Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Second Quarter 2018 Earnings Call. This call is being recorded. Your line will be muted for the duration of the call. We will now go live to the presentation. Please stand by.

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

Marianne Lake

Thank you, operator. Good morning, everyone. 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 $8.3 billion and EPS of $2.29 on revenue of $28.4 billion, all were record for the second quarter, even exceeding the benefit of tax reform.

Our return on tangible common equity was 17%. And also included in the results were two notable items, which I will call out in a momentum, excluding which EPS would have been about $0.10 higher.

The strength this quarter was broad-based across businesses and highlights include average core loan growth excluding CIB of 7% year-on-year, consumer deposit growth of 5% which we believe continues to outpace the industry; card sales up 11%; and client investment assets and merchant processing volumes, each up 12%.

We maintained our number one rank in Global IB fees and CIB delivered double-digit revenue growth across the board. Commercial bank revenue was up 11% year-on-year with IB revenues being a bright spot this quarter. And in asset and wealth management, AUM and client assets were both up 8%.

Turning to page two for more details about the second quarter. The firm delivered strong core positive operating leverage this quarter. Revenue of $28.4 billion was up $1.7 billion or 6 % year-over-year. Net interest income was up $1.1 billion or 9%, reflecting the impact of higher rates and loan growth, partially offset by lower market NII. Net interest revenue was up over $600 million, driven by strong performance in markets and IB fees and also higher auto lease income. NII this quarter was negatively impacted by a rewards liability adjustment in cards. And remember that last year included a significant legal benefit. Excluding these two items, NII would have been up $1.6 billion and total revenue up 10%.

Expense of $16 billion was up 8% year-on-year, with half of the increase directly related to incremental revenues, principally compensation in the CIB, transaction expenses and auto lease growth. About a third related to continued investments in technologies as well as headcount across the businesses and the remainder was largely a loss on the liquidation of a legacy legal entity as part of our simplifications efforts. And if you exclusive this item, expense was up only 7%. The legal entity loss, together with the rewards liability adjustment in cards are the two notable items I mentioned at the beginning for a total reduction of over $500 million pre-tax. Credit costs of $1.2 billion were flat year-on-year and credit trends remained favorable across both consumer and wholesale.

Shifting to balance sheet and capital on page three. We ended the second quarter with CET1 of 11.9%, up about 10 basis points versus the last quarter as most of the capital generated was returned to shareholders. Risk weighted assets were relatively flat, despite solid growth in loans and commitments, being offset across other categories. In the quarter, the firm distributed $6.6 billion of capital to shareholders and last month the fed informed that they did not object to our 2018 capital plan. We were pleased to announce gross repurchase capacity of nearly $21 billion over the next four quarters and the Board announced its intention to increase our common dividend to $0.80 per share affected in the third quarter.

Moving on to page four on consumer and community banking. CCB generated $3.4 billion of net income and an ROE of 26%. Core loans were up 7% year-on-year driven by home lending up 12%, business banking up 6%, card up 4%, and auto loans and leases also up 4%. Deposits grew 5%. And although growth is slower than a year ago, we are seeing record high retention rates and customer satisfaction scores.

Client investment assets were up 12% with more than half of the growth from net new money flows and we are capturing an outsized share as our customers shift from deposit to investments. Card sales volume was up 11%. And we announced several new cards as we continue to update our product offering. Revenue of $12.5 billion was up 10% year-on-year. Consumer and business banking revenue was up 17% on higher NII, driven by continued margin expansion as well as deposit growth.

Our lending revenue was down 6% on production margin compression and lower net servicing revenue, despite higher purchase volume in retail. And cards merchant services and auto revenue was up 6% driven by lower card acquisition costs, higher card NII on margin expansion as well as loan growth, as well as higher auto lease volumes. This was largely offset by lower net interchange, driven by a rewards liability adjustment of about $330 million, reflecting strong customer engagement across our Ultimate

Rewards offering. As a result, the card revenue rate was 10.4% for the quarter, but our full year guidance of approximately 11.25% holds. Expense of $6.9 billion was up 6% year-on-year, driven by higher auto lease depreciation and investments in technology.

Finally, on credit. Charge-offs were down $36 million year-on-year, including a recovery of about $130 million from a loan sale in home lending. This was largely offset by higher net charge-offs in card. The card charge-off rate was 3.27%, reflecting seasonality and is in line with expectations and in line with our guidance. There were no reserve actions taken this quarter.

Turning to page five and the corporate and investment bank. CIB reported net income of $3.2 billion on revenue of $9.9 billion, up 11% and an ROE of 17%. In banking, we maintained our number one ranking for the quarter and year-to-date in Global IB fees and with a record first half performance, and we grew share across the regions.

IB revenue of $1.9 billion was up 13% year-on-year, outperforming the market but was down slightly as we saw robust activity, particularly in M&A and ECM. It was a record second quarter for advisory fees, which were up 24%, benefiting from a number of large deals closings this quarter. We gained share and ranked number two globally.

Equity underwriting fees were up 49%. We ranked number one globally as well as in North America and EMEA and gained share in a competitive environment, driven by IPOs and convertibles in the two most active sectors, healthcare and technology, which are areas of strength for us.

Additionally, we saw good momentum in private capital market as clients are exploring alternative sources of capital. And debt underwriting fees were relatively flat versus a very strong prior quarter, supported by healthy acquisition related activity. And we ranked number one in DCMs globally and across all the products. Looking forward, the overall pipeline remains strong.

Moving on to market. Total revenue was $5.4 billion, up 13% year-on-year or up 16% adjusting for the impact of tax reform and was driven by strong results in equities, solid performance across categories and with performance picking up in the second half of the quarter.

Fixed income markets revenue was up 12% adjusted on the back of good client flow and decent volatility and with commodities making a notable recovery from a challenging prior year. It was a record second quarter for equities with revenue up 24%, driven by strong client activity and favorable trading results, and with particular strength in cash, prime and flow derivatives.

Treasury services and securities services revenues were each up 12%, driven by higher rates and deposit balances, and security services also benefited from higher asset-based fees on new client activity and higher market levels.

Finally, expense of $5.4 billion was up 11%, driven by higher performance-related compensation, volume-related transaction costs and investments in technology. The comp-to-revenue ratios for the quarter were 27%, consistent with prior quarter.

Moving to commercial banking on page six. Another strong quarter for this business with net income of $1.1 billion and an ROE of 21%. Revenue was a record for second quarter, up 11% year-on-year driven by higher deposit NII and strong investment banking activity. Gross IB revenue of $739 million was up 39%, driven by several large transactions and strong underlying flow of business and the overall pipeline is robust and active. Expense of $844 million was up 7% as we continue to invest in the business, both in bankers and in technology.

Loan balances were up4% year-on-year and 2% sequentially. C&I loans were up 3% year-on-year and sequentially due to increased M&A related financing with strengths in our expansion markets as well as in specialized industries, and despite lower tax exempt activity. CRE loans were up 4% year-on-year and flat versus last year as there continues to be a lot of completion for high quality assets and we are selective given where we are in the cycle. Finally, credit performance remains strong with a net charge-off rate of 7 basis points.

Moving on to asset and wealth management on page seven. Asset and wealth management reported net income of $755 million with a pretax margin of 28% and an ROE of 33%. Revenue of $3.6 billion was up 4% year-over-year driven by higher management fees on growth in long-term products as well as strong banking results. Expense of $2.6 billion was up 6%, driven by continued investment in advisors and technology as well as higher external fees on revenue growth.

For the quarter, we saw net long-term inflows of $4 billion with positive flows across multi assets, equities and alternatives, partly offset by outflows in fixed income. Additionally, we saw net liquidity inflows of $17 billion. AUM of $2 trillion and overall client assets of $2.8 trillion were both up 8% with the increase being split about equally between flows and higher market levels globally.

Deposits were down 7% year-on-year, reflecting continued migration into investment where we are also capturing the vast majority and down 3%

sequentially on seasonal tax payments. Finally, we had record loan balances, up 12% with strength in global wholesale and mortgage lending.

Moving to page eight and corporate. Corporate reported a net loss of $136 million. The result included a pretax $174 million loss on a liquidation of a legacy legal entity, previously mentioned. But it's of note that while this loss through expense affects retained earnings this quarter, it is offset from a capital perspective. So, it's capital neutral.

Before I wrap up, you may note, we have no outlook page here. Although both revenue and expense are trending higher market-related, given we're only halfway through the year, we're not updating our outlook at this point.

So, to close, the macroeconomic backdrop continues to be supportive. Consumer and business confidence and sentiment remain high, client activity levels are robust, and the markets are open and active. We are pleased with the firm's results this quarter. Our broad-based financial performance clearly demonstrates the power of the platform. Revenue grew strongly, double digits year-over-year in many cases. We realized positive core operating leverage, despite significant investments and credit trends remain favorable across both consumer and wholesale. This was a clear record for second quarter, whichever way you slice it. We remain focused on consistently delivering for our customers and our communities and investing for the long term.

With that, operator, can you open up the line for Q&A?

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Ken Usdin of Jefferies.

Ken Usdin

Hey. Good morning, Marianne. Can I ask you to talk a little bit about the card business? And you mentioned the strong customer engagement with regards to the rewards markdown. Can you just walk us through what's the drivers of that and this is a one-time event and does it affect the card revenue rate outlook?

Marianne Lake

So, I'll start with the end because that's pretty simple. It obviously affected the card revenue out in the quarter. You can see that that was 10.4%. And you can see on the page, we've adopted for the impact. But, the 11.25% for the year remains true, which is to say that while this may be slightly larger than normal, it's not exactly one-time item. We regularly review our liability as we observe the mix of our portfolio and the behaviors of our customers.

On face value, I know rewards is often talked about as a competitive matter. I mean, this is less about competition per se. In fact, we have record low in sales attrition, which in a competitive environment is really very good. And it's more about customers awareness of the value proposition of rewards and them being engaged in redeeming them, which for us is a positive thing because engaged customers spend more and we're seeing that they attrite less, and we're seeing that. And they will bring us more deposits and investments as we deeper relationships. So, I would say it's a little larger than normal. We do it pretty regularly. So, it's not one-time but it's not completely typical.

Ken Usdin

Got it. And in the press release, Jamie mentioned the first paragraph about increasing competition. Is that a global across all businesses comment or are you seeing it now really in specific areas? Thanks.

Marianne Lake

Okay. I think it's -- I mean it's pretty global across all businesses, as a general matter, and there are some obvious areas where it's pretty acute. And in the retail also space for example, we talked about commercial real estate for example, mortgage clearly with capacity and the systems for example, all of those areas are pretty competitive for a variety of reasons given where we are in the cycle in the economy and like. But I would say broad based, it's everywhere. That said, we are holding our own and in many cases gaining share. So, we're doing pretty well.

Operator

Our next question is from John McDonald with Bernstein.

John McDonald

Hi, Marianne. I wanted to ask you what you are seeing this quarter in terms of customer deposit trends, a little more color on both the pricing beta and volume balances. Kind of wondering, if you are seeing a lot of competition from the online competitors like Marcus and whether those are affecting your deposit balances with consumers being attracted towards high yields and affecting your pricing decisions?

Marianne Lake

Okay. So, I would say -- you talked to consumer deposits, so, I am talking retail now, not the sort of high net worth, but I'll come back to that. Consumer deposit up 5% year-on-year, slowing down as we would have expected, while you have seen online competitors and even some regional competitors make some moves in the large bank space, we haven't really seen that yet. When we look at the deposit slowdown and we unpack it, it feels to us like the vast majority of the root cause is customers moving into investments. And in the case of regional customers, that seem to manage accounts. So, it doesn't even appear to be rate seeking. Spending more would be the second driver and to a much lesser extent are we seeing behaviors like the rate seeking at this point.

So, we're not seeing that kind of migration out of the Company to online or other competitors at this point. And so, at this point, reprice is still not happening. That said, we are on a journey clearly. And in the higher net worth space, we continue to see the migration into investment assets we've been seeing. And again we continue to recapture the vast majority of those. So, at this point, things are playing out as we would have expected and we're not actually losing deposits en masse to any third parties.

John McDonald

Okay. And just a follow-up on that. Can you remind us what's the opportunity you see with the rollout of Finn and what advantages you expect to have in that arena?

Marianne Lake

So, I would look at Finn as one of many sort of digital innovations that we're doing, and I would look at it also in conjunction with broader, digital account opening. And although we've now launched Finn nationwide, I think it's fair to say it's still very nascent and we're still learning. So, we're going to continue to advance -- and it's got very high net promoter score by the way. So, customer experience is good. But it's still quite young.

Jamie Dimon

We haven't really marketed…

Marianne Lake

So, we're just starting. I would say, digital account opening on the other hand is a pretty good success story. And we are seeing a lot more accounts opened digitally across the channels and we're seeing of those, a decent chunk of net new to bank. And where we're seeing existing customers open new accounts, we're getting incremental money. So, we are seeing our digital asset pay off and even more broadly than that we could go into quick payments and the like. But, I wouldn’t focus overly on Finn as an eye focusing but think digital more broadly.

Operator

Our next question is from Jim Mitchell of Buckingham Research.

Jim Mitchell

Hey, good morning. Maybe just talk a little bit about loan growth. Obviously, it seems to have picked up in the fed data over the last month or two. What are you guys seeing on the ground? And do you think it’s -- what we’ve seen so far is a good indicator for maybe a more sustained pickup in growth?

Marianne Lake

Yes. I would say that we would use the commercial bank C&I loans as kind of bellwether. There has been decent demand. And I mentioned it in my remarks, the decent demands, not exclusively but partly on the back of a very robust and active M&A environment. And so, the demand is there, I would say, growth is solid, and in line with our expectations we will continue to hope to see that growth as we go through the year. And there may be other tailwinds. We’ve yet to see the full effect of tax reform flow through in profitability and free cash flow. And so, I would characterize loan growth as solid and our expectations for the outlook to remain solid, benefitting from very active capital markets environment.

Jim Mitchell

Okay. And maybe as a follow-up, when we think about NIM going forward, I mean, I think it was a couple of years ago that you talked about maybe normalized being somewhat the 265 to 275 range or 246 now. Is there a certain loan to deposit ratio you think you need to have, or level of rate? How would you -- just trying to think through how we think about NIM going forward?

Marianne Lake

Yes. I mean we’re at -- fed funds of 125 to 200 right now, but we are not anywhere yet close to normal rates. And so, when we think about what you talk about normalizing NIM, we are thinking about it more through the cycle adjusting for new liquidity rules and everything else. So, we have a number of further rate hikes to go before we reach that point. But, we are on a core basis -- and remember, we have a fairly sizeable market balance sheet, but on a core basis we are continuing to see NIM expansion in line with expectations and moving up towards that. So, we would expect to see expansion year-over-year moving towards that level but not getting there yet.

Operator

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

Erika Najarian

My question is on the regulatory process this year under the new leadership. I am wondering if there's anything that you could share with us that you've observed in terms of change. Whether or not it was -- how receptive or not the regulators were during the comment period for the SEB and also during the CCAR process? Was there any marked or observable change in the processes this year versus previous years?

Marianne Lake

Yes. So, I would say on the commentary of the SEB, obviously during the comment period, the regulators are quiet. So, it wasn't a two-way dialogue during that period. We would expect the two-way dialogue to start now that the comment period is over and the industry and bilateral letters have been submitted. I will say, going back to comments I think I've made previously that I remain constructive about the willingness for the current leadership to pay attention and take on those comments. And if you look at the proposal that was sent out for comments, not only did it have a large number of questions that they were asking the feedback on but their actual proposal was very similar to what we have been understanding was the intention in speeches that go back a fair way, which is to say that it feels like we're still making the sausage rather than this is a done deal. And so we're very optimistic that the comments will be taken on board. And they are -- volatility was evident in spades in this test, opaqueness, GSIB. We can go through them, I am sure we will. So, we remain optimistic that the comments -- bilateral discussions will start now. I would say -- the industry discussions will start now. I would say on CCAR, it felt close to prior years. It not to say that it is not constructive, it's just -- it's not like basically as prior years.

Erika Najarian

And just my follow-up question is, the pushback that I am getting from a lot of investors on bank stocks is that we are long in the tooth in the economic cycle. Clearly, there is strong activity levels that you posted this quarter and the credit metrics that you posted would suggest otherwise. And I am wondering, both Jamie and Marianne, how you would respond to that pushback that now it's not the time to invest in banks because we are late in the game from an economic standpoint?

Marianne Lake

Yes. I mean, I would say two things, which is while this cycle is older than potentially typically cycles have been, growth over the last decade has been lower through the recovery. So, there is plenty potentially of room to play. And as we look at all the economic data, not just here in the U.S. but also globally, there are no real signs of fragility. And I know, people are staring at the flat yield curve and we would say that that flat yield curve is a bear flattening, good flattening compared to profitability perspective and not some looming risk of a recession embedded in it. So, I am saying it's still negative. Real policy rate is still at zero, credit is very benign. That said, we are in cyclical businesses, no doubt. And so, we are preparing and we will be ready when the cycle turns and no doubt there will be impact from that. But through the cycle, I think we've proven our business model will produce strong shareholder returns and among best-in-class performance.

Operator

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

Mike Mayo

I wanted to follow up on that last question, if Jamie could respond to. I mean, Marianne, you said the macro is very supportive, you sound very positive. On the other hand, the 10-year treasury yield has flashed some warning signs to a variety of parties. So, Jamie, we have the tax cut, we've been waiting for the extra boost to the economy, whether it's capital expenditures or whatever. Do you think the economy is accelerating, it's still on steady footing, it's the same or maybe it's slowing down? And how should we think about the 10-year? And how do you think about the 10-year, and how do you manage to a flatter yield curve?

Jamie Dimon

Yes. So, just real quickly, Mari said, it's almost 9 or 10 years of growth at 2%, averaging 20% over the 10 years, it really should have been closer to 40%. There is a lot of evidence that the slack in the system is being finally -- people going back to workforce. The consumer balance sheet is in good space, capital expenditure is going up, household formation is going up, home building is in short supply, the banking system is very, very healthy compared to the past. Consumer confidence and business confidence are very high, albeit off their highs, probably because of some of our trade. So, if you're looking for potholes out there, there are not a lot of things out there, and growth is accelerating. And of course, things are always a little bit different. My own personal view is that the 10-year is 10-year. I wouldn't say it has to happen the way it's happened every time last time. I just think that's a mistake. The fed is reversing the balance sheet. I think it's very easy that rates can go up, the 10-year rates can go up in a healthy environment. In history, we've had rates going up where you had a healthy environment. It's not always true that the 10-year going up is bad.

Marianne Lake

Right. I would also say that the shape of the curve is correlated to fed funds in a tightening cycle and that is what we're seeing. So, while there are other factors weighing potentially on the 10-year in terms of still very accommodative central bank policy, particularly in the banks of Japan and the ECB where obviously trade is not necessarily constructive just in terms of the narrative, short-term underfunded pensions going into bumps, there are some technicals. But fundamentally, what you are seeing in terms of the flattening is pretty typical of a tightening cycle. And as long as it's accompanied with solid to strong economic growth, it doesn't concern us at this point. And in fact, as we've been pointing out, we are still levered toward fund and rates from a profitability perspective, and we do expect the curve to steepen over time.

Operator

Our next question is from Glenn Schorr of Evercore ISI.

Glenn Schorr

Just one follow-up on the competition conversation. I just want to see, your loan growth decelerated but it was in line with your 7% to 8% goal. Your loan beta capture, what you're getting on the pricing side is actually a little bit better than what you've given up on the deposit sign. So, that all seems fine, but this is the first time I remember putting in the comment about the competition. Are you still okay with the 7% to 8% goal? And maybe just an add-on to that, I'm just curious if part of the competition has anything to do with the private credit market that seems to be growing pretty strongly.

Marianne Lake

I would say just a tiny little correction. Our outlook was 6% to 7% core loan growth excluding the CIB. We're at 7% now. Things are still moving ahead in line with that. I would also just point out that it is an outlook, not a target. So, while we still feel like that is our outlook at this point, we obviously are going to make the right decisions, based upon the environment that we're in. Competitively the private credit market for commercial real estate, for leverage, lending, it's competitive, but so are also the mainstream competitors. It's just the environment is pretty constructive and everybody is trying to get access to the high-quality assets. So, margins are under pressure. And we will make sure we're getting the right return for the risk we're taking.

Glenn Schorr

Okay. And then, the follow-up on the expense side. If you did 16 times 4 would be 64. Your outlook is 62, but a lot of those were good expenses on better volumes. Are you still on track in your mind for the overhead ratio goals? I don't want to overly focus on a dollar amount.

Marianne Lake

It's a couple of things. So, 62, remember, the 62 was before the impact of expense gross up. So, the actual full-year outlook was about $63 billion, about $63 billion including them. This quarter included one-time item, $174 million on the legal entity liquidation. We knew about that, obviously. So, it was in our number, but you can't annualize it, you can't sort of times it by four. So, you're absolutely right. As we look out for the full year, to the degree that we would be above our -- our outlook is $63 billion, it would be largely driven, if not exclusively driven, by higher performance-related compensation on higher revenues, with the only other caveat that as you probably know, we are waiting as I'm sure you are for when the FDIC surcharge is taken away. The FDIC anticipated that would be in the middle of the year this year, but that is now potentially at some risk, moving out into the third or fourth quarter. So, while that could have an impact on this year, to answer your broader question, are we still on track for our expense overhead ratios? Yes.

Operator

Our next question is from Saul Martinez of UBS.

Saul Martinez

So, just following on the theme of economics and policy, to what extent do you see trade friction, geopolitical concerns, those things starting to impact client sentiment, whether it's institutional or corporate clients? And ultimately, do you see that -- or how do you gauge that as being a risk to global growth and U.S. growth?

Marianne Lake

Yes. So, I would say, so far, where we are is that trade is firmly part of the risk narrative. So, it's definitely, as Jamie has said, on the psyche of people. But it's not at this point causing them to change the strategic actions and decisions that they're making, but clearly part of the conversation. And as currently outlined, it's more of that than it is a real impact to sort of the global macroeconomic outlook. But that isn't to say that uncertainty can't ultimately lead to more challenges or slower growth but because confidence is a really important part of not just business investment cycle but also the financial market stability. So, at this point, it's more of a risk narrative than it is an actual driver. But, it is important that that uncertainty is taken off the table.

Saul Martinez

Okay. And if I could just ask a quick follow-up, and I apologize if you addressed it earlier, a lot of multitasking this morning, but on the market side, you did much better than what Daniel suggested in his update in terms of year-on-year being flattish overall. Can you just give us a sense of what changed in the last month of the quarter?

Marianne Lake

Yes. I'm going to say yes. In a nutshell, it got better. But let me just give you the context. The context is as you'll recall, as we ended the first quarter, there were some bouts of volatility and clients became more cautious. And that carried over into the first part of this quarter. And so, while activity was fine, it wasn't as strong. In the second half of the quarter, that generally faded, activity levels picked up. And I would say there were more catalysts. And ironically, one of the more catalysts when you're thinking about trading volatility or intraday volatility or vol of vol, trade is part of that; emerging market idiosyncratic events are part of that. The European sovereign Italy situation, so, there's just more catalysts in the market and just generally, more client participation.

Operator

Our next question is…

Marianne Lake

Sorry. Just to finish that to make sure that no one is confused. It was pretty broad based. It was pretty consistent throughout the second half of the quarter. And it wasn't a lot of one-off large trades.

Operator

And our next question comes is from Betsy Graseck of Morgan Stanley.

Betsy Graseck

Jamie, I wanted to ask about the China investment. I know that you put in the press release that you announced this quarter plans for a more significant investment in China. I just wanted to understand the timing. Is this something that's over the next year or this is a longer-term three to five-year? And if you could give us a sense as to how much is in your control versus needing regulatory approval from folks over there et cetera?

Jamie Dimon

Right. So, I'll just make a broader business comment for a second. We don't run -- because I think we easily answered Mike Mayo's question. We don't run the business guessing about when there might be a recession because we know there's going to be one. We already priced through recession. We like to blame clients, bankers, cards, accounts, products, services. That's how we run the business. Some of the decisions you make are portfolio decisions. You can add to your mortgage portfolio or you can sell it. You can reduce your growth or the loans if you think the credit is bad. And of course, we will do that when the time comes, but we'll still be adding accounts. And so, to me, I don't worry as much about the 10-year bond or all these various things. We can manage those risks. We want more clients in almost every business we're in and want to do a very good job for them in products or services.

China, it's a long-term story. We're not looking for any immediate thing. In the next 12 years or so, China will -- internal markets, maybe their bond markets, stock market is probably very close -- equal the size of the United States of America. Therefore, we want to be able to do everything we do here in China. We can do a lot of that in Hong Kong today, but we can't do it in Shanghai. So, we've applied for licenses. And obviously, we need permission ultimately from our regulators and from their regulators. So, it's totally in their control. And it may or may not be affected by trade, but I look at this as a point in time. It is what it is. Eventually, we'll get these licenses. Eventually, hopefully, we'll be a large competitor in Shanghai. Remember, we already do a lot of that business with Chinese companies around the world, with Chinese companies in Hong Kong. I mean, there are a lot of people going into China. So, we're looking for the full set of licenses to do what we need to do for Chinese companies. Ultimately, I think it'll be good for China to have a company like JP Morgan equity, debt, credit, transparency, governance issues, inside China.

Betsy Graseck

But right now, today, the ability to operate in Shanghai?

Jamie Dimon

No. Look, we already do deposits, we do certain banking. What we can't do is equity, debt, and trading of equity and debt. Okay? So, if we get this license one day at 51%, we'll be able to make -- and with these licenses, we'll be able to basic equity underwriting, equity sales and trading, research, debt underwriting, debt sales and trading. We could do all of that today in Hong Kong. But remember, Chinese companies, they can do it in Shanghai, or they can do it in Hong Kong, or they can do it in London, or they can do it in New York. We just want the full capability.

Operator

Our next question is from Gerard Cassidy of RBC.

Gerard Cassidy

Marianne, can you share with us, and correct me if I'm wrong, I think you guys have given us some color in the past about the impact of the fed taking down their balance sheet over the next three to five years by a couple trillion dollars that it will impact your deposit side of the balance sheet. Can you give us an update of where that stands today?

Marianne Lake

So, the fed has been on a pretty well-telegraphed path here, reducing their balance sheet by about $50 billion a quarter. We talked about the fact that if you take $1.5 trillion out of the system, if you look at -- as the fed has grown its balance sheet, about half of that will ultimately impact deposits. And our share of it would be 10%. So, we talked about potentially that kind of $50 billion to $75 billion of deposit outflows over the several years it would take to reduce that. But primarily they would be -- not exclusively, but primarily not operating and therefore, limited impact on liquidity basis. And so, it's playing out textbook right now.

Gerard Cassidy

Okay. And then, as a follow-up, I know you've touched on this increased competition. Can you give us maybe some more details in the commercial real estate and the residential mortgage area, what you're actually seeing? Is it just pricing, or is it now loan covenants, is it loan-to-values, any further color there?

Marianne Lake

So, residential mortgage correspondence in particular is pricing; pricing, pricing, pricing. And so, we will see share if pricing goes to what we consider to be not sufficient to return shareholder value. In the commercial real estate space, I would say, it is primarily pricing. So, spreads are under a lot of pressure. And the competition, as I said, it's GSEs, it's insurance companies, it's non-bank commercial institutions. It's a little bit less credit terms but still pretty robust, albeit that we are seeing a tiny shift to the right in LTVs. We're not going there, by the way, but I would call it pretty modest. So, I'd say generally terms are holding up quite well.

Jamie Dimon

On the competition issue. I think, it's good for the country, United States that we have a fully competitive field in card, mortgage, retail, asset management, commercial banking, investment banking, sales and trading. There are strong competitors everywhere. It's just recognizing that. That's all it is. It's a good thing. It's called capitalism.

Operator

Our next question is from Al Alevizakos of HSBC.

Al Alevizakos

Thank you for taking my question. I've got one question and a follow-up. I do care about geographical speed of the IB performance. You mentioned that there were certain catalysts, and you also mentioned, both the Italian situation but also the niche market. So, I want to know whether the strength was driven by the U.S. or whether there were some specific kind of areas that were weaker or stronger. And then, my follow-up is that do you feel it is picking up… [technical difficulty]

Marianne Lake

I am sorry.

Jamie Dimon

It would be really helpful if you guys weren't on your cellphones.

Marianne Lake

I am really, really sorry. But actually you were breaking up. And so, I didn't catch most of that question.

Jamie Dimon

Where is the IB doing well internationally, USA or Italy?

Marianne Lake

Okay. So, I would say across regions. Equities, strong performance across regions. While there were more catalysts this quarter, but you mentioned Italy, I think. None of those were particular drivers. So, we did fine on all of those, as well as I mentioned. So, I would say broad-based, gaining share we think in some areas in equity, cash and prime in particular, and holding our own elsewhere. And I would say solid performance across the FICC spectrum. And investment, yes, gaining share in investment banking. But obviously, you can't look at any one quarter.

Al Alevizakos

Thanks for that. And the second part -- and sorry about that. You couldn't listen before. Do you feel that you've started picking market share from the European competitors in the U.S., especially the ones that they are deleveraging?

Marianne Lake

I mean, I would say that if you just go back over the course of the last couple of years, you have seen some share shift from European banks to U.S. banks broadly. In the prime space, I would say U.S. prime incumbents are gaining some share, but it's not a particularly new trend and it's not the dominant trend.

Operator

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

Matt O'Connor

To follow up on the net interest margin, you mentioned ex the markets business it was still increasing. And I was wondering if you could size the magnitude of the NIM increase linked quarter on a core basis, ex markets.

Marianne Lake

Yes. So, linked quarter, reported down 2 basis points because of lower markets NII and higher market assets, $20 billion; core up 8 basis points.

Matt O'Connor

Okay. That's helpful. And then, just separately within CIB, the net charge-offs went up. Is that just some of the cleanup in energy? I know, you mentioned that there was a reserve release related to energy, but you had a little blip in the charge-offs there and I just wanted to get some color on that.

Marianne Lake

So, in CIB, the charge-offs were driven by two names and the principal one was the remaining piece of the Steinhoff loan we sold this quarter. We had a reserve release against it that was larger.

Operator

Our next question is from Gerard Cassidy of RBC.

Gerard Cassidy

Thank you. Just a follow-up, Marianne. On the capital return that you guys were approved for in terms of the share repurchase. Is that going to be spread out evenly over the next four quarters or will it be more frontend loaded?

Marianne Lake

So, we haven't disclosed that. But, if you look at our historical pattern, it's pretty even.

Operator

Our next question is from Betsy Graseck of Morgan Stanley.

Betsy Graseck

Just a question on CECL. I think, Jamie mentioned in the past that CECL is not a big deal for you guys, and maybe you could explain why and what kind of prep work and what you are thinking about as you work to adopt that over the next couple of years?

Marianne Lake

Sure. I mean, look, CECL is not a big deal insofar as we are getting ready for it. I will tell you that we haven't disclosed an adjustment number on the basis that we're still working through the modeling and the data. And it is more complicated, perhaps operationally to get everything lined up than you might think. We're going to intend to be running some stuff in parallel next year. So, we'll be able to give you much more color next year. Generally speaking, as we move to life of loan losses, it won't shock you to know that we will have an adjustment to our reserves through equity. It will be driven most likely by any of the portfolios that have longer weighted average life versus incurred loss models, and card would be the most notable, to a lesser extent unfunded wholesale commitments. But, it'll be manageable in the context of the firm, it goes through equity. And then, if you think about the economics the cash flows, the NPV of these loans doesn't change…

Jamie Dimon

So, this is what my comment relates to.

Marianne Lake

Yes. It doesn't change the economics of the loans. You upfront a little bit of reserves you get paid for over time. We don't think it's going to fundamentally shift the dynamics. But that will play out.

Jamie Dimon

You don't make economic decisions based upon accounting.

Betsy Graseck

Are there any asset classes where it's shorter under CECL than under the incurred loss model?

Marianne Lake

It's hard because it's life of loan. So, it's hard to have a shorter -- it's difficult to imagine that a life of loan could be shorter than an incurred loss. So, no, not really. But for us, the reason why it's pretty limited -- not to say there's no other impact, but the reason why it'll be mostly driven by the areas I mentioned is because in most of our wholesale space and so many of our other products, we are covered for multiple years, if not close to life of loan at this point.

Operator

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

Erika Najarian

A quick question, follow-up on card retention. You mentioned that rewards redemption is a sign of engagement. I'm wondering if you could share with us, once redemption hits a certain level in terms of the number of points, so, the number of points remaining may not be enough to redeem a trip or whatever. What is the retention level then?

Marianne Lake

I am not sure that I totally follow the question…

Jamie Dimon

They're already -- they're constantly creating rewards points and they're constantly using those points. And when they use rewards points, some points cost us more than other points. And the pace of the use will change economics a little bit. But basically, it's still kind of what we expect over time.

Marianne Lake

And remember that in a very, very oversimplified model of the universe, we would run an extraordinarily high level of redemption. We are giving these rewards to customers because we think that they are -- and they indeed are, perceiving great value in them. And so, we're just continuing to observe that as the mix changes