees and grew share to its highest level in a decade.

For the quarter, IB revenue of $1.8 billion was up 6% year-on-year outperforming the market which was flat. Advisory fees were down 3% following a record performance last year. On a sequential quarter basis, fees were up meaningfully as we benefited from the closing of some large transactions and for the year we ranked number two in gain share. Debt underwriting fees were up 11% year-on-year due to higher bond issuance activity as clients accelerated their funding to take advantage of attractive pricing conditions to strengthen their balance sheets.

And for the year, we maintained our number one rank overall and we were number one for reinvest positions in both high-yield bonds and leveraged loans. Equity underwriting fees were up 10% year-on-year reflecting strong performance in the US and Latin America. The new issuance market continued to be active and for the year we ranked number one in equity underwriting as well as IPOs. Our overall pipeline continues to be healthy as strategic dialogue with clients is constructive, equity markets remain receptive to new issuance and the rate environment is favorable for debt issuance.

Moving to markets. Total revenue was $5 billion, up 66% year-on-year driven by record fourth quarter revenue in both fixed income and equity markets. Fixed income markets was up 86% benefiting from a favorable comparison against a challenging fourth quarter last year, but also reflecting strength across businesses notably in securitized products and rates driven by strong client activity and monetizing flows.

Equity markets were up 16% driven by strength across cash and primes. Treasury services revenue was $1.2 billion down 3% year-on-year, primarily due to deposit margin compression which was largely offset by organic growth. While security services revenue was $1.2 billion, up 3%. Expenses at $5.2 billion were up 12% compared to the prior year with higher legal volume and revenue related expenses, as well as continued investments.

Now moving on to Commercial Banking on Page 8. Commercial banking reported net income of $938 million and an ROI of 16% for the fourth quarter. And for the year $3.9 billion of net income and an ROE of 17%. Fourth quarter revenue of $2.2 billion was down 3% year-on-year with lower deposit NII on lower margins largely offset by higher deposit fees and a gain on the strategic investment. Gross investment banking revenues was $634 million, up 5% year-over-year driven by increased large deal activity.

Full year IB revenue was a record $2.7 billion up 10% on strong activity across segments with record results for both middle market and corporate client banking. Expenses of $882 million were up 4% year-on-year driven by continued investments in banker coverage and technology. Deposit balances were up 8% year-on-year as we continue to see strong client growth. Loan balances were up 1% year-on-year. C&I loans were up 2% driven by growth in specialized industries and expansion markets, partially offset by the runoff in our tax exempt portfolio.

The CRE loans were up 1% where we continue to see higher origination in commercial term lending driven by the low rate environment, offset by declines in real estate banking as we remain selective given where we are in the cycle.

Finally, credit costs were $110 million with an NCO rate of 17 basis points, largely driven by a single name which was reserved for in prior quarters. Underlying credit performance continues to be strong.

Now on Asset and Wealth Management on page 9. Asset and Wealth Management reported net income of $785 million with pretax margin of 28% and ROE of 29% for the fourth quarter. And for the year AWM generated net income of $2.8 billion with both pretax margin and ROE of 26%. Revenue of $3.7 billion for the quarter was up 8% year-on-year as the impact of higher investment valuation and average market levels as well as deposit and loan growth were partially offset by deposit margin compression.

Expenses was $2.7 billion were up 1% year-on-year and for the quarter we saw net long-term inflows of $14 billion driven by fixed income and multi assets and we had net liquidity inflows of $37billion. AUM of $2.4 trillion and overall client assets of $3.2 trillion, both records were up 19% and 18% respectively, driven by higher market levels as well as continued net inflows into long-term and liquidity products.

Deposits were up 8% year-on-year driven by growth and interest bearing products. And finally, we had record loan balances of 8% with strength in both wholesale and mortgage lending.

Now on to Corporate on page 10. Corporate reported a net loss of $361 million. Revenue was the loss of $228 million for the current quarter driven by approximately $190 million of net markdown on certain legacy private equity investments. Sequentially revenues down $920 million due to lower rates. The benefit recorded in the prior quarter related to loan sales as well as the PE losses I just mentioned. Year-on-year revenue was down also primarily driven by lower rates.

Expenses of $343 million were down $165 million year-over-year due to the timing of our contributions to the foundation in the prior year.

And turning to Page 11 for the outlook. At Investor Day, as always we will give you more information on the full-year outlook. However for now, I'll provide some color and reminders about the first quarter. We expect NII to be approximately $14 billion market dependent; adjusted expenses to be about $17 billion and as a reminder the effective tax rate in the first quarter is typically impacted by stock compensation adjustments and as a result is currently estimated to be approximately 17% just to manage tax rate about 500 to 700 basis points higher.

So to wrap up, 2019 was a year of record financial performance across revenues, net income and EPS. Our outlook heading into 2020 is constructive underpinned by the strength of the US consumer and despite expected slower global growth in the backdrop of geopolitical uncertainties, we remain well-positioned as we continue to build on our scale and benefit from the diversification of our business models.

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

Question-and-Answer Session

Operator

[Operator Instructions]

Our first question comes from is Kenn Usdin of Jefferies.

KennethUsdin

Thanks, good morning. Hi, Jen, how are you? Jen, I was wondering on terms of the NII outlook you talked about the $14 billion level. Obviously getting to a point of stability. Can you help us outside of day count, can you help us understand just where we are in terms of repricing of the balance sheet? What happens if rates generally stay flat from here just in terms of the rate side of the equation if we hold volume aside?

JenniferPiepszak

Sure. As we look at rates paid on the retail side, we didn't obviously have reprice on the way up. And so there's little to do on the way down. In fact, there from a rate paid perspective we continued in the fourth quarter to see rates pay pick up a little bit on migration from savings to CDs. And then on the wholesale side, we did see rates paid come down as you would expect and we could see betas accelerate after the second cut. So there we saw more of a decline in CIB than we did in CB or AWM as you might expect.

Importantly though as we only spend on the wholesale side, we price the client by client and so we're not going to lose any valuable client relationships over a few ticks of beta. And then I would just say in terms of the outlook with the Fed on hold, the implies do still have one cut later in 2020 and based on the latest implies we'll give you more detail at Investor

Day as we always do, but I would say NII for the full year of 2020 flat to slightly down as a headwind from rates will be offset with balance growth.

KennethUsdin

Yes, got it. And just on --one question on just the volume side of things. Ex the mortgage loans sales last year you're still on that like 3% core growth. And obviously talked a lot about thus the environment and how there's been some settling out, but at a lower level. Just what's the status of just corporate and commercial customers now that we're closer to phase one getting finalized. UMSCA's on the table, just-- what's the backdrop of just economic activity as you guys see it.

JenniferPiepszak

Sure. So the fourth quarter definitely I would say stabilized things, trade certainly stabilized things broadly speaking, stopped getting worse. And so we saw sentiment improved a bit which I think contributed to the overall success of the fourth quarter and then certainly there are some puts and takes. I mean that US consumer remains in a very strong shape both from a credit perspective sentiment spending. Obviously, labor market is very strong and the Fed and the ECB on hold and then capital spending is still a bit soft, but sentiment is at least certainly better than it was six months ago. So we have a broadly speaking constructed out located in as we're heading into 2020 year.

Operator

Our next question is from Saul Martinez of UBS.

SaulMartinez

Hi, good morning. I have a question on credit and CECL. And you guys have been pretty clear that your business decisions are based on economic outcome or economic outcomes and not accounting outcomes and but CECL does materially change the way in which time -- changed the timing in which earnings accrete to book value in capital obviously with a higher upfront hit. But you guys have also been shifting your loan book pretty materially towards cards with which has much higher loss content than your total book.

So I guess twofold question. One is how do we think about provisioning in this context? Should we think provisioning is going to be well above charge-offs as your reserve ratio moves up, because I would think your ALLL ratio post CECL adoption which is I think is about 1.8%, 1.9%. It should move up as card which has a much higher loss content than that continue to grow in the mix. So just how we think about provisioning in the context of the mix shift and CECL's adoption.

And then I guess, secondly, if there is a change in the macro environment and in the credit environment does get worse and CECL that inflection goes through your reserves and your provisioning. Is there a point where CECL actually does change the way you think about pricing and underwriting in that environment?

JenniferPiepszak

Sure. So I'll start with the provisioning. So, look, I think it's fair to say under CECL you could have incremental volatility given that reserves are more dependent on specific macro economic forecasts. But there that would depend of course on our ability to have foresight into the timing and extent of those downturns. In cards specifically as you say, in any one period of growth or downturns you could see an increase in reserve and expense that we're taking, life of loan first is the next 9 or 12 months. So that's true and then on the wholesale side you could see some differences of course because there are modeling differences between specific macroeconomic forecasts and through the cycle. Having said that, we continue to believe that incremental volatility would be material for us and of course net charge-offs is not changing.

And then from a price perspective, we don't foresee in the near term any pricing changes. The cash flows with the customer have not changed. And so we don't see any but it is true as you rightly point out that there is an increased cost of equity in the sense that we're taking reserves up front versus through time. So over time you could see that but we're not expecting it in the near term.

SaulMartinez

Got it. I guess on the provisioning side my question is more just on an ongoing basis is the mix changes more towards higher loss content lending which obviously have higher margins and higher profitability through the course --over the course of the loan in theory but like in that context I would --is it fair to say you're provisioning levels also could be materially above your charge-offs because I would think that your reserve ratios, your ALLL ratios do have to move up is that mix changes on your balance sheet.

JenniferPiepszak

It could be, it could be. So that's just timing particularly on the card side. It's just timing but it's difficult to know again because it relies on our ability that has perfect foresight into the timing and extent of a downturn.

Operator

Our next question comes from Erika Najarian of Bank of America.

ErikaNajarian

Hi, good morning. So I was hoping to get a little bit more credit on what happened in the quarter to produce such stellar results. Understand that obviously the fourth quarter 2018 comp was light but $3.4 billion is so you know a pretty heavy number for a fourth quarter for JPMorgan. So and any color you could provide would be very helpful, Jennifer.

JenniferPiepszak

Sure. So you are talking about market, Erika? Yes, okay, sure. So they're -- at Goldman in early December, I did say we expected to be up meaningfully. I'm saying the performance was broad-based in rates we call out securitized products. I'm sorry, in fixed income, we call out securitized products and rate which were bright spots but broadly speaking obviously equities got a very strong quarter as well. So it's really across the franchise and we saw very strong client flow and we had success monetizing those flows. So just a very healthy environment for us and really strong performance.

ErikaNajarian

Got it. My follow-up question is that a quarter ago and two quarters ago the revenue backdrop for banks in general when the outlook was starting to deteriorate. And I think management had gave us in color that you'll continue to invest your efficiencies and initiatives no matter what the changes are in the revenue environment. But you could cut back on certain expenses if revenue environment was changing. That being said, your revenue production seems to always outperform to the upside. So if you think about 2020 is the best way to think about expenses just at 55% overhead ratio.

JenniferPiepszak

So, look, on the efficiency ratio, yes, I would say that like we've run the company with great discipline whether it's relentlessly pursuing expense efficiencies or investing with discipline through the cycle but because the efficiency ratio is an outcome not an input and is about expenses and revenue, we're not going to give a target for any one year. We think about operating leverage over time and we always say we're not going to change the way we run the company for what could be temporary revenue headwinds. And expenses, I would just say that at Investor Day last year Marianne told you that we expected the cost curve to flatten post 2019 in

2019 adjusted expenses were up 3%, 2020, we expect them to be up less than that.

Operator

Our next question is from Mike Mayo of Wells Fargo Securities.

MichaelMayo

Hi. Is Jamie on the call? I'm sorry.

JenniferPiepszak

Yes. He is.

MichaelMayo

Okay. So just a question for Jamie because in the first paragraph you mentioned easing trade issues helped market activity. And I know this is a very simple question, but can you talk about the connection between easing trade issues and better trading. And you said that was better toward the end of the year. Is this something that you expect to remain or is this a one-off quarter?

JamesDimon

That's a really hard question to answer, Mike. But obviously trade born a lot of consternation that has eased off a little bit. I don't think it's going to completely go away. You still have actual ongoing trade issues of China and Europe and stuff like that. I think because that sentiment got better trading got better so they're going- how long that continues we don't know.

MichaelMayo

And then, Jennifer, you mentioned expense growth was 3% it should be less than that this year. You guys had also mentioned that your technology spending might be leveling off. So as those levels off maybe you see paybacks from prior investment. Any sense of where tech spending will be this year versus the prior year and how you think about that? And I know we'll get more at Investor Day.

JenniferPiepszak

Sure, of course. So I think you can think about tech spending on a fully-loaded basis being in line with what I described for the company. And we continue to realize efficiencies from investments in tech but as you well know it's we continuously invest in tech and so there's a fair amount of velocity in the investment portfolio there as investments roll off. And we're investing in new technology and innovation. So you can think about tech spending as being broadly in line with how I describe the company in terms of trends.

Operator

Our next question is from Betsy Graseck of Morgan Stanley.

BetsyGraseck

Hi, good morning. Two questions, one on asset growth in the last couple of years fourth quarter, you have to go through this exercise of trying to squeeze down to hit the G-SIB target. And then in addition this year I think you sold some residential mortgage loans to investors or at least the investors are taking the risk of it. And then you're requesting to have regulatory capital reflect that transfer of risk to an investor pool while you're keeping the customer relationship. When I see these things I'm wondering how you're thinking about how much room you have for asset growth as we go into 2020 and is there an opportunity to potentially do more of this residential mortgage loan trade to free up space for growth. Maybe could speak to that?

JenniferPiepszak

Sure. So I mean we're bound by standardized capital and so of course that is a consideration for us. And one of the reasons that we're looking to structured loan sales as you describe in the mortgage business. So we think that there's more we can do there. And then on G-SIB, we remain hopeful that we will see the refinements there and recalibration that the Fed has been talking about for some time because that will become increasingly difficult. So both are at the margins constraints for us but broadly speaking I wouldn't say that that we are constrained given where we are on our capital ratios.

BetsyGraseck

And as I think about CECL, appreciate the commentary you had earlier on the call. I'm just wondering a couple of things. One why do you think you ended up towards the low end of your \$4 billion to \$6 billion increase in reserves that you outlined earlier? And what kind of estimates you have for the economic outlook? You've got the assumption for the economic outlook in the reasonable supportable period et cetera and so I'm just trying to understand what kind of forecast you have in your model so that I understand what's embedded in your scenario and in your ALLR ratio.

JamesDimon

Sure. So we, I think we ended up at the low end as we through the year continue to get more certainty around what the macroeconomic forecasts were going to look like. And so I think that's really what's driving it obviously portfolio mix as well continue to be very strong in terms of performance of the portfolio. And then on the estimates for the economic outlook, as you rightly say there is the reasonable and supportable period which for us is two years and so we do use multiple weighted scenarios there. So we weight multiple scenarios with the one most likely getting the greatest weight and that's where you end up with what looks like a reasonably benign outlook for the reasonable and supportable period which also obviously would contribute to us hitting the low end of the range.

JamesDimon

Jen, are we going to disclose some of those variables over time?

JenniferPiepszak

That's a great point, Jamie. I should say that, yes. We, I mean there will be more disclosure about CECL in the Q.

JamesDimon

Which means all the banks are bestowing these ridiculous forecasts and going forward and differences? We'll spend time talking about that as opposed to the actual business, but we will disclose we need to know to make it clear what we're doing and why we're doing it.

JenniferPiepszak

That's right. So you'll see more in the Q's.

Operator

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

MatthewO'Connor

Good morning. Two quick follow-ups to some things that have been talked about. I guess first on expenses, full-year outlook was pretty clear less than 3% growth, but the first quarter seems a little bit higher than the maybe I would have thought up 4% year-over-year. And I don't know if that's just rounding and I'm getting too obsessed over $100 million here there or if you're up funding some investment spend, and if so, what that's for?

JenniferPiepszak

Sure. So the first quarter tends to be a bit higher for us if you look through history. And so but there you can think about it comparing it year-over-year. We have volume and revenue related expenses increasing a bit of an increase on investments, but both are being partially offset by expense efficiency.

MatthewO'Connor

Okay. And the other follow up question is just on capital allocation, obviously, it's a good problem to have but the ratios keep going up, the capital generation keeps going up; the stock keeps going up. You're obviously buying back a lot of stock. The goal is to get the dividend, I think, higher over time but let me just talk about how you think about buying back stock at these levels. If there's other call it creative uses of capital like I always think about all the money you spend with technology. And does it make sense to buy technology versus do it organic? So just maybe address some of those things. Thank you.

JenniferPiepszak

Sure, so on the ratio, I'll just remind you that of course we have our capital distribution plan approved once a year. And so since our last CCAR filing, we have realized some RWA efficiency and we've out earns relative to the assumptions in the CCAR filing. And so that's part of the reason why we've seen the ratios float up there. On stock buybacks, as you rightly point out our first priority is always going to be to invest for organic growth. And so we are always looking to do that first and foremost and then to have a competitive and sustainable dividend and only then to distribute excess capital to shareholders through buyback. And we have said that it makes sense to continue to do that at or above 2x tangible book which is about where we are now.

We will obviously --when distributing excess capital always be looking at the alternatives but at 17% ROTCE and 2% or 3% dividend payout ratio there's a high bar for the alternatives.

JamesDimon

You are absolutely right about acquisitions. We did do InstaMed this year which hooks up is electronic, system that hooks up providers and consumers of healthcare. Well, I think the numbers are 80% and 90% is still done by check. So there are opportunities like that we absolutely would be on the hunt for them.

JenniferPiepszak

That's right. We did last year, yes.

JamesDimon

And we did a year before.

Operator

Our next question is from Gerard Cassidy of RBC.

GerardCassidy

Hi, Jennifer. Question on credit. You obviously put up some real good numbers once again on credit quality. And I noticed that you had a nice material decline in the wholesale non-performing assets quarter-to-quarter. Can you give us any color on what brought that down and could you tie in also any concerns that you may have about the energy portfolio? I know it's not material but there are some concerns out there about energy credits.

JenniferPiepszak

Sure. So on wholesale non-performing loans in the CIB that was some name specific upgrades that we had in the CIB. And then in the commercial bank that was related to charge-offs taken in the quarter. And then on energy, really nothing there thematically I would say like any sector. We have upgrades and downgrades and this quarter was no exception. But I wouldn't say anything thematically in our portfolio that we're concerned about.

GerardCassidy

Very good. And then I don't know if I heard you correctly in the last answer to the stock repurchase program. I understand of course it's driven by your CCAR results, but if the price of the stock and it's a good problem to have gets to a level that you consider to be too high. I think you may have said 2x tangible book value. What then happens if the price of it gets to a point where you guys think it's just too high to buy it back? What do you do with the excess capital at that point. Have you --given that much and again it's a good problem to have I understand that but if you give it any thought to that.

JenniferPiepszak

Sure. We give a lot of thought to it and I agree it is a high-class problem. And so we said that at or above 2x tangible book make sense. If it continues to go up we're going to continue to look at alternatives. Most importantly within the company in terms of how we should really think about the return on buying our stock back at a higher level versus perhaps thinking about the returns a bit differently in terms of organic growth. Jamie, I don't know, if there's anything you want to add?

Operator

Our next question is from Steven Chubak of Wolfe Research.

StevenChubak

Hi, good morning. So, Jennifer, I wanted to start with a question on capital. Quarles indicated in a recent interview that he plans to implement the bulk of the SCB in 2020 CCAR. Also alluded to the possibility of deploying a counter-cyclical buffer as part of that. I'm just wondering if the countercyclical buffer is actually deployed or incorporated within the test. Is that something that's underwritten as part of your 12% CT1 target and are you anticipating changes to the G-SIB coefficient calculations that you allude to earlier in the call as part of the coming cycle as well?

JenniferPiepszak

Thanks Steven. So I mean you touched on a number of things that are all important. And I think what's most important to us is that we end up with a cohesive framework across all of them. The comments from the Vice Chair has been constructive in the sense that he always reiterates that he thinks that level of capital in the system is about right. And so we'll have a firmer view when we see a final rule. As you say, we do expect to see something in 2020 based upon the comments that we have heard just like you have. And we expect that our 12% target will not be impacted because we do constructively hear the Vice Chair say over and over that the amount of capital in the system is about right. And then but we can't have a firm view until we see the final rule.

And then on G-SIB, we remain hopeful that we're going to see the refinement that the Fed has been talking about perhaps not full recalibration until Basel IV which is what the Vice Chair recently said, but certainly there are a number of refinements that we've been talking about and the Fed has been talking about for years and that we remain hopeful that we'll see them very soon.

StevenChubak

Thanks for that color, Jennifer. And just one final one for me. We saw really strong FIC results as well as really strong institutional deposit growth. And I was hoping you could speak to what impact the Fed balance sheet growth is actually having on all of your different businesses or how that's manifesting? Because it seems to be providing a pretty nice tailwind, whether it's some increased activity as well as some benefit in terms of deposit growth that you're seeing across the overall franchise, but institutional in particular.

JenniferPiepszak

Sure. So you are absolutely right. On the wholesale side, the Fed balance sheet extension was a for sure a tailwind for us. Although, I would say the more meaningful portion of our deposit growth on the wholesale side in the quarter was from strong organic growth and client acquisition. [Tech Difficulty] pension was the tailwind and elsewhere I would say obviously it was the right thing to do. And provided stability in the repo markets throughout the quarter.

Operator

Our next question is from Brian Kleinhanzl of KBW.

BrianKleinhanzl

Good morning. A quick question on the deposit cost. Could you just break down maybe by segment where the big drivers were, that saw -- you saw have the big reduction in deposit costs, linked quarter. Was that in security services or was a wealth management?

JenniferPiepszak

Sure, Brian. So on that -- I'll start with retail where we saw raise pay pick up a bit and that's on migration from savings to CDs. We have seen CD pricing come off its peak, but continued migration from savings to CDs. And then on the wholesale side, you see bigger declines in rates paid in treasury services for sure. And then a little bit less so in the commercial bank and AWM. And again as we always say these are named specific client by client decisions. And while we feel good about where we are, these are decisions we make client by client and we're certainly careful and have a lot of discipline not going to lose valuable relationships over a few ticks of beta.

BrianKleinhanzl

And then a separate question. In the commercial bank, I mean you seen loans come down quarter-on-quarter for end of period and generally modest growth year-over-year. I mean what's the sentiment now in the middle market and the corporate client? Is it a sentiment issue? Is it just timing issue? Therefore seeing better loan growth.

JenniferPiepszak

Sure. So there are obviously some puts and takes which I'll run through but broadly speaking I would say what we're seeing is more a function of our own discipline than it is a function of demand and in C&I, we feel good about the growth that we're seeing in the areas where we're focused and specialized industries and market expansion, but of course that offsets partially by the tax-exempt portfolio that's running off and then in CRE good growth in commercial term lending as we continue to have opportunities there given the rate environment.

And then that is offset by real estate banking where we are very disciplined given where we are in the cycle.

JamesDimon

I would just add as capital expenditures come down all things being equal which they're not, but all things being equal you see a reduction in some lending. These companies need less money to pay off receivables and inventory and planting equipment.

Operator

Our next question is from Glenn Schorr of Evercore ISI.

GlennSchorr

Hello there. Hi. A quick question on open APIs and what the big picture is here and how it impacts you and the rest of the banking industry, meaning there's this concerns over data security and things like that but JPMorgan has some plenty of agreements with some of the bigger providers. I'm just curious to get your big-picture thoughts on what level concerns we had? What are the good and the bad?

JenniferPiepszak

Yes. I mean there I would say, Glenn, our customer's data privacy and security is of utmost importance to us. And we think over time the best way for us to do that as securely as we can is to have third-party apps only access data through our APIs. And so we are working name by name to get those agreements in place. And we hope through time that is exclusively the only way that third parties can access our customer's data. We think that's the most secure way to do it.

JamesDimon

But very importantly is that that data is the data the customer agrees to give them on the basis they agree to give it to them, does not unlimited access to customer data and the customer will have the ability to turn it off, as opposed to today if you gave your bank pass code to someone they're taking the data every day maybe even every minute. And you don't even know that if you forgot.

JamesDimon

Great point and we're going to make it super easy for our customers to be able to do that.

GlennSchorr

So you will -- you will give them the tools to control that.

JenniferPiepszak

Yes. You can imagine the dashboard where they will have --

JamesDimon

That is the full sense.

JenniferPiepszak

Yes.

GlennSchorr

And then just curious if you've seen any follow-on impacts that you've seen some repricing on parts of the illiquid markets, and for specifically some of the unprofitable parts of those companies. And is that just the repricing and everybody that owns them will take some hits a little bit slower progress on banking front and that's it, or is there anything bigger there to worry about with what's going on in the illiquid side?

JamesDimon

Each of the target companies?

GlennSchorr

Yes. I am sorry.

JamesDimon

Yes. Look, there are lot of private companies they -- a lot of do well, some don't, some of fail, some have access to capital now, they won't have access to capital in a downturn, but it's not a systemic issue. It's just the other capital market there are a lot of private companies. And so I don't think it's that big a deal, you just have an adjustment and access to capital that will happen periodically.

Operator

Our next question is from Marty Mosby of Vining Sparks.

MarlinMosby

Thank you. Jennifer you were kind of foreshadowing lower tax rate as you kind of move into the first quarter and then the tax rate here in the fourth quarter was a little bit lower than what we expected. Is there anything that's permanent here? Are there some things that are just kind of rolling through these two quarters?

JenniferPiepszak

Yes. They're -- I wouldn't say there's anything permanent there. The first quarter is typically lower for us, Marty. You can think about full year 2020 as being 20% plus or minus and of course that would depend on any non-recurring items we might have or any change in regulation but about 20% plus or minus and then of course the managed tax rate is typically 500 to 700 basis points higher than that.

MarlinMosby

And then a bigger question when we came into 2018 the net interest margin was around 2.5% and then now as we're coming out of 2019, the net interest margin has fallen below 2.4%. So interest rates went up 100 basis points and then down 75 and we've netted down in negative 10 basis points. So I was just curious in that path it's either the way the Fed kind of inflected very quickly that created a little bit more pressure in the net between deposit pricing and loan pricing. Or do we think that this is probably just some of the competition that came in after the tax reform and maybe this is just the evidence of some of that competition with the increased profitability that we got from the benefit from the taxes?

JenniferPiepszak

Yes. So there I would say, Marty, on that sort of the last several hikes there was some catch up there because we had some lags on reprice in the rising rate environment. So if you just looking at the last few hikes the betas would certainly be higher than what we're seeing in terms of the first 3 eases here, but broadly speaking on NIM, I mean we don't -- NIM is an outcome for us not an input and as we think about looking forward certainly the environment is very competitive, it always has been and NII the outlook for 2020 is at this point based upon the implies flat to slightly down. And we do expect balance sheet growth.

Operator

Our next question is from Andrew Lim of Societe Generale.

AndrewLim

Hi, good morning. Thanks for taking my questions. Wondering if you could give a bit more color on your market's performance there? Obviously it's done very well geographically is there much more weighting there on the US versus Europe and APAC?

JenniferPiepszak

I would say, Andrew that it was broad based. We can have Jason and team follow up specifically on a geographic breakdown, but it was largely broad-based.

AndrewLim

Right and would you say with confidence that you're gaining market share in both territories there?

JenniferPiepszak

Again, I don't have the split on market share by region but Jason and team can certainly follow up on that.

JamesDimon

Yes. I'm not sure, we want to start disclosing that regularly. I do believe that market share went up in pretty much in most markets, but you can't say most markets and all products.

Operator

And our next question is from Alison Williams of Bloomberg Intelligence.

AlisonWilliams

Good morning. So I had a similar question just circling back to trading and the CIB more broadly. So obviously the bank has gained share but can you speak to future opportunities and runway and maybe this is more of a question for Investor Day, but specifically businesses like cash management, transaction banking and corporate clients in general. You're a leader in the US anecdotally. We hear US banks have been making gains in Europe. Can you speak at all to that opportunity?

JenniferPiepszak

Sure. So as you said we'll give you more color at Investor Day for the Treasury services business, we feel really good about where we're positions. I think going forward they'll obviously be some rate headwinds there which we think can be offset by organic growth, but given the investments that we have made there, Jamie mentioned InstaMed earlier. We feel really good about the capabilities that we're adding and what we're seeing in terms of organic growth there. But we can talk to you more about that at Investor Day.