Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Third 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 presentation which is available on our website. Please refer to the disclaimer at the back of the presentation.

Starting on page 1. The firm reported net income of $8.4 billion and EPS of $2.34 on revenue of $27.8 billion with the return on tangible common equity of 17%. The result this quarter was strong. Record net income for third quarter even excluding the impact of tax reform with key drivers being higher net interest income across businesses reflecting continued rate normalization and solid growth in both loans and deposits, as well as very strong credit performance across all portfolios.

Highlights include, average core loan growth excluding the CIB up 6% year-on-year, card and debit sales as well as client investment assets and merchant processing volumes and consumer were all up double digits. We gained share in global IB fees and across all regions year-to-date and in Asset & Wealth Management, AUM and clients assets were both up 7%.

Turning to page 2 and some more detail about our third quarter results. Revenue of $27.8 billion was up $1.4 billion or 5% year-on-year. Net interest income was up $945 million or 7%, reflecting the impact of higher rate, net of lower market NII as well as loan and deposit growth.

Noninterest revenue was up $425 million driven by market NII and higher auto lease income, partially offset by markdowns on certain legacy private equity investments.

Expense of $15.6 billion was up 7% year-on-year. More than half of the increase relates to investments we're making in technology, marketing, bankers broadly defined and real estate. And the remainder is driven by revenue related costs, principally higher auto lease depreciation and transaction expenses on higher volumes.

Credit trends remained favorable across both consumer and wholesale. For the quarter, credit costs of $950 million were down $500 million year-on-year, driven by changes in consumer reserves.

Briefly on page 3, turning to balance sheet and capital. So, little to say here other than as you can see, capital and risk weighted assets remained basically flat quarter-on-quarter with the CET1 ratio of 12%.

Moving on to page four and Consumer & Community Banking. CCB generated $4.1 billion of net income and an ROE of 31%. Core loans were up 6% year-on-year, driven by home lending up 10%, business banking up 5%, card up 4% and auto loans and leases up 3%.

Deposits grew 4% year-on-year, continuing to outpace the industry although slower than a year ago. According to the recently released FDIC annual survey, we grew at nearly 2 times the average and we were the fastest growing bank in 9 of our top 10 markets. Chase also earned the number one spot in customer satisfaction in the J.D. Power U.S. National Banking Satisfaction Study.

Client investment assets were up 14% as we saw clear record net new money flows, more than doubling year-on-year, with flows accounting for more than half of the growth. Card sales volume was up 12% with strength across our portfolio, and we also saw very strong debit sales performance, up 13%.

Revenue of $13.3 billion was up 10%. Consumer and business banking revenue up 18% on higher NII, driven by continued margin expansion and deposit growth. Home lending revenue was down 16% as higher rates drive loan spread compression and the smaller markets pressuring production margins. In addition, net servicing revenue was down including the MSR.

Card, merchant services, and auto revenue was up 10%, driven by higher card NII on margin expansion and loan growth, higher net card fees on lower acquisition costs predominately offset by lower net interchange and also on higher auto lease volumes. Expense of $7 billion was up 7%, driven by continued investments in technology and by auto lease depreciation. The overhead ratio was 53%.

Finally on credit, starting with reserves. This quarter, we built reserves in card of $150 million, largely driven by growth. And we released reserve in the home lending purchased credit-impaired portfolio of $250 million, reflecting improvements in home prices and delinquencies.

On charge-offs, there are few moving pieces. Year-on-year charge-offs were down $137 million, driven by a recovery from a reperforming loan sale in home lending this quarter of about $80 million, together with an approximately $50 million charge-off adjustment in auto this period last year.

Excluding those, charge-offs were about flat. But, we are seeing improvement across all portfolios except for card. And in card, while charge-offs are up as newer vintages season, they are up less than expected and credit performance remained very strong. At this point, we expect card charge-off rates for the year to be below our guidance at about 310 basis points.

Now turning to page five and the Corporate and Investment Bank. CIB reported net income of $2.6 billion, and an ROE of 14% on revenue of $8.8 billion up 3%. In banking, we maintained our number one ranking year-to-date in global IB fees as well as in North America and EMEA, and gained share across regions. For the quarter, IB revenue of $1.7 billion was flat to a strong prior year and we outperformed in a market of sound meaningful as we saw robust activity, particularly in ECM. Equity underwriting fees were up 40%, gaining share across all products with continued strength in IPOs, particularly in technology and healthcare.

Advisory fees were down 6% compared to a third quarter record last year, outperforming the market and gaining share year-to-date. And debt underwriting fees were down 11% although better than the market, as our strong lead left positions drove share gains. Looking forward, the overall pipeline remains strong, up solidly from the prior year across products.

Moving to markets. Total revenue was $4.4 billion, down 2% or up 1% when adjusting for the impact of tax reform, so another good performance. Fixed income markets revenue was down 6% adjusted with no single predominant driver. We saw mild weakness in rates, financing, credit rating and securitized products as a result of compressed margins and tighter financing spreads in range-bound and competitive markets. This was partly offset by higher activity levels in emerging markets on volatility and commodities returning to more normal levels relative to a weaker prior year.

Equities continued the momentum from previous quarters and was up across all segments on the back of strong client activity. Equity revenue was up 17%, reflecting continued share gains in cash and prime and strong performance in corporate derivatives. Treasury services and securities services revenue were $1.2 billion and $1.1 billion, up 12% and 5% year-on-year respectively, driven by higher rates and balances. And securities services also benefited from higher asset-based fees on new client activity. Quarter-on-quarter, securities services revenue was down principally on seasonality and the impacts of the business exit.

Finally, expense of $5.2 billion was up 8%, driven by higher legal expense, higher compensation expense as we invest in technology and bankers, and volume related transaction costs.

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 of $2.3 billion was up 6% year-on-year, driven by higher deposit NII. Gross IB revenue of $581 million was flat, although we saw a strong underlying flow of business and pipelines remained robust and active.

On deposits, while we continue to benefit from the normalizing rate environment, as expected, balances are down year-on-year and bases are trending higher, as we are seeing some migration at the top end to higher yielding investments.

Expense of $853 million was up 7%, as we continue to invest in the business in banker coverage and technology initiatives. Loan balances were up 4% year-on-year and 1% sequentially. In C&I, demand remains muted in the wake of tax reform as well client confidence is high, balance sheet is strong and liquid, and the environment is competitive.

For us, C&I loans were up 4% year-on-year and flat sequentially, in line with the industry. But if you decompose it, we're growing strongly in our expansion markets and specialized industries, growing solidly in our core markets, but are seeing notable offset in tax expense activity, given the mix of our business.

CRE loans were up 3% year-on-year, a little less than the industry as we're seeing increased competition and continue to be very selective. Finally, credit performance remained strong with net recovery of 3 basis points.

Moving on to asset and wealth management on page seven. Asset and wealth management reported net income of $724 million with a pretax margin of 27% and an ROE of 31%. Revenue of $3.6 billion was up 3% year-on-year, driven by higher management fees, net of fee compression on higher market levels and continued growth in long-term products. These are partially offset by lower mark-to-market gains, including on seed capital investments.

Additionally, banking is also strong. Expense of $2.6 billion was up 7%, driven by continued investments in advisors and technology, as well as high external fees on revenue growth. For the quarter, we saw net long-term inflows of $8 billion with positive flows across all asset classes. In addition, we saw net liquidity inflows of $14 billion. AUM of $2.1 trillion and overall client assets of $2.9 trillion were both up 7% with more than half of the increase being driven by flows and the remainder on higher market.

Deposits were down 8% year-on-year, reflecting migration into investments with us, and down 5% sequentially including seasonality. Finally, we had loan balances up 12% with strength in global wholesale and mortgage lending.

Moving to page eight and corporate. Corporate reported a net loss of $145 million. Treasury and CIO net income was up year-on-year, primarily driven by higher rates. Other corporate was a net loss of $241 million, including markdowns on certain legacy private equity investments of $220 million pretax. For the whole Company, legal costs were a modest negative, with the benefit here in other corporate being more than offset in the CIB.

Moving to page 9 and outlook. We recently gave you updated outlook, so unsurprisingly that still holds and it's here on the page. Only two things of note. Our expense outlook assumes that the FDIC surcharge ended this quarter. So, clearly an extension would pose a risk. And on tax, there are a number of questions in the rules, which we expect to be clarified by the end of the year. We will have to work through them but would not expect any changes to be material.

So to close. We are growing across most of our businesses. We're investing heavily in all of them. We're investing in technology, bankers and beyond. Credit is in great shape and the earnings power of the Company is evident. We are particularly proud of the strength and improvement in customer satisfaction broadly and our continued investments which drive leadership positions and market share gains. This quarter, we announced Sapphire Banking and our digital investing platform You Invest. We opened our first branch as part of our expansion strategy in Washington DC, announced additional expansion into Philadelphia and Boston, and also announced our AdvancingCities initiative as we invest for growth in the clients and communities that we serve.

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

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of Glenn Schorr with Evercore ISI.

Marianne Lake

Good morning, Glenn.

Glenn Schorr

Good morning. So, at the Investor Day, I remember asking you the same question. So, I apologize. But, you have talked about consumer and corporate balance sheets being in great shape and having low debt service burden. The 10-year is up a modest 35 basis points since then and the world is freaking out that it's the end of the cycle and that's going to choke off the recovery. Your results are your results but they're some will say backward looking. Are you seeing any impact, A, at the modest increase in the curve now? And B, I'll ask again, is there a level of rates where you would start to see an impact of slowdown in what you're willing to lend rising in credit costs, things like that? Thank you.

Marianne Lake

Yes. So, I would say -- I would sort of pick up on the tone that you had in your question, which is the level of rates is not surprisingly high. And so, from our vantage point we're not seeing anything in terms of looking at our current dialogue or for that matter at credit trends that would suggest that this is problematic. With higher rates and we do this all the time, we obviously look at all of our portfolio and stress them for shocks of up 100 basis points even up 200, although clearly where we are now, risks are more asymmetric but -- I mean more symmetric. But, there doesn't seem to be any extraordinary stress that becomes evident, even if you -- obviously, the margin you're going to get more but it doesn't seem to be overwhelming. And it speaks, I think to the fact that low rates have been around for long term -- time. People have had the chance to get prepared. There is a lot of liquidity. And in the corporate space in particular, people have been able to hedge. So, is there an absolute level of rates where things will be problematic? At some point, but we don't think we're anywhere near there. So, I'm not saying that there couldn't be select downgrades; I'm not saying that at the margin, there may not be some incremental stress if rates continue to go much higher, but that's not where we are right now.

Glenn Schorr

Okay. Thanks very much, Marianne.

Operator

Your next question comes from Steve Chubak with Wolfe Research.

Steve Chubak

So, I wanted to start with the question on the You Invest launch. As we think about the strategy for the business, I want to understand, is the goal to compete with the incumbents to win new clients or are you simply trying to augment the existing offerings for JPMorgan clients? And it's really just our effort to understand the long-term strategy, given that the pricing is quite competitive but at the same time, the marketing effort has been fairly minimal so far?

Marianne Lake

Yes. I mean, remember, You Invest, it's early. Jamie just said, I don't know if you heard it. Yes and yes. Clearly, we are trying to add products and capabilities and value to our existing clients in an effort to continue to drive loyalty and engagement, and also earn more share of their wallet. But, we do think that the proposition is compelling and that the pricing is disruptive. And we should also expect over time to be able to attract new accounts. So, yes and yes, but it's early days. We're going to continue to develop, You Invest, its capabilities to iterate it and improve it. So far, it's early but good.

Steve Chubak

And just one follow-up for me relating to the commentary on the deposit side. You spoke of some of the headwinds to the deposit growth and these are more industry trends, including yield-seeking behavior on both the commercial and asset management side. I know you've given some helpful guidance in terms of the impact of Fed QE unwind as well, in the past. I'm just wondering, is the yield seeking-behavior you've seen so far consistent with your expectation, do you still expect to grow deposits as we look out for the next couple of years?

Marianne Lake

Yes. So, the answer is generically yes, as we would have expected. Obviously, we have no crystal ball as to the sort of timing and parts of these things. But, it is paying out arguably little slower than we thought, but like we thought. And I would say that our outlook for deposit growth is -- for it to be slower, but still positive.

Operator

The next question comes from the line of Betsy Graseck with Morgan Stanley.

Betsy Graseck

So, first question just on the rate question that you got earlier. But, I wanted to understand how you're thinking about the impact on the outlook for your asset yields, in particular the securities portfolio. I know you've given guidance on that before, but given the sharp backup that we've got over the last couple of weeks, how is that impacting your forward look on that?

Marianne Lake

Yes. So, I mean, on the asset side of the balance sheet just a big rule of thumb is that a little less than half of our loans are variable, index sort of prime and LIBOR. And so, what we've been seeing -- in any one quarter, there can be noise on one time item mix or whatever else. But, largely speaking, for every rate hike we've been seeing on the front end, we're seeing our assets reprice about half of that and that -- or loans be priced about half of that and that's what we'd expect. Similarly, if we see sustained increases in the low end of the curve, then we would see that play through into our investment securities yield. Obviously, this quarter while there was a meaningful increase on a spot basis, on average basis that wasn't the case and particularly not for mortgages. So, it had a modest impact on investment security yields this quarter. But, again, if it was a sustained and more sizeable, we would see that play through yes -- or would rotate the assets into higher book yields over time.

Betsy Graseck

Okay. And then, my follow-up question has to do with a blockchain that you launched this quarter. I think, it was on September 25th, you launched a blockchain for international payments. And I know at Investor Day, you talked a lot about the investments you were making on that side. Should we be viewing this as a competitor to SWIFT? Is that how the vision is for this blockchain?

Marianne Lake

So, this is the Interbank Information Network which we talked at Investor Day. And now, we have I think 75 banks and growing signed up to it. I wouldn't necessarily look at it exactly like that. I would say, this use case at least for now is very much around reducing the friction in the wholesale payment space in terms of inquiry and information sharing and not at this point about processing payments. So, we are still exploring use cases across the board on blockchain. I'm very excited about this and the uptake; it will be I think meaningful. But, I wouldn't think of it that way, not yet.

Operator

Your next question comes from Erika Najarian with Bank of America.

Erika Najarian

My first question expands on what the Glenn had asked. So, clearly, the bank stocks have been hit along with the broad market. And I guess, you're telling us one of two things. One, either the economy is slowing down or the relationship between bank revenue growth and solid economic growth in the U.S. is broken or not somehow is correlated as expected. And I'm wondering, given your fairly strong results across the board, where is the market wrong in terms of how they're thinking about either the economy or bank revenues related to a strong economy?

Marianne Lake

Yes. I would just start by saying, I think there is a lot of sort of macro uncertainty, noise and overhang that have been affecting the market over the last few days. So, overthinking any one driver or sort of confusion I think might be challenging. I would say that as we look at the economy, we don't see it slowing down. It seems to be continuing to grow pretty solidly. There is divergence around the world. So, it's led by U.S. strength, but still expecting there to be more convergence going forward. So, I actually think that our outlook is still quite optimistic on the global economy, and not to say to James' point that there are some risks out there.

And so, as we -- and also, just to talk about monetary policy for a second. Everything, given that growth outlook, is really sort of lining up for December rate hike and sort of more hikes into 2019 and the continuation hopefully of a steeper yield curve, and that all should be constructive for bank stocks. It is definitely the case that as we've been talking about the years now, as the Fed is shrinking its balance sheet and liquidity is coming out of the system, yes, we are seeing deposit growth slow. And there is a natural feedback loop, as you reprice liabilities, you'll have a natural asset base response. And so you might have slower growth on the asset side relative to the past, but it should be at higher spreads, and that should be how it plays out. So, there is really no change, I don't think in our expectation of the drivers.

Erika Najarian

That's helpful. And just as a follow-up, and I picked up in part of your response to an earlier question Marianne. As we think about your wholesale loan trends year-over-year which continues to outpace the banking industry. Could you tell us a little bit more about the dynamics in terms of competition from non-banks, particularly in private middle market lending? And I guess, we're really wondering what you're observing in terms of competition more in structure rather than rates? And whether or not some of the liquidity that you noted could be drained out of the system, would change the competitive dynamics near term? And sort of what is JPMorgan's indirect exposure that remains on balance sheet on the sponsor-backed transactions. Sorry, I know that is a lot.

Marianne Lake

Yes. I'll try to remember all of that. First of all, I would just clarify that when you say wholesale loan growth has been outpacing the industry, I would say that from my recollection, over the course of the last several quarters, we've basically been saying in line with, if not maybe even slightly less than in line with the industry, but it is nuance, you need to get beneath it. There are areas where we would fully expect to be growing more strongly than the industry, and those are in our newer expansion markets where we've been investing, we're reaping the benefits of those investments, and we're growing from a smaller base and deepening into the market. In our core markets, the mature markets, in line to maybe not even quite as we are being cautious given where we are in the cycle. So, I just want to clarify that…

Jamie Dimon

We haven't changed our standards.

Marianne Lake

We haven't materially changed our underwriting standards, no. And if anything, I would say, we're just being cautious of the margin. And with respect to competition outside of banks, it's definitely true that non-banks are gaining share. And it's also true that they are structure-wise going to be willing to do and are willing to do things that we are not. And so, for our best clients, we aren't largely going to lose on price, we would be willing to work on price. But we would walk away on structure.

Jamie Dimon

And we don't have a lot of residual exposure to sponsors doing that kind of lending.

Marianne Lake

That's right.

Operator

Your next question comes from Mike Mayo with Wells Fargo Securities.

Mike Mayo

So, Marianne, look, I mean ROTCE of 17%, you seem to have some deposit market share gained, but year-over-year for the third quarter, expenses are up more than revenues. So, can you highlight the dollar amount of investment spending and how that's changed and where you are in that progression?

Marianne Lake

Yes. Just before we get into expense for a second, if you step back, just a couple of things. I wouldn't look at any one quarter when I'm thinking about operating leverage, not to overplay seasonality or anything else. But, I would look at the whole year. And tax reform is an important part of that. So, if you look at year-to-date on a reported basis rather than a managed basis, year-over-year, year-to-date, we have about 200 basis points of positive leverage. So, tax reform is a big factor. And then, obviously, we had some private equity losses which are episodic in this quarter's revenue print. So, I think there is strong growth across the businesses. So, expense number and investments, our expenses are up over a $1 billion year-on-year, in line outside of FDIC and revenue related costs, in line with the guidance we gave at the Investor Day. So, think about that sort of $2.7 billion of year-over-year investments, and we're working through it. So, we're on track. It's different from revenues insofar as it's more linear. And so, expenses are in line and leverages -- positive leverages are I think pretty strong.

Mike Mayo

And just one separate question for you, Jamie. Your CEO letter highlights the expectation that interest rates would go a lot higher, so I guess for a long -- the track that you laid out. But, it doesn't seem like the market is digesting it as maybe as well as you might have thought the market would digest. So, it's basically what you expected. So, what's different between your expectations and how the recent market's been reacting?

Jamie Dimon

I think, I noted that the market may not take it that well if rates go up and -- because it'll surprise people a little, people shouldn't be surprise. And of course, so many things have changed as we've been through this before, like monitory policy, liquidity ratios, capital ratios et cetera. So, I was also pointing out that -- just about probability that rates can go higher, people should be prepared for that; they should not be surprised about it. So, I'm always surprised when people are surprised. And the why is more important? You're still growing. The economy is strong, rates are going up. Most of us consider it a healthy normalization, and going back to a more of a free market when it comes to asset pricing and interest rates et cetera, and we need that. So, to me, overall, it's a good thing, particularly because the economy is strong. And so, I do expect rates will continue to go up. We don't bet the company on that. That's just my own expectation. I have a -- I would put much higher odds in it being at 4% to most of the people, but again, the economy is strong. So, as long as it's normalized strong economy, it's a good thing. The economy could be strong for a while. I mean, Marianne pointed out wage is going up, participation is going up, credit has been written as pristine. Housing is in short supply. Confidence, both small business, consumer is extraordinarily high. And that could drive a lot of growth for a while, in spite of some of the headwinds out there.

Marianne Lake

I also think -- I mean, not exactly, but if you went back and looked a couple of years ago, what the 2-year forward 10-year rate would look like, it would look much like this. And so, it's just that it's been -- because the covers having a hard time pushing up that people are now focused on it, but this is what we would have expected, should expect and higher.

Operator

Your next question comes from Jim Mitchell with Buckingham Research.

Jim Mitchell

Hey, good morning. Maybe just a quick question on deposits. We're starting to see some slowing of growth if not outflows in some areas as rates rise. How do you -- but you guys still have a loan to deposit ratio that's in sort of the mid-60s and you've been gaining share on the retail side. What's your sense of I guess competition for deposit and pricing, particularly in the core retail bank?

Marianne Lake

Yes. So, when we think about the -- well, it's not really about competition particularly. When we think about the deposit base and the retail consumer relationship, deposits and rate paid is a important part of it, but it's increasingly less important, not that it's not significant. And so, when you think about the value that we give to our customers, it's not just that but it's also all of the customer experience initiatives that we've had, it's about convenience, about digital mobile capabilities, it's about launching new products, new services, simplifying the environment for them. So, there's a lot of different investments and things to play which might make this kind of normalization cycle look a little different. And so, the way we think about it is we look carefully across the spectrum of deposits, retail and wholesale at what we are seeing in terms of flows and balances and elasticity for our customers on our balance sheet. And that's how we think about our strategy for deposit reprice. And it's sort of largely behaving as we would have expected.

Jamie Dimon

I'll just make a macro point too. As the Fed reduces balance sheet -- just say by $1 trillion over the next 18 months or whatever, which they indicated they're going to do, that's $1 trillion out of deposits. That will have an effect kind of macro competition and stuff like that. And we try to estimate the big points, is it coming out of wholesale, kind of retail? It's hard to know. But that will change the competition a little bit for deposits.

Jim Mitchell

Okay, fair enough. And maybe a follow-up on that investment spend. Do you -- I mean obviously, it went up with the Tax Cut helping to accelerate some investments. Do we think of it going forward stabilizing at these high levels, or is this sort of a one-off sort of increase and we might see that come down or do we keep increasing? How do we think about the investment spent needs going forward a little further out?

Marianne Lake

Yes. So, I would say, and first of all obviously, we'll give you more thoughts on forward-looking guidance at a future date. But just generically, I wouldn't really put tax reform as being a primary reason for what we're doing on investments. I would say that we have identified the opportunity to accelerate capabilities that are consistent with our client strategic long-term goals and so we've been leaning into that this year. And so, it was a pretty sizable step up this year acknowledging that. We wouldn't necessarily expect to see that continue. But, we're going to carry on investing in technology, adding bankers, opening branches, launching new products so that we're defending the long-term growth and profitability of the Company. And in the absence of giving you guidance, I would just point you to the fact that we're still targeting -- not targeting, but we're still expecting an overhead ratio to be around about the mid-50s over the medium term, which on revenue growth, implies we'll continue to invest and there is also volume-related costs associated with that.

Operator

Your next question comes from John McDonald with Bernstein.

John McDonald

Hi. Good morning. Marianne, I was wondering on the regulatory front, do you any visibility into the future interaction of CCAR process with the new loan loss accounting rules, CECL, particularly in the context of the stress capital buffer potentially being implemented? Because it seems like we could have some overlapping procyclicality and then the potential to freeze that into the run rate capital. So, I was just kind of wondering, is there any visibility yet on that and is that a big area of uncertainty for you?

Marianne Lake

So, you hit the nail on the head with both your question and what that could imply. It is a big area of uncertainty. We do not have clarity on capital broadly as it relates to CECL, including whether there will be permanent capital relief and/or how that will play into CCAR. It is one of the most open questions we have. So, right now, what we know is -- as far as I know, anyway that we don't have to put the CCAR impacted until -- sorry, CECL impact in until CCAR 2020. So, it's not sort of imminent question, but it's an important one, and we don't know the answer.

Jamie Dimon

It seems to me that every single time there's a chance to make things more procyclical or less, we make it more procyclical.

Marianne Lake

That's the data for sure. So, we would encourage the dialogue on clarifying capital treatments with large to be at the forefront of standard set of mind.

Jamie Dimon

This also won't change our strategy. That's just accounting.

John McDonald

Got it. And then just as a follow-up. I was wondering how rising rates are affecting competition and capacity in the mortgage business, and whether the regulations in mortgage have made you open to reconsidering getting back into some areas that you exited after the crisis.

Marianne Lake

So, mortgage being a cyclical business as it is, we are, on higher rates, expecting the overall market to be down about 10% year-on-year. We are down in line maybe or more than that, but for us, it's a tale of two channels. We are flat year-on-year in the consumer channel, so decent consumer engagement and purchase market share. And we're down meaningfully in correspondent because we are pricing for some risk and higher rates. With respect to would we be willing to reconsider our opposition on mortgage, the narrative, the dialogue is constructive, but there hasn't actually been any resolution to the bigger challenges. So, if we can get that resolution, then, I think the answer would be largely, yes. Jamie?

Jamie Dimon

No. I would just add that mortgage -- the mortgage company is earning money, is doing quite well. Delinquencies are way down; we're competitive. We started Chase My Home. So, you can digitally track your mortgage process. And there's a lot of good stuff coming. And so, the big picture is pretty good. Obviously, refis and new home sales are probably down because of the rates a little bit.

Marianne Lake

And you are right. There is excess capacity in the market right now and that will clear -- it will clear itself out over the course of coming months. And we're in this for relationships, not volumes. And margins are under pressure as a result, but they will stabilize.

Jamie Dimon

And that is an area by the way where all the riskier lending has gone to non-banks pretty much.

Operator

Your next question comes from Al Alevizakos with HSBC.

Al Alevizakos

I would like to ask a question on the CIB. Especially, I would like to focus more about the outlook that you gave that the spreads are getting tighter. And I would like to know regarding the credit and securitization business where we've seen issuance being quite slow during the summer, then continuing like that in September. Do you see that there is a risk-off mode in the market? And how would you believe that the revenues would actually move going in Q4 and then in the New Year? Do you think that generally fixed-income wallet would actually be going down?

Marianne Lake

A risk of what? Sorry.

Al Alevizakos

The what? Sorry.

Jamie Dimon

The risk of wallet will go down.

Marianne Lake

Yes. So, I'd say, on the margin point, it's been the case that for particularly in the sort of more liquid space, you've seen margins coming down consistently over the years. So, it's not necessarily that this is some sort of step change or new phenomenon, but it's competitive. So, that's what we're seeing. On the SPG side, pipelines aren't strong at this point. So, we expect the fourth quarter to go much like the third.

Jamie Dimon

I'll just make a long-term point here too. In the next 20 years or so, the total fixed-income markets around the world are going to double. And that is just an important thing to keep back in mind. So, when you run the business, you run the business to capture your share of that doubling, and of course, margins over time will come down, and the way you do it is being transformed by electronics, et cetera, but it's a pretty good future outlook.

Operator

Your next question comes from Ken Usdin with Jefferies.

Ken Usdin

Marianne, on the consumer credit side, I should say, you made the point about card losses remaining low and -- towards the low end of what you had thought for the year. But, I also noticed that you also added to the card reserve and noted higher losses. So, can you give us the to and fro about just what you're seeing in the underlying on card and losses and trajectories? Thanks.

Marianne Lake

Sure. So, as you know, we've been talking for a couple of years now about the fact that we did some targeted credit expansion in the card space a few years back. And naturally, as that seasons, it will -- risk-adjusted returns that are healthy, but underwriting loans with higher loss rates, which means that as that seasons that the overall portfolio loss rate will naturally increase, so, the higher the percentage of newer vintages are, the higher the loss rate will be, in accordance with our underwriting standards and at good risk-adjusted returns. So, that's something we've been tracking and guiding to, and expecting. The build this quarter was more about loan growth than it was about the seasoning of the charge-off rate, but it was a bit of both.

My comment about the performance though is if we had looked at the 2018 card loss rate as we did at the beginning of the year, we said we would have expected it to be closer to 3.25%, but there are three things driving it to be slightly better. The first is the pre-expansion vintages are holding up very well. So, the pre-2015 vintages continue to hold up very well. The second is that as we have continued to observe the newer vintages, we've been rigorous in terms of, at the margin, doing risk pullbacks and ensuring we're managing the performance really well. And the third is that we've been improving our collection strategy. So, a combination of factors have allowed us to deliver, apples to apples, a charge-off rate for the portfolio that's a little better than we would have expected coming into the year.

Ken Usdin

Yes. Great color. Thank you. Can I…

Jamie Dimon

[Indiscernible] through the cycle number. So, you should explain that to them too.

Marianne Lake

Yes. And obviously, in this portfolio, as we go through the cycle, we would expect charge-off rates to continue to rise. And that's one of the reasons why I emphasized that the pre-expansion vintages continue to be that kind of -- you'll remember we hit that 2.5% charge-off rate, which is extraordinarily low for this kind of portfolio, and we're still there for those pre-expansion vintages. So, naturally, as the cycle matures, we will see that rise, but we aren't seeing it yet.

Ken Usdin

Yes, makes sense. And can I ask you just on the other side, can you talk a little bit of auto in the same context too where the losses have been flat as a pancake? Can you talk about that, and also just that leasing side of the book, which we more see in the other income? Are you still seeing the same potential for growth in both the on-balance sheet and the leases?

Marianne Lake

So, on the loan side in auto, I would say that we are losing share as we competition from credit unions and captives that may have economic frameworks that are different from ours. We are not going to chase volume. We're going to get the appropriate return for the risks. So, we are -- our credit reflects our discipline on pricing and underwriting standards. And so, it is continuing to be flat to a little better. On the leasing side, we do leasing with our manufacturing partners. We are seeing very strong growth. We're very careful about how we think about residual risks and reserving on that portfolio, but it's very high quality growth. And that looks set to continue.

Operator

Your next question comes from Saul Martinez with UBS.

Saul Martinez

I just wanted to follow up on the question on operating leverage. And how should we think about the outlook for positive operating leverage, just more philosophically? Your efficiency ratio is currently not materially above the 55% through the cycle expectation. So, should we be thinking of positive operating leverage as part of the investment narrative, or is the goal really to invest in favorable business outcomes, operating leverage does what it does and really doesn't drive business decisions?

Marianne Lake

More the latter than the former. So, obviously, we have a view of what we think the right return profile for these businesses should look like. And we're investing to deliver those returns through the cycle and over the long term. So, we don't have an operating leverage target in mind when we set our investment strategy, nor do we for that matter have an expense target in mind either. So, again, we saw a reasonable step up year-on-year this year because we saw the opportunity to do that well. I wouldn't necessarily expect to see that kind of growth. But, again, operating leverage is more of an outcome, not entirely, but more of an outcome than an input.

Jamie Dimon

And mix.

Marianne Lake

Yes. And mix.

Saul Martinez

And, if I could just ask a quick follow-up on CECL, I know you don't manage the accounting outcomes. And I think, Marianne, you mentioned that a number of areas last quarter where CECL could have an impact. But, any update just on CECL preparations and when you think you might have an estimate of what the effects could be?

Marianne Lake

So, I appreciate that you guys have been asking about this now for a while. And I hate to tell you that the modeling, the data, the methodologies are complicated. So, operationally, we are working through that across all of our businesses. We continue to expect to be running in parallel through some parts of 2019 across some of our portfolios so that we can make sure that we fully understand the potential implications. We don't have a number for you. But, I will tell you this, same as I said last time. The biggest driver is likely to be card because of the size of the portfolio and the 12-month incurred loss model today. So, the weighted average life of the portfolio driven by revolvers would be longer than that most likely. There will be some other impacts, pluses and minuses. Research reports have been written. I think on average for those that have been written have suggested that not just for us, but across others that the reserve increase could be 20% to 30%. And while I don't have a number for you, it's not implausible.

Operator

Your next question comes from Matt O'Connor with Deutsche Bank.

Matt O'Connor

I wanted to follow up on the discussion about increased competition in FICC. And I guess the language in the release kind of implied there was some increase in competition. Your comments on the call here say it's been competitive for some time. And I guess, I was trying to square those two. And I would just add that coming into this year, you had the Number one FICC share, and incredibly, you've been the biggest FICC share gainer year to date when we look on a global basis. So, you've been building on top of that share. And I'm just trying to gauge if there's been a change among competition trying to get some of that share back and maybe if that's just started to accelerate.

Marianne Lake

I think if you go back a number of years when we were all having those like deep and meaningful debates about whether we should be changing our FICC operating model. And we were committed to the full spectrum, complete platform. You roll forward to 2016, there was outperformance in fixed income. And coming in -- and people had made changes to their operating model and operations. And the competition came back pretty fiercely, I would say, into 2017. And then, in 2017, the market didn't play nicely, particularly the volatility and volumes were less robust than they've been in 2016. But we haven't seen the competition let up. So, people are back and wanting to enjoy. Jamie just talked about it. The fixed income wallet will double and pretty much, everyone everywhere wants to enjoy some of that. And so, the competition -- it's a combination of -- it's been very competitive for a while and it continues to be so. So, I don't think it's a step change, but it does obviously feel particularly when volatility has been reasonably contained outside of specific emerging market kind of areas that everybody is competing for these thin margins.

Matt O'Connor

And then, just broadly speaking, if we look at both FICC and equity trading, obviously, you've had the leadership position with FICC; you've been gaining a lot of share in equity, including this year. What do you think the biggest driver of that is? It doesn't feel like it's the capital or liquidity advantage. Is it all the technology spend that you've been doing? What are a couple reasons you'd just chalk it up to high level?

Marianne Lake

So, if you think about the -- we're sort of gaining share most notably in cash and prime. And if you go back a number of years ago, we were pretty open and honest about the fact that we weren't where we needed to be in either of those two scenarios, and we have been consistently investing in the platform, and it is technology. Think about prime with -- building out of the prime platform, particularly internationally has been a game changer. And we've had a best-in-class competitive offering over the course of the last couple of years. And now we're getting the momentum of being able to deliver that to clients. And similarly, we've been investing in the cash side. So, it's across the complex, but we're getting the benefits of the investments we've been making. I also think that the relationship effects of having the equities business with our private bank and with the commercial bank, the feedback loop is also quite powerful. So, it has a little bit to do with our operating model, our platform as a company.

Jamie Dimon

And really great research.

Marianne Lake

Yes. Great research.

Operator

Your next question comes from Brian Kleinhanzl with KBW.

Brian Kleinhanzl

Thanks. I had a quick follow-up question on the securities services. You mentioned that there was a decline sequentially based on seasonality and the exit of the business, but is there any way to size that to get to what the underlying growth trends were in that segment?

Marianne Lake

From an underlying growth trend perspective, I would look year-over-year rather than sequentially. I sort of point out the sequential points because of seasonality, we also exited U.S. broker/dealer business. So that obviously has an impact. It is also the case. So, if you think about the year-on-year growth of 5%, we have been growing more than that, led by very strong growth in NII. For this business, this is a wholesale business where deposit bases are high. So, we would expect that growth to level off, and in this quarter in particular, just the specifics of our internal transfer pricing is that LIBOR OAS narrowed and it just had an impact. Year-over-year, continue to expect us to grow assets, asset-based fees, NII solidly but not as strongly, and transactions. So, I don't know whether it's going to be high single digit or mid single digit growth year-on-year.

Brian Kleinhanzl

Okay, thanks. And then, just one separate question on the non-interest bearing deposits, I mean it came down in the quarter. Was that mostly just on the corporate side, or was there also some pickup in the deposit gammas on the retail side as well?

Marianne Lake

Not on the retail side, not yet. There's not a sufficiently compelling rate differential to be driving into product migration on the retail side yet, but we are seeing it on the wholesale side.

Operator

The next question comes from Gerard Cassidy with RBC.

Gerard Cassidy

I apologize if you've already addressed this, but can you give us the outlook for the pipeline for commercial loan growth or commercial loans in investment banking? I know it's very early in the quarter. But with the trading volatility we've seen, any color that you can share with us on that as well?

Marianne Lake

Okay. So, commercial loans, we're 4% up year-on-year, flat to 1% up sequentially. At this point, as we look forward over the near term, it feels like that kind of steady growth GDP plus, GDP is what we're going to get. And remember, everybody has a different mix, but one of the things that happened quickly with tax reform is that the government healthcare hospital not-for-profit space was less compelling from a loan sense, and now are going to be more compelling in the capital markets. So, we're seeing that impact our growth down. So, I would say that not quite mid-single digit growth feels like a decent outlook, all other things being equal.

In terms of the capital markets, well, I would say that the third-quarter pipelines coming out into fourth quarter and momentum sets us up for a decent fourth quarter honestly, across products. Clearly, volatility depending upon how long it stays around and what the drivers are, can impact business confidence. We're not necessarily expecting that. So, I would still say the outlook across products is good with ECM obviously being the one that would most likely impacted. But even there, I think it might be more of a sort of temporary set of pauses as people see how everything is digested. And honestly, on market, no good ever comes of trying to predict what a course will look like after a couple weeks.

And volatility is not necessarily a bad thing. It can be constructive in some ways and less in others. So, there's no good coming of a prediction at this point. I will say one thing about markets, just to give you guys a tiny view, which I know you now, but just because of tax reform and another one-off item in the fourth quarter, flat year-on-year comparably would be up.

Gerard Cassidy

Very good; I appreciate that. The second question is, when we look at the weekly H.8 data on Fridays, the smaller banks in this country are growing their loan books much faster than the larger banks. You obviously had good loan growth this quarter, but it doesn't match up to what the smaller banks are producing. So, the question is what impact do you think the CCAR process has had on you when you compare your underwriting prefinancial crisis? I know you're not changing your underwriting standards, but do you think the larger banks are more conservative as a general statement? And it's reflected in these very strong credit quality numbers you and your peers are posting today.

Marianne Lake

So, it’s difficult to generalize. And obviously, everybody has sort of a different risk appetite. It might be fine if you’re getting properly paid to grow more quickly. We are sticking with our guns in terms of our underwriting and risk appetite on credit. The other thing I think you have to bear in mind and again, it depends on the particular situation of any competitor is that we are materially and increasingly bound by standardized risk-weighted assets. And so, while we don’t overthink that and we do honestly think about economic capital, at some level, we have to generate a positive return for shareholders and shareholder value. And it’s on these very high credit quality loans that we’re producing, it’s expensive.

Operator

Your next question comes from Marty Mosby with Vining Sparks.

Marty Mosby

I wanted to take a little bit different slant on deposit betas, just ask a three-part question. One, is the increase in deposit betas that we’ve seen over the last couple of Fed moves, surprising at all or abnormal in your opinion to normal historical trends?

Marianne Lake

So, I would say, if you look at the first four hikes, it was relatively muted deposit reprice across the complex. It accelerated for the last three hikes, I’m excluding September, given obviously, when it happened. So, we are seeing an acceleration in betas. And it started at the top end of wholesale and it will migrate through the complex over time. I would say, it’s in line to arguably better than we would have modeled, but remember that this cycle did start in a very different place. So, in a while if we looked at history, we might have seen reprice in totality having been higher at this point, we started at 100 basis points of rates, not 25. So, I think that plays into it too. So, generally in line with expectations is what I would say.

Marty Mosby

Okay. That’s what I would say. So, let’s go to the next question. Given that rates have been low for so long going up until we started increasing rates, we’ve repriced almost every security and loan we had on the books. So, the actual upward potential to reprice portfolio yields to current market rates has got to be larger than what we typically have seen historically. Do you agree or disagree with that idea?

Marianne Lake

I would say, yes. Obviously, it depends on how you position the company over that period. But we talked about it before we were and have consistently been relatively short the market. We've been keeping dry powder so we could invest as long as rates go up. And we still are looking at that. But obviously, there's convexity in the portfolio too, so, paying attention to that. Yes, I agree.

Marty Mosby

Yes. So, the stretch between this portfolio yield, so, asset yields can actually reprice faster than what we've seen historically. So, the combination of those two things in our estimation gives us a threshold. So, if we saw backwards for deposit betas, it gives us a threshold if we estimate for JPMorgan of somewhere between 80% to 90% deposit betas before you actually break through and start eroding net interest margin. Currently, you had about a 40% deposit beta this quarter. So, you had a lot of headroom still to go before margins start to really erode, given deposit pricing. So, I just wanted to get a feel for that estimate of 80% to 90%, given where you're at today.

Marianne Lake

Okay. So, obviously, I don't know exactly your mental model, but let me tell you this. I think you're right -- I don't know about the 80%, 90% specifically, but you're right about net interest margin if you look through any short-term noise. So, we would expect the trend for our firmwide and core NIM to be – to trend or grind higher over time. But, it does depend on the path and pace of reprice. So, if we continue to see deposit betas stay low or lower than potentially, a linear kind of move, you'll see margins increase, and then, as they accelerate back to target, you might even see it compress. But, if you see through that over the long run, yes, net interest margins will be higher. And that will be driven mainly by balance sheet growth, mix, and long end of rates.

At Investor Day, you might remember, we told you that beyond 2018, net-net, there was little rate left to go, and it was going to be more about balance sheet, mix and growth, and long end of rates a little compounding. But, the path does matter. So, you can see core NIM in particular will be very vulnerable to the pace of reprice. Why would you look through that? Sorry. Operator?