2Q22 FINANCIAL RESULTS

EARNINGS CALL TRANSCRIPT

July 14, 2022

JPMorgan Chase & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Second Quarter 2022 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, Jeremy Barnum.

Mr. Barnum, please go ahead.

Jeremy Barnum

Chief Financial Officer, JPMorgan Chase & Co.

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

Starting on page 1. The firm reported net income of $8.6 billion, EPS of $2.76 on revenue of $31.6 billion and delivered an ROTCE of 17%. Touching on a few highlights, we had another quarter of strong performance in markets, which generated revenue of nearly $8 billion. Credit is still quite healthy, and net charge-offs remain historically low. And there continue to be positive trends in loan growth across our businesses, with average loans up 7% year-on-year and 2% quarter-on-quarter.

On page 2, we have some more detail. Revenue of $31.6 billion was up $235 million or 1% year-on-year. NII ex markets was up $2.8 billion or 26%, driven by higher rates and balance sheet growth. NIR ex markets was down $3.6 billion or 26%, largely driven by lower IB fees and higher card acquisition costs. And markets revenue was up $1 billion or 15% year-on-year.

Expenses of $18.7 billion were up $1.1 billion or 6% year-on-year, predominantly on higher investments and structural expenses, partially offset by lower volume- and revenue-related expenses. And credit costs were $1.1 billion, which included net charge-offs of $657 million and reserve builds of $428 million, reflecting loan growth as well as a modest deterioration in the economic outlook.

On to balance sheet and capital on page 3. Let's start by talking about our plans for capital management over the coming quarters. The new 4% SCB will raise our standardized CET1 requirement to 12% effective in the fourth quarter, and the 4% GSIB effective in 1Q 2023 further raises this requirement to 12.5%. At Investor Day, we said that we expected SCB to be higher and made it clear that in the near-term, share buybacks would be significantly reduced in order to build capital for the increased requirements. In light of the SCB coming in even higher than expected, we have paused buybacks for the near-term.

As we discussed at Investor Day and as we show at the bottom of this presentation page, our organic capital generation allows us to rapidly build capital in excess of future requirements, with a current target of roughly 12.5% in the fourth quarter. Any excess over the regulatory requirements offers us protection against a range of economic scenarios with room to deploy capital in line with our strategic priorities. We have a long-established track record of balance sheet discipline across the company, and this quarter's RWA reduction shows evidence of this discipline.

Turning to this quarter's results, you can see that our CET1 ratio of 12.2% is up 30 basis points from the prior quarter. Our RWA was down approximately $44 billion with growth in franchise lending being more than offset by the combination of active balance sheet management and the normalization of market risk RWA from the first quarter. CET1 capital was slightly down as earnings were offset by distributions and the impact of AOCI drawdowns in our AFS portfolio.

Now, let's go to our businesses starting with Consumer & Community Banking on page 4. Before I review CCB's performance, let me touch on what we're seeing in our data regarding the health of the US consumer. Spend is still healthy with combined debit and credit spend up 15% year-on-year. We see the impact of inflation and higher nondiscretionary spend across income segments. Notably, the average consumer is spending 35% more year-on-year on gas and approximately 6% more on recurring bills and other nondiscretionary categories.

At the same time, we have yet to observe a pullback in discretionary spending including in the lower income segments with travel and dining growing a robust 34% year-on-year overall. And with spending growing faster than incomes, median deposit balances are down across income segments for the first time since the pandemic started though cash buffers still remain elevated.

With that as a backdrop, this quarter, CCB reported net income of $3.1 billion on revenue of $12.6 billion which was down 1% year-on-year. In Consumer & Business Banking, revenue was up 9% year-on-year driven by growth in deposits. Deposits were up 13% year-on-year and 2% quarter-on-quarter, and client investment assets were down 7% year-on-year driven by market performance partially offset by flows.

Home Lending revenue was down 26% year-on-year, as the rate environment drove both lower production revenue and tighter spreads, partially offset by higher net servicing revenue and mortgage origination volume of $22 billion was down 45%.

Moving to Card & Auto, revenue was down 6% year-on-year reflecting higher acquisition costs on strong new card account originations and lower auto lease income largely offset by higher card NII. Card outstandings were up 16%, and revolving balances were up 9%. And in auto, originations were $7 billion down 44% from record levels a year ago due to continued lack of vehicle supply and rising rates while loans were up 2%. Expenses of $7.7 billion were up 9% year-on-year driven by higher investments of structural expenses partially offset by lower volume- and revenue-related expenses.

In terms of actual credit performance this quarter, credit costs were $761 million reflecting net charge-offs of $611 million, down $121 million year-on-year driven by Card and a reserve build of $150 million in Card driven by loan growth.

Next, the CIB on page 5. CIB reported net income of $3.7 billion on revenue of $11.9 billion. There were a number of notable items this quarter, including net markdowns on certain equity investments of approximately $370 million, with about $345 million reflected in payments and markdowns on the bridge book of approximately $250 million in IB revenue.

Investment Banking revenue of $1.4 billion was down 61% year-on-year or down 53% excluding the bridge book markdowns. IB fees were down 54% versus an all-time record quarter last year. We maintained our number-one rank with a year-to-date wallet share of 8.1%. In Advisory, fees were down 28% reflecting a decline in announced activity which started in the first quarter. The volatile market resulted in muted issuance in our underwriting businesses.

Underwriting fees were down 53% for debt and down 77% for equity. In terms of outlook, while our existing pipeline remains healthy, conversion of the deal backlog may be challenging if the current headwinds continue. Lending revenue of $410 million was up 79% versus the prior year driven by gains on mark-to-market hedges as well as higher loan balances.

Moving to Markets, total revenue was $7.8 billion, up 15% year-on-year in both Fixed Income and Equities against a strong quarter last year. In Fixed Income, elevated volatility drove both increased client flows and robust trading results in the macro franchise, most notably in currencies and emerging markets. This was partially offset by credit and securitized products in a challenging spread environment. In Equity Markets, we had a strong second quarter and again increased volatility produced a strong performance in derivatives. Credit Adjustments & Other was a loss of $218 million largely driven by funding spread widening.

Payments revenue was $1.5 billion, up 1% year-on-year or up 25% excluding the markdowns on equity investments. The year-on-year growth was primarily driven by higher rates. Security Services revenue of $1.2 billion was up 6% year-on-year with growth in fees and higher rates more than offsetting the impact of lower market levels. Expenses of $6.7 billion were up 3% year-on-year predominantly driven by higher structural expenses and investments, largely offset by lower revenue-related compensation.

Moving to Commercial Banking on page 6. Commercial Banking reported net income of $1 billion. Revenue of $2.7 billion was up 8% year-on-year driven by higher deposit margins, partially offset by lower Investment Banking revenue. Gross Investment Banking revenue of $788 million was down 32% driven by lower debt and equity underwriting activity. Expenses of $1.2 billion were up 18% year-on-year predominantly driven by higher structural and volume- and revenue-related expenses. Deposits were down 5% quarter-on-quarter driven by migration of non-operating deposits into higher yielding alternatives which we expect to continue given the current rate environment.

Loans were up 4% sequentially. C&I loans were up 6% reflecting higher revolver utilization and originations across middle market and corporate client banking. CRE loans were up 3% driven by strong loan originations and funding in commercial term lending and real estate banking. Finally, credit costs of $209 million were largely driven by loan growth while net charge-offs remain historically low.

Then to complete our lines of business, AWM on page 7. Asset & Wealth Management reported net income of $1 billion with pre-tax margin of 31%. For the quarter, revenue of $4.3 billion was up 5% year-on-year driven by growth in deposits and loans as well as higher margins, partially offset by investment valuation losses versus gains in the prior year. In addition, reductions in management fees linked to this year's market declines have been almost entirely offset by the removal of most money market fund fee waivers. Expenses of $2.9 billion were up 13% year-on-year, largely driven by investments in our private banking advisory teams, technology and asset management, as well as higher volume- and revenue-related expenses.

For the quarter, net long-term inflows of $6 billion were driven by equities. AUM of $2.7 trillion and overall client assets of $3.8 trillion down 8% and 6% year-on-year respectively were predominantly driven by lower market levels partially offset by net long-term inflows. Finally, loans were up 1% quarter-on-quarter while deposits were down 7% sequentially driven by seasonal client tax payments.

Turning to Corporate on page 8. Corporate reported a net loss of $174 million. Revenue was $80 million versus a loss in the prior year. NII was $324 million, up $1.3 billion predominantly due to the impact of higher rates, and expenses of $206 million were lower by $309 million year-on-year.

Next, the outlook on page 9. You will recall that at Investor Day, we expected NII ex markets for 2022 to be in excess of $56 billion. We now expect it to be in excess of $58 billion reflecting Fed funds reaching 3.5% by year-end. We still expect adjusted expense to be approximately $77 billion and the Card net charge-off rate to be less than 2% for 2022.

So to wrap up, the company's performance was strong again this quarter in what was a complex operating environment. As we look forward, we are mindful of the elevated uncertainty in the global economy, but we feel confident that we are prepared and well-positioned for a broad range of outcomes.

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

QUESTION AND ANSWER SECTION

Operator: Please stand by. And the first question is coming from Steve Chubak from Wolfe Research. Please proceed.

Steven Chubak
Analyst, Wolfe Research LLC

Q

Hey. Good morning, Jeremy. Hey, good morning, Jamie. Wanted to start off with a question on capital targets. I don't believe you provided an update on your firm wide CET1 target of 12.5% to 13%. And given the new higher SCB, future increases in your GSIB surcharge to 4.5%, your regulatory minimum is slated to increase beyond 13% by 2024, which is also beyond the horizon reflected on slide 3. And just given that high regulatory minimum, elevated SCB volatility in recent years, what do you believe is an appropriate capital target for you to manage to from here over the long term?

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Yeah, Steve, good question. So, obviously, you're right in the sense that we didn't talk about 2024 on the slide. And as you note, we have two GSIB bucket increases coming: one in the first quarter of 2023 and the other one in the first quarter of 2024. So we had worked all that out at Investor Day and talked about 12.5% to 13% target, which implies sort of a modest buffer to be used flexibly based on what we expected would be some increase in SCB. Obviously, the increase came in a bit higher than expected, so for now, we're really focused on 1Q 2023. Of course all else equal, you would assume that that 12.5% to 13% for 2024 would be a little bit higher, but there is another round of SCB and that's a long way away. And as you know and as you can see, there's a lot of organic capital generation. So we'll kind of cross that bridge when we come to it.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

We intend to drive that SCB down by reducing the things that created it.

Steven Chubak
Analyst, Wolfe Research LLC

Q

Fair enough. And just for my follow up on the loan growth outlook, loan growth continues to surprise positively. Certainly, the tone, Jeremy, that you conveyed was quite constructive despite the challenging macro backdrop. But with companies citing higher inventory levels, declining personal savings rates, growing inflationary pressures, whole list of potential headwinds that could negatively impact loan growth from here, I was hoping you could just speak to the outlook for loan growth across some of the different businesses. And what do you see as a sustainable run rate of loan growth over the medium term?

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Yeah, so we've talked as you know, Steve, about sort of a mid-to-high-single-digits loan growth expectation for this year, and that outlook is more or less still in place. Obviously, we only have half the year left. We continue to see quite robust C&I growth, both higher revolver utilization and new account origination. We're also seeing good growth in CRE. And, of course, we continue to see very robust Card loan growth, which is nice to see. Outlook beyond this year, I'm not going to give now. And obviously, as you note, it's going to be pretty much a function of the economic environment, so.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah, the only thing I would like to add is that certain loan growth is discretionary and portfolio-based. Think of mortgages, and there's a good chance we're going to drive it down substantially.

Steven Chubak
Analyst, Wolfe Research LLC

Q

Thanks so much for taking my questions.

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Thanks, Steve.

Operator: The next question is coming from Glenn Schorr from Evercore ISI. Please proceed.

Glenn Schorr
Analyst, Evercore ISI

Q

Hi. Thanks very much. I wonder if you could just talk to how you balance it all, meaning JPMorgan is always growth-minded. You underwrite for returns over the cycle. I get that. But given some of the potential bad stuff going on in the world that you've noted in some of the articles you've been in and at the conference, is there any point where that rougher outlook has you tightening the underwriting box to build capital and liquidity faster? Or do you think you can get there just through what you've laid out today on the buyback pause?

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Yeah, no, so, I mean, look, I think all of these things are true at the same time, right? So first of all, as you can see on page 3, the organic capital generation enables us to build very quickly to get to where we need to be with a nice appropriate buffer on time if not early. At the same time, as Jamie has noted, obviously, in this moment, we're going to scrutinize even more aggressively than we always do, elements of our lending which are either low returning or have a low client nexus or both. We do that all the time anyway, but of course in this moment we're going to turn up the heat on that a little bit.

In terms of underwriting, as you say, we do underwrite through the cycle. I think we feel comfortable with our risk appetite and our credit box, and I don't think we expect any particular change there.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah, I mean the only thing I would add is that certain, obviously, risks that we take kind of price themselves. So if you look at our bridge book, it's smaller than it was because we priced ourself out of the market, and that was a good thing because a lot of people will lose a lot of money there, and we lost a little. So we are very conscious of that kind of thing all the time.

Glenn Schorr
Analyst, Evercore ISI

Q

Well, I appreciate that. And did you all consider a CECL reserve and increasing the probability to the core scenario in this quarter? And just curious on how you thought about that. Thanks.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yes, but we didn't do it. And obviously, what we do in the future quarters will remain to be seen.

Jeremy Barnum A
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

Yeah. And, Glenn, just remember that we did do that last quarter, right? So we already introduced a sort of skew to the outlook beyond what's implied by the market to reflect our own slightly more negative view. And in a sense, arguably we were sort of early on that, so it really wasn't necessary this quarter.

Glenn Schorr Q
Analyst, Evercore ISI

All right. Thank you both.

Operator: The next question is coming from John McDonald from Autonomous Research. Please proceed.

John E. McDonald Q
Analyst, Autonomous Research

Hi. Good morning. Jeremy, just wondering if you could talk about the deposit trends you're seeing, the differences between commercial deposits, wealth management and retail in terms of flows and repricing pressures.

Jeremy Barnum A
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

Yeah. Great question, John. And I think you're right to break it down by the different segments because we are seeing different dynamics there. So on the wholesale side, you do see some lower deposits, some deposit attrition, and that is entirely expected and part of the plan in the sense that, for client reasons, we had slightly higher appetite, especially in parts of the Commercial Bank, for non-operating deposits, knowing fully that our pricing strategy as rates went up was going to be not pay off. And therefore, we expected the attrition from that client base. And so we're seeing that, and that's actually something that we want, all else equal, and is playing out in line with expectations.

You do see a little bit of a decline or a little bit of a headwind in Wealth Management. I think that's just seasonal tax payments being a little bit higher than usual. And then on the consumer side, we're really not seeing much at all. So that remains strong. We're not seeing any attrition there. And it's early in the cycle to really be observing much one way or the other from a pricing perspective.

John E. McDonald Q
Analyst, Autonomous Research

Okay. And then as a follow up, in terms of the updated NII outlook, you had talked about an exit rate in the fourth quarter of about $66 billion at Investor Day. Just kind of wondering what that looks like and what kind of fading benefit from rate hikes you have assumed in your outlook.

Jeremy Barnum A
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

Yeah, so the $66 billion number, if you want kind of to put a number in, you can use something like $68 billion, $68 billion plus, something like that. Obviously, we're annualizing one quarter, so there can always be noise in there, but that seems like a good number to us, that's consistent with the increase for the full year. And sorry, John, can you repeat your other question?

Jamie Dimon A
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

2023.

John E. McDonald Q
Analyst, Autonomous Research

Just deposit betas Yeah.

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Yeah, yeah, yeah. So in terms of 2023, we had talked at Investor Day about how we saw upside into 2023 from that fourth quarter run rate. And that more or less remains true. There is some upside. Obviously, we're starting from a higher launch point, higher rates, and less so after the CPI trend, but there have been moments where there were cuts in the 2023 Fed expectations. So that could have some impact on the dynamic. Obviously, this is all in an environment of very volatile implieds, but the core view of some upside from that fourth quarter run rate into 2023 is still in place.

John E. McDonald
Analyst, Autonomous Research

Q

Got it. Thank you.

Operator: The next question is coming from Betsy Graseck from Morgan Stanley.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good morning.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Hey, Betsy.

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Hey, Betsy.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Jamie, you mentioned just on the SCB earlier that you intended to reduce it by reducing the things that caused it to rise. Could you give us a sense as to what you saw in the results that you got that drove that SCB up? Because I talk to folks that say it's a black box, so it would be helpful to understand what you see as what the drivers were to that SCB increase.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Well, first of all, it's public, so you can actually go see what drives it, the global market shock and credit losses, stuff like that. And we don't agree with the stress test. It's inconsistent. It's not transparent. It's too volatile. It's basically capricious, arbitrary... We do 100 a week, this is one. And I think to drive capital up and down by 80 basis points... So we'll work on it. We haven't made definitive decisions, but I've already mentioned about, we dramatically reduced RWA this quarter. We may do that again next quarter. We're probably going to drive down mortgages, and we'll probably drive down other credit too that creates SCB.

So we're not going to go into specifics on that. It's easy for us to do. You've seen us do it before. We're going to drive down non-operating deposits. It creates no risk to us, but as the GSIB, and various things. And so we're going to manage the balance sheet, get good returns, have great clients. And I'm not worried about it. We just want to get there right away. I don't want to sit there and dawdle, that's the rule, they gave it to us, we're going.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And then...

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Betsy, maybe I'll just jump in – hey, Betsy. Maybe I'll just jump in a little bit on the black box...

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

But another very important point for shareholders, that number, when they – that doesn't even remotely – the stress loss doesn't even remotely represent what would happen under that kind of scenario. And I'm not saying the Fed says it should or shouldn't, but I would tell you we'd make money under that scenario. We wouldn't lose, I think they had us losing $44 billion. There's almost no chance that that would be true.

And I just – so I – and I feel bad for the shareholders because people look at that and say, well, what's going to happen? I mean but there's good evidence, we didn't lose money after Lehman, we didn't lose money in the great – what just happened. We didn't lose money in great financial recession.

The company's got huge underlying earnings power and consistent revenues in CCB, Asset Management custody, payment services. And then we have some kind of fairly volatile streams. And now we've got the CECL, which obviously can go up or down quite a bit. But again, that's an accounting entry. And so we feel we're in very good shape. We just have to hold a higher number now and we're going to go there.

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

And, Betsy, maybe I'll just comment briefly on the black box point. Because as Jamie noted, the SCB is quite volatile, and I think you see that across the industry. And we feel very good about building quickly enough to meet the higher requirements. But they're pretty big changes that come into effect fairly quickly for banks, and I think that's probably not healthy.

And the amount of transparency, there is a lot of information released, as Jamie says. But since the SCB is really a quantity that gets measured to the peak draw-down period, and that information does not get released, it winds up being really very hard at any given moment to understand what's actually driving it.

And that combination of suboptimal transparency and high volatility is really our central criticism, I guess I would say. But nonetheless, the organic capital generation...

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

The other thing is, it's got bad effects for the economy because we're – I just said, we're going to drive down this and drive down this, it's not good for the United States economy. And the mortgage business, in particular, is bad for lower income mortgages, which hurts lower income, minorities and stuff like that because we haven't fixed the mortgage business, and now we're making it worse. There's no real risk in it. It's not a benefit to JPMorgan, but it hurts this country. And it's very unfortunate.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

No. I hear you on all that. And the mortgage comment you made earlier was about shrinking mortgage growth rates or shrinking the balances of mortgages that you have on the book...

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

The balance... ...well, no, we'll originate, but the balances in the books will probably come down. And look, we reserve the right to change that, but that's a portfolio decision. And if it doesn't make sense to own mortgages, we're not going to own them.

Betsy L. Graseck Q
Analyst, Morgan Stanley & Co. LLC

Yeah. And would you reduce the buffer? I mean in the past, Jamie, you've talked about, hey, as these required capital ratios increase relative to the risk in your business staying more consistent, then you've said before that you may operate with less of a buffer. Could you unpack that a little bit?

Jamie Dimon A
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

We're going to keep a buffer – I'm not even sure what the SCB means at this point. We're not going to go below any regulatory minimum. And if we have to, we'll just drive down credit more to create what we've got to create. It's a terrible way to run a financial system, and we owe you more on what we think that buffer should be because we have so much – what I think is so much excess capital. It just causes huge confusion about what you should be doing with your capital.

But just keep in mind one thing, we're earning 17% of tangible equity, we can continue doing that. The company is in great shape. We're going to serve our clients and manage the hell out the rest of this stuff. We still think we have great businesses and stuff like that. And that's what we're going to do. Most of this stuff doesn't create any additional risk at all, it just creates capital.

Betsy L. Graseck Q
Analyst, Morgan Stanley & Co. LLC

Thank you.

Operator: The next question is coming from Jim Mitchell from Seaport Global Securities. Please proceed.

James Mitchell Q
Analyst, Seaport Global Securities

Hey. Good morning. Maybe just on expenses, if I kind of look at the first half with this slowdown in investment banking, I think your annualized is less than $76 billion, but you're still targeting $77 billion. Is that implication of just higher investment spend in the second half? Or just uncertainty around getting the pipeline completed or not and just assuming it might get done until we know better?

Jeremy Barnum A
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

Yeah, Jim. Good question. We've looked at that too. It's definitely more the former than the latter. In other words, $77 billion is the number that we see right now and the number that we believe. And we can see in our outlook a bunch of factors driving up second half expense including deal M&A closing and adding to the run-rate as well as continued execution of our investment plans resulting in increased head count probably at a faster pace as we kind of have ramped up our hiring capacity and so on. So I wouldn't draw any conclusions about lower than $77 billion based on the first half numbers.

James Mitchell Q
Analyst, Seaport Global Securities

Okay. Great. And then just maybe on credit. It continues to look, I guess, very good, whether it's on the consumer side or commercial side. We don't really see it. But are you starting to see any initial cracks in credit or strains in the system?

Jeremy Barnum A
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

Look, I think the short answer to that question is no. Certainly not in any of our reported actual results for this quarter. The place that everyone...

Jamie Dimon A
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

It's excellent.

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

...right. Exactly. Obviously still running well below normal levels from the pre-pandemic period. But if you really want to kind of turn up the magnification on the microscope and look really, really, really closely, if you look at cash buffers in the lower income segments and early delinquency roll-rates in those segments, you can maybe see a little bit of an early warning signal to the effect that the burn-down of excess cash is a little bit faster there, buffers are still above what they were pre-pandemic but coming down, and that absolute numbers for the typical customer are not that high.

And you do see those early delinquency buckets still below pre-pandemic levels but getting closer in the lower income segment. So if you wanted to try to look for early warning signals, that's where you would see it. But I think there's really still a big question about whether that's simply normalization or whether it's actually an early warning sign of deterioration. And for us, as you know, our portfolio is really not very exposed to that segment of the market, so not really very significant for us.

James Mitchell
Analyst, Seaport Global Securities

Q

Right. So prime is still holding up quite well. Thanks.

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Yes.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Looking better.

Operator: The next question is coming from Ken Usdin from Jefferies. Please proceed.

Ken Usdin
Analyst, Jefferies & Company

Q

Yeah, hey, guys. Good morning. Just a follow up on the points about managing the balance sheet and capital and RWAs. How do you think about your ability to manage that RWA output and dimensionalizing how, if at all, it might impact either the net income outcome or the ROTCE outcome as you look forward?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Just very roughly, we have a tremendous ability to manage it. And I can think we do it without affecting our ROTCE targets and stuff like that. Obviously, it'll affect NII a little bit and capital generation a little bit and stuff like that. But all told, we're going to manage the hell out of it, and we'll be fine.

Ken Usdin
Analyst, Jefferies & Company

Q

Got it. Okay. That's a fair point. And then just second one on cards. Card revenue rate continues to slip even with the NII benefit. Obviously, you've got the denominator increase in there too and spend versus lend. Can you just help us understand the dynamics underneath Card revenue rate and where you expect it to go from here? Thanks.

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Yeah, sure. So on Card revenue rate, we'd said that we thought 10% was a reasonable number for the full year. And it's running a little bit lower right now, and I think the current level – look, what is it Mikael, 9.6% or something, is probably the right number for the full year at this

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

point. And really the difference is driven by a couple factors. The main one is that while the growth and revolve is basically still in place, our view that we would see normalization revolve balances happening towards early – beginning of next year, that – starting point of that did get slightly delayed by Omicron, by about six weeks. And so that, all else equal, is a little bit of a NII headwind relative to what we'd expected but still obviously very robust.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Can I just add a little bit on because I know I'm harping on mortgage a little bit here but I just want to explain it. Because if you go to Europe, okay, the capital held against mortgages is like a fifth of what we have to hold here. And we can obviously manage that, and standardized risk weighted assets do not represent returns or risk. So there are a lot of ways to manage it, and there's no securitization market today. So our view would change if there's a securitization market. We might do something different. But by not owning it, buying it, selling it, hedging it, swapping it, there are a million ways to manage it without really affecting a lot of your risk and returns. And so it's unfortunate, because I think this is all kind of a waste of time in terms of serving our client.

Our job is to serve clients through thick or thin, good or bad, with what they need and how they need it, and now we spend all our time talking about these ridiculous regulatory requirements.

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Right. So yeah and just to finish on Card, so slightly lower NII just from the Omicron delay and that slightly better-than-expected new client acquisition is a driver there. And then there are some subtle kind of funding effects from the higher rate environment contributing to it as well.

Ken Usdin
Analyst, Jefferies & Company

Q

Okay. Thanks a lot.

Operator: The next question is coming from Mike Mayo from Wells Fargo Securities. Please proceed.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Hey, Mike.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

Could you help me reconcile your words with your actions? After Investor Day, Jamie, you said a hurricane is on the horizon. But today, you're holding firm with your $77 billion expense guidance for 2022. I mean, it's like you're acting like there's sunny skies ahead, you're out buying kayaks, surfboards, wave runners just before the storm. So is it tough times or not?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

No, let me – first of all, we run the company – we've always run the company consistently, investing, doing stuff through storms. We don't like pull in and pull out and go up and go down and go into markets and out of markets through storms. We manage the company, and you've seen us do this consistently, since I've been at Bank One. We invest, we grow, we expand, we manage through the storm and stuff like that.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

And so I had mentioned, I don't know if you were on the media call, but there are very good current numbers taking place. Consumers are in good shape. They're spending money, they have more income, jobs are plentiful, they're spending 10% more than last year, almost 30% plus more than pre-COVID. Businesses, you talk to them, they're in good shape, they are doing fine. We've never seen business credit be better ever, like in our lifetimes, and that's the current environment.

The future environment, which is not that far off, involves rates going up maybe more than people think, because of inflation, maybe stagflation, maybe a soft – there might be a soft landing. I'm simply saying there's a range of potential outcomes from a soft landing to a hard landing, driven by how much rates go up, the effect of quantitative tightening, the effect of volatile markets and obviously this terrible humanitarian crisis in Ukraine and the war and then the effect of that on food and oil and gas. And we're simply pointing out – those things make the probabilities and possibilities of these events different.

It's not going to change how we run the company. The economy will be bigger in 10 years. We're going to run the company. We're going to serve more clients. We're going to open our branches. We're going to invest in the things, and we'll manage through that. If you look at what we do, our bridge book is way down. That was managing certain exposures. We're not in subprime fundamentally. That's managing your exposures. We're quite careful about how we run the risk of the company, and if there was a reason to cut back on something, we would. But not only do we think it's a great business that's got great growth prospects, it's just going to go through a storm.

And in fact, going through a storm, we will – that gives us opportunities too. I always remind myself the economy will be a lot bigger in 10 years, we're here to serve clients through thick or thin, and we will do that.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

So clearly, running the company for next 5 to 10 years, if we have a recession in the next 5 to 10 months, how does technology help you manage through that better, whether it's credit losses, managing for less credit losses, expenses, more flexibility, or revenues maybe gaining market share? What's the benefit of all these technology investments if we have a recession over the next...

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

I think we gave you some examples at Investor Day. For example, AI, which we spend a lot of money on, we gave you a couple examples. But one of them is we spent $100 million building certain risk and fraud systems so that when we process payments on the consumer side, losses are down $100 million or $200 million with volumes way up. That's a huge benefit. I don't think you'd want us to stop doing that because there's a recession. And so plus, in a recession, certain things get cheaper. Branches are enormously profitable. Banks are enormously profitable. And we're going to keep on doing those things, and we've managed through recessions before. We'll manage it again. And I'm quite comfortable we'll do it quite well.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

All right. Thank you.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

But stop-starting on recruiting or training or technology or branch, right - that's crazy. We don't do that, and we've never done that. We didn't do it in 2008 and 2009. And put us in quite good stead in terms – yeah.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

Yeah. I think the only other thing is just Market revenues are a lot weaker, right? I mean the Market outlook is worse, and so we know you had structural spending. So when all else equal that'd be a little bit less then.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yes. That's very performance-based too. And again, Mike, the way I look at it a little bit, in 15 years the global GDP or 20 years the global GDP, global financial assets, global companies, companies over $1 billion, will all double. That's what we're building for. We're not building for like 18 months.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

Okay. Thank you.

Operator: The next question is coming from Gerard Cassidy from RBC Capital Markets. Please proceed.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, guys. Jeremy, you touched on the deposit commentary a short while ago. Can you elaborate on QT and the impact that you've seen? Now, granted, I know June was not full QT of $95 billion a month, but can you guys give us a flavor? And I think, Jamie, you mentioned that if I heard it correctly, that maybe $300 billion to $400 billion of deposits could outflow over time, I'm assuming due to QT. But can you guys elaborate what you saw in June? Is it tracking the way you think it's going to be? And any further outlook for what the deposits could be over the next 12 months due to QT?

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Yeah. Hey, Gerard. So, as you know, QT just started so I think it's not the sort of thing where you can say I expect this exact outcome and then sort of track it sector-by-sector because you can see the clear impact on system-wide deposits but that also interacts with RRP and TGA and stuff like that and so how that flows into the banking system and then into any individual bank across the wholesale and consumer segments is kind of a tricky thing. So it's early on that. But at a high level and your comments about what Jamie said before are right.

The story remains true, which is that depending on how QT interacts with RRP and loan growth, in particular, you could see some decline in deposits in the banking system and we would see our share of that but we would expect that to primarily come out of wholesale and primarily come out of the non-operating and sort of less valuable portions of our deposit base. While in consumer, while you could in theory have a little bit of a headwind there, we feel pretty good about our ability to keep those levels pretty steady based on the strength of the franchise and the ability to take share.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Very good. And then as a follow up, I don't believe you guys disclosed the outstandings in the bridge book, but two questions. And, Jamie, you've been very clear about this in the last 10 years, how you've de-risked that balance sheet and you mentioned that already today. Can you just give us some color on how different it is today from 2008-2009 just so investors know that it is meaningfully different? And second, what caused the write-down in the bridge book this quarter?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

So if you go back to 2007 I think, the whole street bridge book was $480 billion. I think the whole street bridge book today is $100 billion or under $100 billion.

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Yeah. It's like 20%.

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Our percent of that bridge brook has come down substantially just in the last 12 months and that's really just underwriting loan by loan by loan, and you win some and you lose some. And if you guys look at high yield spreads and stuff like that, bonds were down 6%, that's what you see. So you have some flex and we're big boys, we know that, and there is write-downs of a couple of bridge loans. They're not huge. I think they were in the Investment Banking line.

Jeremy Barnum

Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Yeah, it's in the IB revenue line and there's a small amount in the Commercial Bank as well. But as you said, Jamie, and as Daniel also mentioned at Investor Day, I think we made conscious choices here to dial back our risk appetite here and accepted some share losses in leverage finance. So we feel good about where we are. We're still open for business for the right deals at the right risk appetite on the right term, absolutely, but we've been careful.

Gerard Cassidy

Analyst, RBC Capital Markets LLC

Q

Very good. Thank you.

Operator: The next question is coming from Erika Najarian from UBS. Please proceed.

Erika Najarian

Analyst, UBS Securities LLC

Q

Hi. Just had a few follow-up questions. The first is on balance sheet management .Jeremy, the illustrative path that you set forth on slide 3, does that include RWA mitigation? And as we think about the $58 billion-plus in updated NII guide, what kind of deposit growth does that assume? You noted that part of the SCB mitigation is to drive out non-operating deposits. Just wanted to understand what the assumption was there as well, please.

Jeremy Barnum

Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Yeah. Hey, Erika. Sure. So first point, you have to turn on your magnifying glass, but if you look at footnote 5 on page 3, you can see that right at the end of there, it says assumes flat RWA in the projection. And I think within that, who knows what the exact mix will be and you've heard Jamie's comments on that, but if you look at the table above, you see that you've got the usual moving parts. We've got organic loan growth that we want that's profitable on its own, or in part of important relationships that we'd like to see continue to happen.

Some of it is a little bit passive. We can't really control it. It moves up and down as a function of factors like VaR. And then there's the mitigation piece of it, which we're going to turn up the scrutiny quite intensely, as I said before, on lower returning, lower client nexus, or both. So across those three bits, we'll see how it goes. But as Jamie said, we feel pretty confident here.

In terms of deposits, at this point, deposit growth is probably less of a driver overall, looking forward of the NII outlook. Our deposit outlook remains more or less the same that I said before and that we've talked about at Investor Day, which is we do expect to see some attrition in wholesale. We expect consumer to be relatively stable, and we'll see how it goes.

Erika Najarian

Analyst, UBS Securities LLC

Q

Got it. And my follow up question is for Jamie. Jamie, we've heard your caution about the economy, and I think there's a bigger debate on how the US consumer is going to be impacted in light or in contact with the downturn. The statistics that Jeremy laid out imply a pretty healthy starting point for the consumer that you bank, and the reserve build for loan growth in Card and the less than 2% loss rate in Card lead us to believe that your consumer is still okay. As you think about the various scenarios and you think about the realistic range of outcomes, how does the US consumer perform, because it feels like that's the big wild card. And we've seen the journal term, a job flow or recession. I just wanted to get your thoughts there.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah, so first I just want to point out that, on that chart, that's not a forecast what it's going to be at the end of the quarter. So we're going to – if you're going to pencil in some of your models, it's 12.5% on December 31 and it will probably be 13% at the end of the first quarter. And because obviously we use capital for a whole bunch of different reasons. And the consumer – I feel like a broken record. The consumer right now is in great shape. So even if we go into a recession, they're entering that recession with less leverage in far better shape than they did in 2008 and 2009 and far better shape than they did even in 2020. And jobs are plentiful.

Now, of course, jobs may disappear. Things happen, so, but they're in very good shape. And obviously, when you have recessions, it affects consumer income and consumer credit. Our credit card portfolio is prime. I mean, it's exceptional. But again, we're adults in that. We know that if you have a recession loss, it will go up. We prepare for all that, and we're prepared to take it because we grow the business over time. We're not going to just immediately run out of it, and so I think it's great that the consumer's in good shape and it's excellent that – I like the fact that wages are going up for people on the low end. I like the fact that jobs are plentiful. I think that's good for the average American, and we should applaud that. And so they're in good shape right now.

Erika Najarian
Analyst, UBS Securities LLC

Q

Thanks for that.

Operator: The next question is coming from Matt O'Connor from Deutsche Bank. Please proceed.

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Matt, I don't know...

Operator: The next question...

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

...if you're on – yeah.

Operator: Yeah. The next question is coming from Ebrahim Poonawala from Bank of America Merrill Lynch. Please proceed.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Good morning. I guess just a couple of follow-ups, Jeremy. In terms of the markets have gone very quickly from pricing in a ton of rate hikes to potentially pricing in rate cuts next year. Just talk to us, like how that's informing your ALCO balance sheet management as you think about hedging, downside risk from lower rates start 12 to 18 months out. Like should we expect you to add duration or do anything synthetic to protect against lower rates?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

We're going to keep that to ourselves.

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Yeah, yeah. But I don't know, maybe if you want a little bit of a general color about how we're thinking about the portfolio. I do think...

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Go ahead.

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Yeah, okay, I'll keep it brief. On duration, I think at this level of rates, also with very quickly cash yields being roughly not that different from 10-year yields, the question of duration adding or not is just generally less important for us. Then the other piece of it is whether there's the opportunity to deploy cash into non-HQLA securities broadly into spread product, and obviously spread product is more attractive right now. But as we've been talking about a lot on this call, the priority right now is to build capital. So that'll be something for later, I would say.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

And I should...just point out the forward curve has been consistently wrong in my whole lifetime, so we don't necessarily make investments based on the forward curve. And second, we've always told you that we use the portfolio and other things to manage the broad range of outcomes, not just to try to add NII. So if you said add NII next quarter, yeah, we could do that, but that wouldn't be managing the broad outcome of potential outcomes here which is to protect the company through all possible outcomes.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

That's helpful. And just one follow up on credit. I heard your comments on the consumer. If we enter some version of a mild recession, like if you had to pick one or two areas, where do you think losses would be driven by? Is it on the commercial side? Is it CRE? How do you expect that downturn to kind of play out?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

I think at Investor Day, you had a chart that showed through the cycle losses?

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Yeah.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah. So I mean I would just go back to that, and we showed what we think through-the-cycle losses would be for credit cards, C&I and a bunch of other things. And obviously, through-the-cycle is an average, and you could kind of double that. Okay.

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Yeah. And that showed exceptionally low losses in wholesale, so I'm not sure whether or not that's a prediction of the future or not, but yeah.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Got it. Thank you.

Operator: And the next question is coming from Matt O'Connor from Deutsche Bank. Please proceed.

Matt O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Sorry about that. I somehow got disconnected. Sorry if I missed this, but if we think about provisioning or reserving for a moderate recession, what's the best guess on how much that might be? I think for COVID it was around $14 billion ex CECL, but obviously you alluded to the consumer being better, and the loan mix has changed. There's lots of puts and takes, but how would you frame kind of total reserve builds...

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Let me say it very simply for you. In COVID, we got to 15% unemployment within three months. And in two quarters, we added $15 billion, which we can easily handle. That is clearly – I always put that almost out as the worst case. It'll clearly be a lot less than that, and you guys could look at the things yourselves. Every 5% is another $500 million or something like that, if you change odds and so on...

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

Yeah. I mean, we think the current reserve, the current allowance we think is conservatively appropriate for a range of scenarios. And as you know, it's already kind of skewed to the downside, and there are probably some other elements of slight conservatism in there. So we'll see how it goes, but we feel that it's appropriate and conservative at this point.

Matt O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And then separately, you've got about $14 billion of losses in OCI. Obviously, most of that flows back to capital as the bonds mature. What's kind of some good rule of thumb in terms of how quickly that comes back if rates stabilize here?

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

10 basis points a year of CET1. Yeah.

Matt O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

All right. 10 basis points you said?

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

10 basis points of CET1 a year.

Matt O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

Got it. Okay. Thank you.

Jeremy Barnum
Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

After tax.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Basically, five years, it kind of bleeds back in over five years.

Jeremy Barnum

Chief Financial Officer & Member-Operating Committee, JPMorgan Chase & Co.

A

I mean, assume it's weighted average life of four or five years. Yeah, so the good rule of thumb on constant rates is about 10 basis points of CET1 accretion a year.

Matt O'Connor

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: At the moment there are no further questions in the queue.

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Okay, folks. Everybody, thank you very much, and we'll be talking to you in a quarter.

Operator: Thank you. Everyone, that concludes your conference call for today. You may now disconnect. Thank you all for joining, and enjoy the rest of your day.

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