Good morning ladies and gentlemen. Welcome to JPMorgan Chase's First Quarter 2018 Earnings Call. This call is being recorded. [Operator Instructions] We will now go live to the presentation. Please stand by.

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

Marianne Lake

Thank you operator and good morning everyone. And just to let you know that Jamie is actually on the ride with clients today, so he's not able to join us this morning, but sends his regards.

So, now I'm going to take you through the earnings presentation which is available on our website. Please refer to the disclaimer at the back of the presentation. Starting on page one, the firm reported net income of $8.7 billion, EPS of $2.37, and a return on tangible common equity of 19% on revenue of $28.5 billion, benefiting from broad based strength in performance, but also lower taxes and seasonality.

So, this quarter's performance in context, on a core basis pretax earnings grew 13% year-on-year, benefiting from higher rate, solid growth across other revenue drivers, and continued investments in our businesses. And even excluding the benefit of tax reform, net income was a clear record this quarter.

Included in the results, you see on the page, approximately $500 million of mark-to-market gains on certain investments previously held at cost due the adoption of a new accounting standard. These gains are reported in CIB markets revenue.

Against that, there were a number of other smaller, but nevertheless notable items, including changes in credit reserve, SBA, investment securities, and private equity losses and legal, which together substantially offset those gains.

Underlined results continue to be strong. Average core loan growth excluding the CIB of 8% year-on-year, Card sales and merchant processing volumes up 12% and 15% respective. We maintained our number one rank in global IB fees and have net income of $1 billion in the Commercial Bank. And in Asset & Wealth Management, we saw strong long-term flows [ph] across all regions and 10% AUM growth.

Turning to page two, some more details about the first quarter results. So, before we get into the numbers on the performance drivers for the quarter, I do want to remind you that there have been a couple of adjustments to the numbers on the page which are in line with the guidance that we gave during the fourth quarter.

First, seeing the impact of the new revenue recognition standard. You will recall, this will have the full year impact of grossing up non-interest revenue and expense each by approximately $1.2 billion. The impact for the quarter of about $300 million is included here and prior periods have been similarly restated.

Second, as a result of tax reform, certain tax equivalent adjustments that are included in managed revenue are lower on a relative basis and for that prior periods have not being restated. This impact which was also about $300 million for the quarter, reduced revenues, was split about 50/50 in NII versus NIR, an offset in tax expense.

So, with that, revenue of $28.5 billion was up $2.7 billion or 10% year-on-year. Net interest income was up $1.1 billion, mainly reflecting the impact of higher rates. Non-interest revenue was up $1.6 billion year-on-year and while it includes the mark-to-market gains on the first page, it also includes approximately $400 million of losses on investment securities and legacy private equity investments.

Adjusted expense of $16 billion was up 6% year-on-year, reflecting higher compensation expense as well as business growth including Auto lease depreciation. Credit cost of $1.2 billion were down $150 million year-on-year. Consumer charge offs were in line with expectations and guidance and there were no changes to reserves this quarter. In wholesale, we had a net reserve release of about $170 million driven by single Oil & Gas names.

You'll see that our effective tax rate for the quarter ended a little above 18% compared to the 17% guidance we gave, driven by a combination of higher pretax earnings as well as geographical mix. We're expecting full year effective tax rate to be closer to 20%.

Shifting to balance sheet and capital on page three. We ended the first quarter with CET1 of 11.8%, down about 30 basis points versus last quarter. Capital generated was offset by net capital distributions and changes in AOCI. So, the reduction was driven by higher risk weighted assets reflecting the increased level of market activity, which similarly impacted all other ratios.

In the quarter, the firm distributed $6.7 billion of capital to shareholders and last week, we submitted our 2018 CCAR Capital Plan to the Federal Reserve. But as you know, we can't provide any details of that at this stage.

So, before moving on to the lines of business, on page four, I'll briefly address this week's new capital news. Two new capital NPRs were released this week, the Stress Capital Buffer and eSLR. Starting with the Stress Capital Buffer, the proposal was broadly in line with a narrative and expectations that had been set.

There is a comment period, we intend to fully participate in the process and are encouraged that there is an openness from current leadership to really consider feedback from the industry.

On the positive side, we support the convergence of Stress and BAU capital and in general, support simplification of the framework. We believe that firm should be required to hold adequate capital to withstand severe stress, calibrated to firm's specific exposures and risks. We also agree that many of the changes to the construct of the test, for example, not having to hold capital for full distributions during a stress environment, better reflect reality, and Board-approved policies.

That said, stepping right back, if we are fundamentally reconsidering the contrast of minimum capital levels, then all of the building blocks should be in play including the GSIB surcharge to ensure they all hang together. And to reinforce points that we previously made, first and foremost, the fixed coefficients need to be recalibrated in light of the economic growth we've had. Second, the underlying premise for the surcharge and more particularly, U.S. gold plating is somewhat unnecessary for a firm that is compliant with all of the post-crisis reform that directly addresses systemic risks, which includes the severity of the CCAR stress, incorporating material GSIB specific instructions.

Beyond that, obvious challenges with the current proposal includes the significant volatility and opacity in the said results, as well as challenges around implementation. So, getting to the numbers, you can see on the page, our estimated historical Stress Capital Buffer derived from the said result. And while for 2017, it would imply no impact on our minimum capital levels, you can see that in years prior, the buffer would have been higher. And you know that in 2018, the scenario was in many ways more severe and the lower tax rate has a net negative bias.

Further there will potentially be a need for larger management buffers if it is necessary to accommodate significant volatility. So, acknowledging everything that we don't know, it's fair to say that our minimum level of capital including a management buffer would likely be higher under this proposal, but likely still in the range of 11% to 12%.

Briefly on eSLR, as you know, we are not currently bound by leverage. I'm trying to say to you this proposal would reduce the eSLR minimum. So, my primary comment on this is to reiterate my earlier comments about the need to be willing to reexamine the GSIB surcharge regardless of the fact that it reduces the number. Overall, we've been waiting for these proposals and we look forward to participating in the comment process.

Moving to page five and let's start with Consumer & Community Banking. CCB generated $3.3 billion of net income and an ROE of 25%. Core loans are up 8% year-on-year, driven by Home Lending up 13%, Business Banking up 7%, Card up 5%, and Auto loans and leases up 6%.

Deposits grew solidly at 6% year-on-year. We believe we continue to outpace the industry, which as we previously noted, is experiencing a slowdown as consumers are increasing their allocations to investments, but also based upon our data, they appear to be spending more, reflecting a continued high level of confidence.

Client investment assets were up 13% year-on-year with half of the growth from net new money flows and with record flows this quarter. And active mobile users were up double-digit.

Revenue of $12.6 billion was up 15% year-on-year. Consumer & Business Banking revenue was up 17% on higher NII, driven by continued margin expansion and deposit growth. Home Lending revenue was roughly flat, as portfolio loan spread and production margin compression were predominantly offset by higher net servicing revenue.

And Card, Merchant Services, and Auto revenue was up 18% including higher Auto lease income, but it was driven by Card on lower net acquisition costs, higher loan balances as well as margin expansion. The Card revenue rate was 11.6% in the quarter.

Expense of $6.9 billion was up 8% year-on-year, driven by investments in technology and marketing. Higher Auto lease depreciation and continued underlined business growth. The overhead ratio of 55% was roughly flat quarter-on-quarter despite seasonally higher payroll taxes and higher marketing expenses.

Finally, on credit, the trends across our portfolio remain favorable. Charge offs were driven by Card and were in line with guidance and there were no reserve actions taken this quarter. Recall, last year included a net impact of a little over $200 million related to the student loan portfolio sale.

Turning to page six and the Corporate & Investment Bank. CIB reported net income of $4 billion on revenue of $10.5 billion and an ROE of 22%. This quarter in Banking, we maintained our number one ranking a global IBCs as well as a number one rank in North America and EMEA. IBCs were $1.7 billion, down 10% from a record quarter last year and strong performance in M&A was more than offset by lower debt and equity underwriting fees.

Advisory fees were up 15% year-on-year as we saw good momentum and some large deal closed. We ranked number one in global M&A wallet and gained share in every region. And for the quarter, we announce and completed more deals than any other bank.

Equity underwriting fees were down 19% in a market that was also down and versus a strong first quarter last year, which included a number of large deals. This quarter we ranked number three in a very competitive environment.

And debt underwriting fees were down 18%, driven by a slow start to the year, primarily due to increased market volatility which reduced issuance. Despite these headwinds, we maintained our number one ranking globally and looking forward to the rest of the year, across products, the overall pipeline remains strong.

Moving onto market, total markets revenue was $6.6 billion, up 13% year-on-year reported. However, as mentioned, this includes the mark-to-market gains we called out on the front page and also includes a reduction of about $150 million reflecting lower tax equivalent adjustments year-on-year. Accounting for both of these items market revenues would have been up about 7%.

Fixed income market's adjusted revenue was flat versus a strong first quarter last year with rates and spread markets reversing to more normal levels following significant outperformance last year, being offset by strong emerging markets and commodities performance.

It was a record quarter for equities and revenue was up 25%. A well-diversified story driven by broad strength and continued momentum throughout the quarter with increased volatility benefiting all of equity derivatives. In addition, we saw share gains in cash and continue client activity driving growth in prime as the investments that we've made the business are paying off.

Treasury Services and Security Services revenue were both $1.1 billion for the quarter and up 14% and 16% respectively, driven by higher rates and balances. Security Services also benefited from asset based fee growth on both market levels and new client activity.

Finally, expense of $5.7 billion was up 9% year-on-year, half being higher compensation expense with a comp-to-revenue ratio of 29% and the remainder primarily driven by higher transaction costs in markets.

Moving to Commercial Banking on page seven. Another very good quarter in this business with net income of $1 billion and an ROE of 20%. Revenue was up 7% year-on-year, driven by higher deposit NII as we continue to benefit from higher rates, partially offset by lower IB revenues.

Sequentially, revenue was down 8%, largely driven by the impact of tax reform. Gross IB revenues of $569 million result 15% year-on-year on a lower overall industry wallet and fewer large transactions versus last year. That said, the underlying flow of business remains robust. In fact, it was a record quarter for middle market clients and the pipeline looked strong.

Expense of $844 million was up year-on-year as we continue to invest in the business, both in bankers and technology. Loan balances were up 6% year-on-year and flat sequentially. C&I loans were up 5% on strength in our expansion markets as well as specialized industries, but down 1% sequentially roughly in line with the industry.

CRE loans were up 7% year-on-year and up 1% quarter-on-quarter as the competition is significantly elevated.

So both, while client sentiment is high in the wake of corporate tax reform and we remain hopeful that this will support higher demand later in the year, we're not seeing that yet and we are maintaining pricing and credit discipline. Finally, credit performance continues to be very good with zero net charge offs this quarter.

Moving onto Asset & Wealth Management on page eight, Asset & Wealth Management reported net income of $770 million with a pretax margin of 26% and an ROE of 34%. Revenue of $3.5 billion was up 7% year-on-year, driven primarily by higher management fees on growth in AUM as well as higher NII on deposit margin expansion and loan growth.

Expense of $2.6 billion was down year-on-year as the first quarter of last year included nearly $400 million of legal expenses. Adjusted expense would have been up 8%, driven by higher external fees and revenues as well as higher compensation.

For the quarter, we saw net long-term inflows of $16 billion including $5 billion in active equities with strength across all regions benefiting from strong long-term performance. We saw net liquidity outflows of $21 billion, largely driven by a combination of recent M&A activity and the impacts of cash repatriation due to tax reform.

AUM of $2 trillion and overall client assets of $2.8 trillion were up 10% and 9% respectively on high market levels globally as well as net inflows. Deposits were down 9% year-on-year, reflecting the migration into investments which we previously discussed, but were about flat sequentially on seasonally higher balances. Finally, we had record loan balances up 12% with strength in both mortgage as well as other loans globally.

Moving to page nine and Corporate. Corporate reported a net loss of $383 million. The net loss of $1.87 million in treasury and CIO was primarily due to losses related to security sales. The net loss of $196 million in other Corporate reflects approximately $100 million after-tax loss on legacy private equity investments, as well as a net tax expense on adjustments and true-up of certain reserves. And you'll recall that last year included a legal benefit and our quarter, of course, included the impact of tax reform.

Finally, turning the page 10. Given Investor Day is only six weeks behind us, we've not changed our guidance for the full year 2018. So, to wrap-up, we are pleased with the firm's performance this quarter with all of our businesses showing continued and broad strength in an overall environment that remains supportive. And while acknowledging the tailwinds of tax reform and higher rates, the consistent performance of business drivers is translating into topline growth and positive operating leverage with revenues and pretax income both up double-digits year-on-year.

So, with that operator, we can take some questions.

Question-and-Answer Session

Operator

Certainly ma'am. [Operator Instructions]

Our first question comes from John McDonald of Bernstein.

John McDonald

Hi, good morning Marianne. Wanted to talk about LIBOR, we saw big increase this quarter, can you remind us how LIBOR affects you, kind of pros and cons, where do you have LIBOR sensitivity on the asset side and where do you have it on the funding cost sensitivity to LIBOR? And how should we think net-net about that?

Marianne Lake

Yes. Okay, so I'll sort of end with the op shop [ph] which is that net-net the impact to our results in the quarter was very modest positive. So, a pretty small number on the positive direction. And we've actually seen this before, I can't remember, a year or so ago, we are most sensitive as you know to the front-end of rate, but principally to IOER and prime.

So, while we do have exposure to LIBOR repricing, it's both on the asset and liability. As you mentioned, we also have combination of one month and three months LIBOR. So, if you look sort of next across the assets and liability side, they material offset, we don't have sort of significant mismatches. And so as a consequence, obviously, we benefit from a higher level of obsolete short rate, but the basis widening hasn't been very meaningful to our NII. And I mean examples of asset that we price of LIBOR be the Commercial Banking loans and obviously, unhedged or hedged long-term debt on the liability side.

John McDonald

Okay. And then just as a follow-up, wondering about the drivers of the 7% expected growth in fee income for this year. At Investor Day, you mentioned you've got some bounce back from headwinds in Card and markets, but also core growth of -- I think about $2.5 billion you mentioned. So, what are the drivers of that overall 7% fee income if you could just give us some color there that would be great?

Marianne Lake

Yes. So, let's start with sort of three relatively big drivers. So, yes, as we have now sort of latched big Sapphire reserves and high premium vintages, our net acquisition costs are substantially lower and so that is a tailwind. We are seeing regular way BAU growth in Cards, NIR, and -- sort of drivers.

Similarly, mark-to-markets as we talked about after the first quarter performance that's a driver and then as the ongoing sort of growth in the Auto lease income space which is significant. Outside of that, you look at our underlying drivers across the Board in terms of new accounts and debit trends in Card sales and Asset Management fees as a driver too, so there's obviously a level of market dependency to it, but a bit of the sort of outsized year-on-year increase is seeing the -- somewhat tailwind of Card and market, both in the trading and in the Asset Management base.

Operator

Our next question comes from Glenn Schorr of Evercore ISI.

Glenn Schorr

Hi. Thanks very much.

Marianne Lake

Hey Glenn.

Glenn Schorr

Hello. There's a comment in the prepared text on -- in Lending and Commercial banking being intensely competitive and led to no real growth. Yet, I saw your -- the comments about 5% and 7% C&I growth and CRE growth, so I wonder if you could just flush that out a little bit more about the competitive landscape and I guess that's a pricing issue mostly?

Marianne Lake

Yes, I'll start with year-over-year, we're still getting significant benefits from our investment and expansion markets and also as you know we had a pretty -- we have a pretty unique sort of offering in terms of first term lending and so, for a period of time in both of those bases, we've been materially outperforming the market and so we're still seeing the benefit of that in our year-over-year numbers.

Quarter-over-quarter -- and the trouble with C&I loans is there can also be some volatility associated with held-to-sell mortgage portfolio, seasonality -- sorry mortgage warehouse seasonality and stuff like that. So, quarter-over-quarter what we're seeing is just the impact of the sort of overall industry-wide slowdown and the fact that you're right, it's not just pricing, it's just generally we continue to be very selective and cautious given where we are in the cycle, but we're not expecting flat for the year, we're expecting growth in the mid-single-digits for the year and we still believe that there should be demand.

And in the CTL space and commercial real estate [ph] more generally that's where the competition really has stepped up very significantly and that really is where pricing has become fiercely competitive and that's in compression.

Glenn Schorr

Thanks. And I just want to quick follow-up on your other comments related to capital proposals. The simple question I have is hearing you loud and clear on the -- on everything related to risk based capital, but the clear improvement on the leverage side in the SLR, does that -- theoretically I know that's just a proposal right now, would that theoretically free up more activity in repo land and other short-term investments that soak-up leverage capital but not risk -- much risk-based capital?

Marianne Lake

So, generally across the -- sort of whole industry, I suspect the answer to the question is yes, but remember for us that we haven't been constrained by leverage -- Tier 1 leverage or SLR over the last -- over the last several years. And it's a result obviously of the business mix we have and operating model that we have that we can socialize some of our [Indiscernible] results across the company and so we wouldn't expect there are the hedges [ph] and change materially.

Operator

Our next question is from Mike Mayo of Wells Fargo.

Michael Mayo

Hi.

Marianne Lake

Hi.

Michael Mayo

Can you just give a little bit more of your expectations for consumer and specifically digital banking? The active online users were up 5% year-over-year, but for the quarter, it was up 12% annualized. And I know there's always risk in annualizing numbers, so is that change in online users seasonal or is it structural, just a little more color on that?

Marianne Lake

Okay. So, I'll give you my best thought. I would say it's a little bit more structural than it is seasonal and we've been seeing continued growth in both digital and especially, the mobile channels. And it's a lot to do with adding features and as we talked about at Investor Day, making it compelling for people to digitally move money, which makes them become much more engaged in all of the good things that come with that.

In addition we talked also I think at Investor Day about the fact that we've recently added digital account opening and so I couldn't give you exact amounts of what is driving -- which ones of those is driving what, but we would continue to expect a bit of a structural acceleration. Certainly we hope for that.

Michael Mayo

And then a follow-up on that. So, is this money stickier or not? And if you could elaborate more on the deposit base, I know you've been pretty cautious in saying that money could flee more easily because of the digital it goes, on other hands, does it become more sticky because you have these connections?

Marianne Lake

Yes, so I think we sort of talked about the fact that -- I did think those customers are more loyal that they spend more and they bring up more deposits in investment. So, we gave you the stat -- that I think at Investor Day, we see more Card spend both debit and credit, but we also see higher deposits and investment, so digitally active customers. So, overall, it's really good for our franchise to have these customers engaged and we hope they also use our branches by the way.

With respect to deposit status, we talked before about the two theses. The first which is the one that we generally subscribe to is that a combination of the ability to use technology, the transparency, and expectation of higher rates as well as potentially overtime, the value of retail deposits the liquidity that we would expect higher reprice. And we haven't changed our expectation on that, but we haven't seen it yet either. So, we're going to have to watch that maybe play out.

There is the other side of that argument that other people -- many people subscribe to which is the customer experience, investments, the convenience, the brand, the marketing, the digital features, the products and services, the reward, all become increasingly important and customers are less price-sensitive.

So, I guess we'll all know it when it finally unfolds. As you know we could have taken a little bit more of a conservative view but where we are right now in the normalization cycle specifically, sort of retail, checking, and savings, as you know we haven't yet seen that unfold.

We have seen migration in Asset, Wealth Management balances and that to be expected to be a leading indicator. So, this will unfold over the course of the next year or so.

Operator

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

Marianne Lake

Hey Matt.

Matthew O'Connor

Hi, good morning. Can you provide an update on your interest rate sensitivity with the recent move in rates that we've had?

Marianne Lake

I'm sorry, say again.

Matthew O'Connor

Just an update on your interest rate sensitivity from here?

Marianne Lake

Okay. So, we've seen two things happen. I guess we've seen obviously we've rolled forward a quarter. I think our earnings at risk disclose at the end of last quarter was $1.7 billion, you go forward a quarter and that comes down a little less sort of realized rate benefit, but we've also seen as you know somewhere in the sort of mid 40s basis point increase in rates sort of front and long end which will also have a somewhat significant impact. So, $1.7 billion will be down quite meaningfully I would expect at the end of the third quarter, but you'll see those disclosures in our Q.

Matthew O'Connor

Okay. And then just separately within the trading businesses not a surprise there's a big increase in the average VAR, obviously, there's a lot of volatility in the number of products out there or the markets out there. But just anyway to think about like how much the VAR increased? And you had some increase in trading revenues, but maybe not as much as one would think when you see the VAR that much, is there any correlation between those two from [Indiscernible] point of view?

Marianne Lake

Yes, I think it's extremely difficult to draw a straight line between VAR and all of its complexities and revenues in any one quarter. And if I just sort of unpick it for you first -- and by the way, just to reiterate that it's still at relatively low levels relative to historical norms when we've been in more normal trading environments with higher levels of volatility and inventory and the like.

So, I would handpick and say of the increase more than half was related to volatility and obviously some of the volatility was somewhat significant, we wouldn't necessarily expect to see that level continue, albeit that we would expect to continue see periods or episodes of significant volatility and a bit less than half to do with positions principally, but not exclusively as a result of higher levels of client activity in the CIB any sort of balance sheet wants to go up and risk weighted assets and so on.

Operator

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

Erika Najarian

Hi. Good morning.

Marianne Lake

Hi Erika.

Erika Najarian

Morning. So, my first question to you Marianne is if the Stress Capital Buffer becomes final as proposed and now the industry has a BAU CET1 minimum that could move year-to-year, how does that change your outlook on how to think about dividends and buybacks from here?

Marianne Lake

Okay. So, I mean I would start a little bit with -- so when you say as return, if you take the last years Stress Capital Buffer, you've seen this from history for us that that could be significant. So, there are three observations I would have. The first is when we think about capital planning, I think rightly you would expect us and we do think about over more than a one year cycle and while we have very significant earnings capacity, we don't want to be sort of up and down and sideways and [Indiscernible].

So, I think there will be some implications of the potential for volatility in the calibration of management buffers. And so whether it's in higher or lower SCB or whether it has to be taken into consideration so that we aren't caught sideways from a test result that is with respect once a year and a little bit opaque.

The second thing I would highlight to you is for what it's worth, you saw our Investor Day sort of, I won't say guidance, but no sort of indication that we were -- we would expect to try and pay out around 100% off of minus. And you see our ratios are below 12%. So, I think that puts us on reasonably solid booking regardless of the precision of it to sort of understand how the rules play out.

Finally, I hope and I believe, I suspect that through the comment period, the implications of volatility will be properly explored and that hopefully there will be some sort of mechanism considered to accommodate smooth or otherwise allow for things not to be [Indiscernible] around based upon the specificity of the test.

And margin, I guess, the fourth point, it's not something that we overthink is having the full course of dividend explicitly included notwithstanding that this cap [ph] is listed kind of makes it dollar-to-dollar capital. So, at the margin, I guess that makes people think carefully, but we would still want to pay out a strong healthy dividend on growing earnings.

Erika Najarian

Got it. And my follow-up question, I wanted to follow-up to your response to Glenn's question on SLR. I think there was some excitement from your investors if you look at your 4Q banking sub SLR, I think it was 6.7% off of a 6% minimum and that would clearly go to 4.75%. But just to make sure I understood your response even if you could add low risk weight exposure according to that constraint that leverage exposure feeds into the size component of the GSIB surcharge calculation. And so for there to be more freed balance sheet, you also really need to recalibrate the GSIB surcharge. Did they get that?

Marianne Lake

Yes, I mean that's definitely one of the factors. But just the other sort of slightly first order factor is we're running 70 basis points above our minimum. So, if you reduce the minimum by another 100 or 200 basis points whatever the number is, we already had excess capacity. And so when we think about the use of our resources, we obviously think about to maximize SCA [ph]. And so we haven't felt extraordinarily constrained I would say.

So, there's that kind of just sort of basic, we haven't been maybe as constrained as maybe others have seen and that is what it is. And so while we'll continue to make every decision incrementally based upon marginal SCA, but you are right. You have to take into consideration all the local impacts, I mean our stock price alone impacts GSIB.

Operator

Our next question is from Betsy Graseck of Morgan Stanley.

Betsy Graseck

Hi, good morning Marianne

Marianne Lake

Good morning Betsy.

Betsy Graseck

Question on LIBOR, I know you discussed it relative to the loan book, I'm wondering if you could give us some color on how the LIBOR changes impacted trading?

Marianne Lake

Yes, so look, I would say that in the fixed income spaces was sort of discussion and it was a feature or a factor and even in equities, to be honest, it was part of the discussions. I wouldn't say that we could point to it materially impacting our failing results.

Betsy Graseck

And then the follow-up is just on the mark-to-market gains that you called out the $505 million [ph]. It looks to me like you've called it out as mark-to-market gains on certain equity investments. I just wanted to understand why it's really showing up in fixed income instead of equity trading line, is that the correct interpretation of the slide?

Marianne Lake

Yes. So, think about -- many of these investments are years old -- many years old. And think about them as strategic investments that relate to business activity. For example, if illustratively in financial market infrastructure or clearing and houses or exchanges or so on, all sales and strategic investment potentially related to other parts of the business, so it just happens to be the case that those investments years ago relate and continue to relate to fixed income more than equities. And they were previously ahead of cost, and as there are observable prices as you know this quarter we have to reflect that.

Operator

Our next question--

Marianne Lake

Pretty [Indiscernible] with the investment.

Operator

Our next question is from Jim Mitchell of Buckingham Research.

James Mitchell

Hey good morning. Maybe just a question on the TCGA [ph], I know that we're all wondering if it's going to have an impact on loan growth, but what about credit, do you think that that has any positive impact, I guess, particularly on the Corporate side with higher cash flows going forward lower tax rate. How do you think about reserving and your expected loss rates going forward?

Marianne Lake

Yes, I would say across the Board actually all the way from full business to middle market, we're expecting sort of higher earnings more free cash and generally speaking, that would improve the sort of credit quality of the portfolio. And we will only really see that come through as we get financials and see that in the financials and label to reflect that in our internal ratings. But we would expect to see some positive lift as a result of that over time.

So, no doubt that helps, but it helps in a rising rate environment and it looks pluses and minuses, but yes, it's a tailwind to credit overall.

James Mitchell

Right, okay. Thanks. And then maybe just following up on asset yields, you saw overall asset yields jump pretty nicely given the higher rate environment, but securities portfolio yields were down, is that sort of a shortening duration or just a mix issue, what shouldn’t we expect security sales people moving higher in this environment?

Marianne Lake

Yes you should. What it is actually is the tax equivalent adjustments I mentioned. So, you're seeing that sort of relative impact of lower tax gross-ups and meaning portfolio and investment securities, if you were to adjust to that, they would have been up in line with rates.

Operator

Our next question is from Ken Usdin of Jefferies.

Kenneth Usdin

Thanks. Good morning. Hey Marianne you mentioned that on the consumer side, you had no incremental reserving actions and I'm wondering if you can just kind of give us a state of the consumer to that extent is -- are you feeling just better or was it also related to kind of just the growth math starting to look a little bit better in Card and Auto?

Marianne Lake

So, I would say we still feel really good about the consumer, really good. And so while you can look at sort of overall sort of levels of consumer indebtedness and look at the fact that they've reached the peak and student lending is driving that in a large part. It's also clearly the case that people had a long time to prepare their balance sheets and term out debt at lower rates and become more liquid and so sort of debt service burdens are still manageable.

And so over -- and confidence is high and that should be a benefit generally speaking. So, overall, we still feel pretty good and it's showing a little bit in our sort of consumer spend data where we're seeing that confidence continues to sort of a spur a bit in spending. With respect to reserves, so our expectation and our belief about the strength of consumer continues to be optimistic. And then further, of course, you know that our portfolio particularly is skewed towards higher quality credit. And so we aren't seeing any signs of fragility or deterioration across the portfolios across the Board. So, hope you get it.

Kenneth Usdin

Got it. And on my follow-up, the Card revenue rate was nice to see it really spike up 11.6% and you guys have been talking about getting it to 11.25% by mid-year. Any updated thoughts on just that trajectory and where you expect that to go over time now?

Marianne Lake

Yes. So, I mean much like we talked about with the Card charge off, right, there is some seasonality. So, the first quarter revenue rate would normally be seasonally higher. Having said that, you're right, we did see some revenue outperformance in the Card space a little bit. And so at this point if you were to ask me 11.25, well, it's it certainly a very, very solid expectation, probably higher for the year.

Operator

Our next question is from Saul Martinez of UBS.

Marianne Lake

Hi.

Operator

Mr. Martinez, your line is open. Please go ahead.

Saul Martinez

Hello. Can you hear me?

Marianne Lake

Yes, we can hear.

Saul Martinez

Could you hear me? I'm sorry about that. Sorry little scattered this morning, I have a lot going on. But -- yes, I apologize if you already addressed this question Marianne. But -- can you just talk to the -- how you're feeling about the pipeline in investment banking, obviously it was a little bit of a soft quarter for you and for everybody. And just how are you thinking about the pipeline deal activity in light of Daniels, I think Daniels' guidance at the Investor Day, your expectation is that Advisory and ECM might be up a little bit, ECM down a little bit, I don't know if you guys have any updated thoughts on the outlook?

Marianne Lake

Yes. I mean I just -- first of all, I would just talk a tiny bit about the quarter because I think it's important and it's instructive. First of all, last quarter was a -- this quarter last year, I'm sorry, was a record and so not that we don't always want to [Indiscernible] I still feel like we did pretty well and it's a little bit like the fixed income story last year, equity market in DCM was up and M&A was less strong in this year that turned around and I would say as we look at the results in ECM and DCM that were down, there were a few -- we were under indexed for the larger fee event for a combination of reasons; some outside of our control and some addressable and also some deals that we had hoped to have closed moved into the second quarter, which is all to say that actually if you look across the Board, M&A still look strong, DCM and ECM pipeline also looks strong. Overall, the pipeline is well ahead of this time last year.

So, as long as the market remains constructive, we should continue to see reasonable momentum across products, but as you say, the [Indiscernible]

M&A and equities likely to benefit more strongly than DCM in a rate rise environment.

And so confidence is strong, activity levels, you saw volumes are up. We printed number one M&A quarter. So, as long as market volatility regularity given is gone certainty, doesn't escalate within any pretty good about the second quarter and into the year.

Saul Martinez

Great. Thank you very much.

Operator

Our next question is from Gerard Cassidy of RBC.

Gerard Cassidy

Good morning Marianne.

Marianne Lake

Good morning.

Gerard Cassidy

Can you give us any color on when you look at your franchise -- your consumer franchise, is there parts of the country that are more competitive for deposits, whether that's metro New York versus California versus Texas? And could you give us some color on what you guys are seeing geographically on deposit growth in the competition?

Marianne Lake

Yes. So, I mean I'll make to some [Indiscernible] comments and if you still have questions, you can maybe speak to IR, because I don't have everything in front of me. But I will tell you this we compete with everyone across the Board. We compete with the large money center banks, we compete with the regional banks, with local banks, and so there's plenty of competition in all markets and we monitor the market dynamics as you'd say, a pretty granular level and so we will respond accordingly. And I think we do pretty well across the Board and I wouldn't call anyone out as standing out all, anyone out as a clearly being more challenging, but that's an ongoing sort of interesting dynamic process.

So, we compete -- everywhere we compete, we compete with a lot of people who want these high quality liquidity products -- relationships and so do we.

Gerard Cassidy

Okay. And I apologize if you addressed this; I had to jump off the call for a minute. The deposit beta, where does it stand today for you folks? And on your Investor Day, you gave us a very good trajectory of where you think it's going to. Are you still on that trajectory of where you think you should be?

Marianne Lake

Yes. So, with deposit betas, you have to sort of take the because there's a sort of full spectrum. We are, as an industry, firmly on a reprice journey. No doubt. And so the state of play and the maturity of that reprice journey depends upon the specifics of the business and the client. And so at the wholesale sort of top end reprice is really reasonably high. Not to say that there's nowhere left to go, but it's reasonably high and pretty consistent. And as you go down through into the middle market space and small business and all the way down to the retail space, it's still relatively early days given the absolute level of rates. And so we continue to see the journey.

As I said we've seen migrations in [Indiscernible] now for few quarters. As people are sort of reassessing deposits versus investments, we're retaining those investments. So, we feel good about that. But that is generally a precursor to what we will see in retail at some point in future and not yet.

So, with respect the final part of your question which was are we still feeling like the trajectory we showed you is our central case and the answer is yes at this point.

Operator

Our next question is from Chris Kotowski of Oppenheimer.

Chris Kotowski

Yes, good morning. You touched on this in a tangential way, but let me ask it a different way. If we look at your Card fees on a consolidated basis back in 2014, 2015 before you had the Sapphire launch, it was running around $1.5 billion a quarter, it bottomed out late 2016 and early 2017 at $900 million and now you're up to $1.275 billion. Should we expect -- as Sapphire completely mature, should we expect that to go back to the $1.5 billion, $1.6 billion a quarter or is that ancient history and not indicative of anything?

Marianne Lake

So, I can't really comment on dollars, I'll tell two things. The first is that we've given you -- so to 2018, our expectation of the revenue rate that will be now likely above the 11.25% we previously said. I will tell you we are largely we have lacked, we have lacked the Sapphire reserve quarters now, right, so the big quarter is the hundred, thousand, point premium quarters, those were in the fourth quarter and the third quarter -- the fourth quarter of 2016, the first quarter of last year. So, I would call that in the rearview mirror now and from here, we grow with the growth in the accounts and the businesses and the spend.

So, we still expect to grow. But remember also in that rebase lining and I can't remember which period you called out, but also remember we have gone through a whole renegotiation of all our Card co-brand relationships that have an impact. So, growth will be an offset. We've had some structural stepdown for the reprice of the co-brand, there's still great partnerships and we consider it very valuable. Sapphire we're lacked and from here, hopefully we just continue to grow.

Chris Kotowski

Okay. All right. That's it for me. Thank you.

Operator

Our next question is from Al Alevizakos of HSBC.

Al Alevizakos

Hi, thank you very much for taking my question. I was wondering equities clearly was strong in the quarter, but I was wondering if you could give us some geographical split. I'm particularly interested since I'm based in Europe to see if you witnessed any impact from the new regulation especially MiFID II in either cash or derivatives? Thank you.

Marianne Lake

Sure. So, let me just start like at the top of the house and say we've been talking about globally investing in bankers and sales people and technology and building out our platforms across cash and prime space. It is the case because we were not competitive in the international synthetic prime years ago and we now have among best-in-class sort of platform that that has been part of the growth drivers, I would say EMEA, international primers has been a bright spot, generally MiFID II.

So, I would say that there was a concern about pullback in trading. We saw a bit of hesitation, particularly as in fixed income, less so in equities, but the market was generally be quite resilient and so we're still only relatively early days. And within the result that we had articulated to you, we've seen material increases in EMEA electronic trading, which we think will be likely somewhat permanent where people are choosing to do high touch cash trading, we're seeing some concentration among players which is all to say that we are seeing the industry wallet decline and margins compressed, but for us in particular, we're also benefiting from higher volumes. We think we're gaining share and we're benefiting from some of that concentration among top players. So, net-net, yes, I think we're seeing some pressure on the in scope wallet, but less so than you would think for us and its early days, but we'll just have to keep watching it.