JPM AT THE DEUTSCHE BANK GLOBAL FINANCIAL SERVICES CONFERENCE

TRANSCRIPT

May 26, 2020

JPMORGAN CHASE & CO.

MANAGEMENT DISCUSSION SECTION

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

Okay. We're ready to get started. Up next is Jamie Dimon of JPMorgan Chase. I'm sure there's a ton of folks listening in. So, I do want to just welcome all of you to Deutsche Bank's 10th Annual Global FIG Conference. Obviously, this is virtual and the format will be fireside chat. If you have registered for the conference, you can submit questions via the webcast.

Jamie, welcome back and thank you for joining.

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

Matt, happy to be here folks. Welcome. Go ahead and shoot, Matt.

QUESTION AND ANSWER SECTION

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

Q

So, you always talk about how JPMorgan was a port in the storm during the 2008-2009 financial crisis. But I think one can argue banks, in aggregate, are a port in the storm this crisis given how supportive they've been to staff, clients, and government initiatives. Maybe you could talk about this both from a broader banking perspective and specifically to what JPMorgan is doing.

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

A

Yeah. So, I totally agree. I mean, banks are a port in the storm this time. First of all, they're all very well-capitalized. They all have very healthy earnings streams. They all are more diversified. Some of the regulations were good for that, for liquidity and capital, et cetera.

In some ways, they're even better capitalized than people think because no one actually looks at operational risk capital which I don't really think belongs there or how G-SIFI is calculated which has not been adjusted at all for the size of the economy or something like that.

And of course, the banks are doing their jobs. I think all of the banks are lending out money not just the revolvers but bilateral loans, helping clients, participated in PPP, which of course was an extraordinary effort, on the part of some of our people, thousands of people.

And so, I think it's a good thing – I think banks are doing what they can to help this economy recover and support clients knowing that things can actually get worse which means all these extra loans you make could actually have consequences. And for JPMorgan, again I think a lot of banks do the same, we're doing – obviously taking care of your employees whether they are going to work, we're thinking of extreme hygiene, and protocols, et cetera, we all – we're able to get a lot of our people working from home. I think something like 80% of our US employees are working from home and it's amazing how effective it has been all things being equal. And we're taking care of our clients whether it be consumers, small business, through PPP, directly, large corporations.

And in terms of credit, we had $50 billion of revolvers drawn down and I don't think it was necessary that companies did that but the fact is they pay for those revolvers I completely understand that they want to feel comfortable. A lot of them started to pay it back already, by the way, and paid down commercial payment by doing bond issuances. I think we did another $50 billion of bilateral credit for those who are getting prepared for what might be a very bad recession, et cetera. And of course, we're all participating in forbearance programs. I think we have 1.5 million people, one way or another, involved in forbearance programs. So, banks are trying to do their part to help the country recover.

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

Q

If we look at the Fed and US government, it has clearly done a lot from a financial perspective to help the markets, and to help the economy. I feel like it's a lot sooner and more aggressive than it did for the financial crisis. But what else, if anything, do you think they should be doing to help bridge the economy to eventual recovery?

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

A

Yeah. I think – certainly, I think they took extraordinary effort. And I think you're totally right about the speed and pace of the – when COVID-19 started to look really bad like in February but before the – all the states start to close down, they acted by – a couple of weeks into March. And both a huge fiscal and huge Federal Reserve Act is taking place literally in weeks.

To go back to the original – the great financial crisis – I mean Bear Stearns failed in March of 2008, Lehman failed in September of 2008, and I don't think we had a fiscal stimulus package till February or March of 2009. And if you look at the Fed actions, they kind of took continuously increasingly strong actions throughout parts of 2008 and into parts of 2009 this they just kind of did it all once and this wasn't the bazooka, this is – the Fed took out the whole military and applied it.

I think they did a lot of the right stuff. Of course, people are going to criticize these programs, there is going to be a lot of ground standing, finger pointing, blame, I'm sure there will be fraud associated with PPP. On the other hand, it is going to save a lot small businesses. And so, a lot of people got loans they needed. Unemployment insurance, they estimated that 50% to 70% of people on unemployment are earning more money than they were earning before. So, that's obviously helping a lot of people avoid an extreme amount of stress. And of course, the payroll – giving people a thousand dollars, cutting taxes for certain people and that kind of stuff.

So, those are all huge. The Fed rolled out trillions of dollars of programs and just announcing some of these, reduced spreads, as you know, in the marketplace and the Fed can always do more. So, I think they did the right thing and I guess we're all hoping and praying that you're going to have some kind of recovery starting in the third quarter from which obviously will be a very bad second quarter.

There obviously is more they can do. Most people think they'll do $1.5 trillion more on the fiscal side sometime in the third or fourth quarter. And the Fed, of course, they have a lot of tools they can still use at their disposal if they wanted to.

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

Q

So what about from a global perspective. Obviously, JPMorgan is a very global bank and sometimes it's a little hard for us in the US to look globally and keep track of the central bank actions, the local fiscal actions. Do you think enough is being done outside the US in the markets you operate in?

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

A

Yeah. I think if you looked at it, I mean roughly – it is roughly equivalent in the UK, Europe and Japan, both in the fiscal side and the monetary side. They did it a different way, some people did direct payroll into companies to help them keep their employees. Their central banks obviously are smaller than our central bank. But for the most part they took similar type of actions to create liquidity in these markets and to get cash in the hands of both employees and consumers and individuals and stuff like that.

And I think – but there is – and there's a heightened consciousness about the effect in emerging markets. That to me is still hanging out there if this recession drags on for too long, that their countries and companies can have some issues with the leverage they have, et cetera. And of course, you probably read about the IMF, they're talking about that they have $1 trillion of firepower if they had to, to help developing nations, emerging markets get through this.

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

Q

So, bringing it back to the US, you're obviously a very large debit and credit card player. Volumes went down sharply end of March, early April. How are those tracking, broadly speaking, as you look at the second quarter and more recently?

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

Yeah. So, I guess most of the trends I'm going to tell you about, you probably have read about, which is – and obviously credit card and our credit cards are more prime and more travel and restaurants and stuff like that. That was down like 40%. That's come back a little bit, but still down like 35% or maybe 30% at this point.

Obviously, if you bifurcated it into who is up and who is down, the Amazons, Netflix, Walmarts, Targets are up, groceries are up. And then obviously restaurants, travel, airports are down 95% or something like that. So, debit card has kind of recovered to where it was before. So, that's kind of where people's everyday spending. So, you've seen that kind of pop right back to where it was. So, year-over-year, it's actually rather flat at this point, which I think is a good thing.

The consumer is in good shape relative to – we expect unemployment go to 20%. But the way you should all think about that is it's not effectively 20% because those consumers, like I said 50% to 70% are earning more money than they were earning before. They've gotten other benefits from the government. They're quarantining themselves but a lot of them expect to go back to work. So, it's a healthier consumer and you see that in actual underlying delinquencies, roll rates, housing prices – the last global recession housing prices were down 40% from peak to trough. They're still up here. So, it's completely different from the consumer standpoint. And if the recovery begins, maybe having a good healthier consumer will be a – obviously will be a good thing for the economy.

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

And shifting to risk broadly speaking as well as credit, but one of the things that you said earlier and you've said before is it's not just the risk that you come into the downturn, but it's the risk that you extend or take as the downturn is going on including the support from your clients and customers. And one thing that we saw a few weeks back was pre-paying with Marriott to purchase some of the points. Obviously, it's been a long-term partner for you and it's essentially a bet that travel will come back. But just not maybe that specific deal, but just talk about how you weigh those risks and then the potential upside from those deals because there is some upside, too, if it works out the way you're planning I would think?

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

Sure. So, Marriott, usually, when we approach any deal or partners we're always like– it's got to work for everybody, so it's not like you're trying to out-negotiate someone. They needed some help. We asked for a bunch of things in there, so they've been an absolutely outstanding partner and we're hoping this turns out well for both of us.

I think on the risk side the way you should think about it a little bit is so a bank, in the last global financial crisis, I think a lot of banks had to pull back their horns because they had no choice. Now, this time as we've mentioned before, a lot of people are very well capitalized. So, I've mentioned in my Chairman's Letter, that JPMorgan last year had pre-tax earnings of $48 billion. Well, that earnings stream allows you to bear a lot of risk. Obviously, some of your revenues may go down, but it allows you to bear a lot of credit risk. So, you have your normal credit risk, kind of your normal cycles that you predict. This is not normal. But again, you can look at it and say, "Okay, how much risk can I take before I can no longer do that."

So, if this goes on for a long time, I think if 20% unemployment to the end of the year and then of course I think you will see some banks pulling back because they simply can't take more risk and a lot of the regulatory risk-based measure, et cetera, will get dramatically worse because advanced risk weighted assets go way up as companies get downgraded, et cetera, and there's some other – and CECL is a – I mean more things are counter procyclical this time around than last time. Think of reserving risk-weighted assets, some of the regulatory things, some of the liquidity things, they will actually make it harder for banks at one point to withstand credit though that hasn't happened quite yet.

But look, you got to – whenever you look at something like that you got to look at – you have to be – you hope for the best, you expect some kind of base case and you plan for the worst. We do consider our job to help people through the toughest of times. So, when I mentioned all the credit we did, $6 billion was to hospitals, healthcare systems, billions was to municipalities, schools, you name it, we're trying to help them through this. And yeah, we know we may bear some risk, but we'd rather for JPMorgan Chase and other big banks to say, "We helped you get through your toughest of times and yes we lost some money." It's better than, "No, when times got really tough we pulled in our horns and you went bankrupt." We are their lender of last resort.

If you look at the total bank lending, I think total it's up almost $1 trillion. That's far more than the Fed lending that has happened or even PPP. So, when you put it together, it's been an important part that banks continue to lend into the crisis a little bit.

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

Q

So, you gave some possible outcomes in your shareholder letter under stressed economic assumptions and compared them to CCAR results from last year. We've now got a couple of months of additional data. What are your thoughts on how credit losses might compare to the scenarios run by the Fed?

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

A

Right. So, the first one – look, that's one scenario and one of the things I would talk about the stress test is one scenario is not how you prepare for risk. The way you prepare for risk is we do like 120 scenarios a week and you've got to be able to handle a lot of them and react rather quickly and stuff like that.

But take a base case and I'm going to use unemployment as the proxy for the economy, you can look at GDP or a bunch of other factors but the base case, most economists now have unemployment in the second quarter ending at somewhere around 18%, give or take 1% or 2%. Okay. And like I said it's not as bad as real unemployment at 18%. And then the base case has it going to 14% in the third quarter, maybe 12% or 11% or 10% in the fourth quarter and that's kind of the consensus estimate.

If that happens, and I think it has a chance of happening because you're already seeing people going back to work, states opening up, restaurants opening up again. So, you're already seeing the positive effects of the opening-up taking place at least for the economy. If that happens since CECL is very forward looking, I think that banks will have to put up a lot more credit reserves this quarter. So, we would have substantial increase in credit reserves in the second quarter. But if the base case happens, you may not need any more credit reserves in the third and fourth quarter or going forward, again it's because CECL upfronted a lot more than it did before but it's very sad to have something like that.

You always have to be prepared for a worst case. Like what if somehow we stay at 18% to 20% unemployment at the end of the year, well then, of course, you'll be putting up more reserves because now you're looking another 12 quarters forward, another 6 quarters forward. I think the base case in some numbers is worse than the Fed's severe stress. But on the other hand, unemployment isn't exactly the same, housing prices didn't go down, there was no global market stress, which we've always thought wouldn't happen anyway, the trading stress then that happens in the first day and you have no recovery from it. So, depending what the Fed does, when they look at this next go-around which we're going to find out in the next month, we'll see what it is. But the fact is it is very different than the Fed's adverse or severely adverse case.

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

Q

And if the base case does play out...

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

A

But I said even if the severely adverse case, even a worst case plays out, JPMorgan Chase will have the capital and the wherewithal to continue to do their job. Now, if we go into a great depression that'll be different, that will strain everybody and you're going to see banks and other large companies start to make decisions which can make it worse as they try to protect themselves.

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

Q

And just on the base case, if that does play out, the substantial reserve build in 2Q and maybe on the rest of the year and beyond, do you think the second quarter reserve build for the industry would be higher than the first quarter. It seems like that's really a possibility.

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

A

I don't know yet, it easily it could be roughly equivalent. And, we all have a different mix of business. So, you really got to look at the difference between credit cards and wholesale and auto, middle market, they're all different. But roughly going into the first quarter you didn't forecast 18% unemployment going into second quarter. And like I said, CECL is very forward-looking, so it will pick up some of that over time and so – but look I don't think that's a terrible case. I mean if we start to have a recovery where unemployment drops by 6% in the third quarter, that's not so bad. People have gone home, they're quarantined, their incomes have stayed up, for the most part, hopefully, a lot of these small businesses won't be permanently damaged and you'll start to have a real recovery.

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

And then in terms of the timing of the actual credit losses, there's obviously a lot of forbearance...

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

Can I say one other thing, Matt? Can I say – something that's also very important? You're going to know a lot more by the end of the third quarter because you're going to see what actually happened to delinquencies and roll rates for credit card. You're going to see the first round of forbearances and mortgages come due, how many people couldn't actually start paying their mortgage again. So, you're going to see like how much stress and strain there was. You're going to see more about home prices, you're going to know a lot more about whether people opening up dramatically increased COVID cases or just a little bit. So, I do think by the end of June or at least by – when companies report mid- to late-July, you will know a lot more and you can inform your – your decision will be a lot more informed than right now, even though it's only a little over 30 days away.

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

Well, that essentially answered my question on timing of when we might have more clarity on credit. Last kind of topic on, as we think about credit and maybe the downside scenario...

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

And Matt, I know I'm interrupting, the other thing about CECL is that everyone uses their own assumptions. So, it's going to be up to the analysts to kind of dig into the 10-Qs and ask the question about what's your assumption. Some people are assuming a very strong recovery, some are assuming something different, some use probabilities of different scenarios, some use – some are expecting home prices to go way down, some expect them to go up. So, you've got to dig into CECL to figure out what the hell they put up. This is one of the reasons I always thought CECL was a bad idea and people are going to spend more time playing around with the assumptions than looking at the actual underlying data.

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

So, I do want to ask on dividends. A few weeks back, there was a lot of concerns, certainly questions, about the banks being able to continue to pay the dividends. I mean, frankly for JPMorgan and many banks, it's really hard for the math to show the need to cut the dividends. But I guess the question is, well one I want to make sure you still agree; but then two, under what circumstance may bank dividends be cut or suspended? I would imagine it might not just be financial in nature. If you could address that.

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

Yeah. So, I think it's important that a company try to sustain its dividend. I do think there are legitimate complaints in the great financial recession that a lot of banks, in particular, and other companies, but banks in particular continue to pay very outsized dividends going into a crisis, and they depleted too much of their capital by doing that. Remember, this time around, the real capital being used is to buy back stock and all the banks stopped that. And people are a little misguided when they talk about dividends. It's a drop in the bucket. So, we just announced our dividend for this quarter, it's less than $3 billion or like 0.15% of our capital base.

If you take the base case, what I was just talking about the kind of the base assumption that economists have out there, we will earn quite a bit of money this year. Obviously, it'll be down a lot, but that's a lot of money. Why do you cut your dividend and then you just have to increase it right away to meet that obligation to your shareholders and of course you don't really need it either because you still have a lot of excess capital.

So, the better course of action was to wait and to see, and if you go – if the recovery starts and like I said, I think we have a pretty good idea when we report earnings, then you don't – you will never have needed to cut your dividend. If by any chance that it's pretty clear that this is going to get worse dramatically, then of course the board will take up the issue and say, “What should we do? When should we do it? How should we do it?” If a board is mature, they'll consider that. But you have to have a pretty bad economic environment, I think, for banks to justify to their boards and their shareholders that we should cut it now. It is cheap capital if you have something like a great financial crisis that goes on for three years. It's cheaper to do that than to try to raise capital in the marketplace so. But again, if you have a look at the numbers, these banks, most of them are really well-capitalized.

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

Q

And conversely, if things keep moving in the right direction, it's not going to be long before investors and analysts start asking about resumption of buybacks. Obviously, the entire industry of big banks preemptively chose to suspend buybacks to support clients, to support customers, to support the economy. What are your thoughts on resumption of buybacks?

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

A

I think you're a little premature. I think you've got to see the white of the eyes of the recovery before you start something like buybacks. But I think the companies that – and it will be more opportunistic, if companies all of a sudden are retaining a lot of capital, they're earning money, reserves are coming down, et cetera, yeah, I think you may see people start them but they probably won't be the size that you saw before.

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

A

Excuse me?

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

Q

No. Go ahead please.

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

A

I think, the other notion that people have about buying backs like there’s something bad about it. Buying back your stock and I've always thought that you should only buy back your stock when you think you're buying at a price that your remaining shareholders are getting a good deal. I've never believed this notion that it's returning cash to shareholders therefore it doesn't matter what price you pay, which is kind of – so, there's this attitude that people overpaid. Obviously, that's true sometimes. It's a free world. People are going to overpay.

On the other hand, it's a normal recirculation of capital that you can use and you give it back to your shareholders. This notion that it disappears is dead wrong. You're just recirculating it to somebody else to a higher and best use and obviously banks should retain the capital they use to safely run their business. But once they've done that there's no reason they shouldn't be buying back stock if they think that's the best use of their capital.

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

Q

And you think looking to the other side of this as banks, including JPMorgan, are thinking about allocating excess capital will be done differently? You've talked – you've floated the idea of supplemental dividends over buybacks given some of the price – so, do you think that could gain some momentum?

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

A

No, I don't, and that's the worst – to me, that's the worst way to handle excess capital. So, there's nothing – to me the way we look at excess capital, there's nothing wrong with holding excess capital for a while because you could tell your shareholder, hey, this is excess capital, I hope to deploy it for you at a good return one day soon, in the next year or two. If I can't use it, I do want to give it back to you. I would rather just raise the dividend and slowly suck down the excess capital than do a special.

The reason that people are considering special dividends and stuff is because the way the regulatory system is working, you were heavily penalized by having dividends. And so, you couldn't raise your dividend too much or something like that because it would penalize you under a bunch of tests that they have or something. So, I'd rather that you – as long as you meet your regulatory requirements, you get to decide your dividend and you don't have to worry about that and you don't – special, obviously you can do one day. I think it's not the preferred way to do something.

Matt O'Connor

Analyst, Deutsche Bank Securities, Inc.

Q

That's a good segue into a longer-term impact from the current crisis. I mean the first thing that comes to mind is where we just left off on regulation and banks were obviously at the center of dramatic increase in regulation last cycle. Hopefully, it will be different this time. But talk about how you think regulation may be different from this crisis both for banks and maybe broadly speaking for corporate America?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah. Look, I've always acknowledged that there was a need – you always want good regulations, you know some people would read that as being more, I mean more isn't always good, more could actually be worse, have adverse consequences. And obviously, after the crisis there was a need for regulatory reform. Some of these institutions, not banks so much as investment banks, massively overleveraged. A lot of the shadow banks massively overleveraged. Accounting allowed people to have these huge off-balance-sheet things just simply not accounted for, and they all overleveraged and mismatched in terms of maturity, their liabilities and assets and stuff like that.

So, reform was a good thing; transparency, more liquidity, more capital, more stress testing for those who didn't do it, some of us already did it, but those are very good things. But of course, you can look at a bunch of other things, I think – and I don't want to be complaining about regulations, they are what they are, we'll deal with them the way they are. But it does make sense at one point to look at, were they calibrated right? Were they coordinated right? Do they have adverse consequences? And I won't go through it here, but there are a lot of things which are having adverse consequences today on swap rates, on repo rates, on the movement of money, where the risk is heading up in the system. The papers they write about mortgages today like we have this problem with mortgages, no.

The problem with mortgages was created by bad regulation that forced a lot of mortgage lending out of banks, that forced servicing out of banks, that forced less transparency over there. So, there are all of these things that took place but the consequences are five years from now or seven years from now, and the people at the time don't necessarily look back and say that's what actually caused the problem.

So, I think one day they should be looking at how you look at liquidity a little bit closer, operational risk capital, G-SIFI. I think G-SIFI is by far the stupidest calculation I've ever seen in my whole life and then in America, we gold plated it, we added to it, so. And the reason I say this, you look at G-SIFI, cash is a negative, repo is a negative, short-term triple-A stuff is a negative, and there are negatives over and over in these multiple calculations that take place. Is that what they really intended to do?

And so, you've got to look at these things, I believe in having tons of liquidity but certain things you're giving no liquidity value to and therefore creates a little bit of a cliff effect. And like I said, I already mentioned the pro-cyclicality of CECL, reserving generally, risk-weighted assets generally and a whole bunch of other stuff that actually if this thing gets worse and worse, will cause banks to pull back dramatically at precisely the wrong time.

So, I do think after this is all said and done, maturely, people should look at these things and decide which ones work, which ones didn't work, which ones should be modified, which is the way people should always be looking at regulations. How can we make it better, how can we make it more efficient, how can we make it serve the markets better, how can we make it protect the system better and protect consumers better. And sometimes the rules that are put in place have the absolute opposite effect that people expect. And so, you got to be very careful when you put rules into the marketplace on what you expect them to do.

Matt O'Connor

Analyst, Deutsche Bank Securities, Inc.

Q

And I want to talk of how this crisis might cause some tweaks to your business model. I mean the first thing I would ask about is on the technology spend, it's an area that you've been focused on for many years. You highlight the annual budgets of $11 billion to $12 billion. How will your approach to investment spend in technology change from the crisis whether it's how much you spend or where you spend it?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Well, it won't change the way we look at it which is you have to build technologies to serve your clients better, faster, cheaper and that's just as true today as it was 10 years ago, 20 years ago, 30 years ago. Obviously, the technology is different. So, now you have cloud, you have AI, you've got work from home. And all these things which obviously you will use technology to adjust to, but if you look at our business, it's people, products and technology, branches it's – and so, yeah, it won't change the fact we try to use technology to do a better job for our clients. It already does a tremendous job on risk, fraud, marketing, getting your cost of servicing down, your cost of digital which is great for clients, it also reduces the cost rate in some cases it causes more fraud or errors out there.

So, I don't think it's going to change. I think what's going to change a little bit, it will accelerate, in my view, accelerate people working from home because you have more data, you know what works, you know what doesn't, and you now have had this great experiment of all time. It will not accelerate digitization because that was already taking place – but maybe it will accelerate just a little bit, but that was already taking place.

We're a little surprised to see the consumer business that the folks who were already digital, are doing more of it, the folks who aren't digital aren't exactly picking it up. And I wish we could find a way to incentivize them to do that better but I'm not sure it's going to change that much. The markets, the world, have already been effectively for the most part digitized, clients are getting very used to it but some of the fundamentals stay the same. You've got to do a great job for your client and you're going to have competitors who are using technology to try and unseat you. And so, you always have to be looking at the whole landscape to make sure you're doing the right things.

Matt O'Connor

Analyst, Deutsche Bank Securities, Inc.

Q

And then as your role, as JPMorgan's role as a leading global adviser, you're obviously talking to big companies all around the world who are both trying to get through the downturn that we're in here and probably also thinking a little bit differently about their business or if they're not already, will be soon.

Are those conversations happening and how can JPMorgan be in a position to help them with some of those strategies to execute on?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah. So, they're definitely happening, a lot of it is speculation but thoughtful, thoughtful – I shouldn't call it speculation. It's just thoughtful questioning about what do we learn and what will the change about society, how consumers operate, how companies can operate. Obviously – and you've seen a lot of it. We all can talk about how much more people can work from home and which can do all the commercial real estate and possibly big cities and suburbs. And look, we simply don't know. But I do think it will, it'll have some effect on those things that you try to figure out.

I think for the most part, right now, companies are still in the mode of making sure they can get through this. So, I think you very, very wisely saw a lot of companies raising capital. So, I've got a lot of companies say, "I now have enough capital to take me to the end to 2022, or to the end of 2023." And the equity markets are opening, convert markets are open, private placement markets are open, investment grade, high yield. I think investment grade and high yield alone in March, April and May maybe be the three biggest months ever. And so, I think those are very wise moves that people were thinking about how do I just make sure I could protect my employees, my customers and my company for an extended period of time to help get through this thing.

Matt O'Connor

Analyst, Deutsche Bank Securities, Inc.

Q

Maybe shifting to current trends in your 10-Q from a couple of weeks ago, you raised the outlook for net interest income both for 2Q and for the full year. What's driving the better net interest income?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah, I would say it's marginal but I think we raised it by $300 million or $400 million a (sic) [for the] quarter. It's marginal and it's mostly growth in deposits, loans, balance sheet and stuff like that. Expenses will be – I think we – I think the last time we spoke was $65 billion. They will be a little bit less than that $65 billion. Trading markets this quarter, so far, there's still a month to go are just as strong as last quarter.

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

Q

And some of the growth that's happened on the balance sheet, obviously, the commercial line drawdown, you mentioned some of that had already started paying off, but there is also lot deposits that go with it. Is there an opportunity to take some of this business and make it more permanent whether it's from a relationship perspective that you've been able to get closer to them or even just markets aren't opening for all customers, I would imagine, so some borrowers might have to come back to the banks versus the debt markets?

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

A

Yeah, I think the answer is yes, but it's very hard to isolate it. So, I think what we have seen a little bit is if you've got great services and products, you're still winning business. Obviously, JPMorgan Chase may be a safe harbor for some, so I do think some of the deposit we got, some of the clients that we got was because of that. Our experience has been, yeah, we get some and we also lose some down the road. If people forget – they forget the safe harbor and they can save 3 basis points sometimes and – but I do think it's really the quality of the products and services obviously in a crisis like the – the stability of a strong ship. And you know I haven't...

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

A

Yeah. I'm sorry, go ahead.

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

Q

Go ahead.

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

A

Yeah. No, go ahead.

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

Q

Okay. And then just on the expenses, what's driving some of the slightly tighter costs there? Obviously, you've been a good expense manager over time, you talked about tightening if needed, but what's driving the slight reduction in the cost outlook?

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

A

First of all, some of it is volume-driven, so it isn't because we did anything great ourselves, it was volume-driven. And some is, I would say in general, is head count-driven, while attrition is lower, head count is lower, hiring is little bit lower, but obviously you can get tougher in certain expense categories. So, I think it's just kind of what I call “no regrets expense management”.

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

Q

So, I wanted to circle back a little bit on credit loss...

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

A

But it is not cutting the fact we're trying to open new branches or trying to expand this business or that business or invest more in technology. In some cases, it led to the obviously more rapid change in technology.

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

Q

I want to circle back on credit quality and the forbearance. It's a very interesting concept because there is maybe the human psychology aspect where if you're kind of kicking your payments down for one or two months, you get right back and start paying off if you have the ability to. But if it ends up going on two to three quarters or kind of some magic timeframe it could cause...

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

A

It's three months you're talking about, yeah. Yeah. Well, like I said...

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

Q

...I just want to conceptually talk about there is a little of that risk where you give people flexibility and how do you know they pay when they can?

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

A

Well, that's a very good question. In fact, just so you know we do check and we had several – it wasn't a huge number but several people who we know have $5 million or $10 million asking for forbearance in their mortgages. I mean some people just think of this just like an entitlement.

Now here's some other interesting data. I think about a third of those who asked for it, never actually use it. And I suspect a lot of people who asked for it, even people who started using it, did it as a safety precaution. They hadn't started to collect unemployment insurance. They didn't – they didn't know if they're going to lose their job or not. So, there are all these various reasons. So, my hope would be is that when you start to see the first people come off of forbearance that the people will start repaying is higher than people think. Not lower.

Which by the way also gives them an increased chance to do refi which can be very smart for them in certain cases so. But we're going to see, we're going to see the first cohort of people coming off of forbearance sometime in June. And so, we'll actually have some real data to look at that.

In the old days there was always the danger that when you stopped paying that mortgage, you would never start again. But remember, last time around – the thing we're looking at, home prices were down 40%. There was a good reason not to pay. You weren't going to lose any equity value in your home, whereas today it's the opposite. There are very few people underwater in their homes today.

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

Q

One of the things that we see from a crisis like this is both kind of strength kind of reconfirmed, but then also maybe some weaknesses exposed. And I wonder if you could touch on this maybe specific to JPMorgan, and if you have any thoughts on the industry as well.

We touched on a couple of them in terms of like the capital, liquidity. But like one thing that comes to mind for me is: bank technology, I think, generally gets a bad rap, yet the vast majority of employees have been working from home, and it seems like things have been working - trading is happening, ATMs working, cash management, mobile deposit. So, I don't know if that's just my perception, but maybe that's something you could talk about in more broadly speaking...

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

A

No, I think – no, banks are huge users of technology and quite good at it. We have backup systems and topnotch data centers and ATMs. And the big banks, we run like 6,000-something applications. They all mostly work all the time. But of course, something will go wrong somewhere. And you're always going to piss off a customer because you didn't do something exactly right.

I think if you look historically, a lot of banks weren't the best at what I'd say is making customers happy. Then you had people come along who, its customer satisfaction. That's what they drove, they drove it all the time, which I think banks are doing a much better job today in customer satisfaction. But I do agree with you, this whole pandemic showed the strength of banks' back office, the strength of their technology, the strength of digitization, the strength of the fact that we can put traders, bankers, ops people, call centers, all at home working effectively with, at their fingertips, pretty much the same tools they had before. That's kind of extraordinary.

And you haven't seen peoples' data centers go down, you haven't seen major problems, you have seen in certain other industries and you've seen in some of the fintech companies - they had those problems, they couldn't trade for their clients, they couldn't move money for their clients because they did have an extended outage of some sort. So, I think banks are getting – they've always been big users of technology, they're getting better at the friendly side of it, making their customer happy all the time, customer satisfaction - which of course we measure non-stop now.

Matt O'Connor

Analyst, Deutsche Bank Securities, Inc.

Q

So, we talk about various macro scenarios from here and I have a few questions that came in over webcast essentially trying to get your best guess on how it tracks from here on the economy, on the stocks. And one client said "I don't know how you ask this, but Jamie set the bottom last time when he personally bought stock". You already own a lot of JPMorgan, but anything you want to comment on that line of thinking would be of interest to the audience.

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Well, I'm not – yeah, I do own a lot of JPMorgan and I think JPMorgan is a very valuable company at these prices. I mean, its capabilities around the world, getting through this. I look back by the way even at 2009, we earned 7% in tangible capital that was our finest year, that was not our worst year. That was pretty good. And if you look at this year, I will feel the same way: that we did our job, we are hopefully going to earn some real money anyway, of course we'll be down, but remember a lot of companies can go from profits to losses very quickly. So, I think it's a very valuable company.

We are – we'll always be affected by the global economy. You cannot be a bank and be immune to what goes on in the world out there. Some companies may be, like maybe a cereal company, or certain things where it doesn't change very much because people have to eat or something. But no, we have credit and risk and markets and clients and all the things like that so.

So, I don't – and I'm not going to try to predict the bottom. My base case – I think, look, the way we're thinking about it today is kind of the base case which is hopefully if that they'll happen, I give it some pretty good odds. The government has been very responsive. The Federal Reserve has been very responsive. Large companies have a huge wherewithal. Hopefully, we're keeping the small ones alive long enough that most of them can get back into business.

People are not completely demoralized by being unemployed now because, for the most part, they consider it temporary. And that while we're going to report a really bad GDP this quarter and unemployment, you could see a fairly rapid recovery. And I think that's got a good chance and that's one base, think of that as – obviously it could be that give or take a little bit and it's not a book end but that's kind of a decent outcome. Hopefully, we can do better than that but it's a decent outcome.

On the other side, it just gets extended. You have that 20% unemployment and we can't get out of it because capital is being destroyed, big companies start to lay people off. Some of these - you can't prop up the stock market forever and some of these liquidity programs may not work exactly the way people expected. The emerging markets have more problems. The government doesn't have another $1.5 trillion stimulus. So, you could come up with the scenario, where no, it can continue, and you guys can put your own odds on what that would be. A bank has to be prepared for both. You can't just pretend, well, this is the one that's going to happen and then when it happens I'm going to go bankrupt, so you have to be prepared for both.

And the stock market itself, a lot of analysis is taking place by a lot of people who are very bright about the stock market and one good insight is that it's not a stock market. Banks are down 40%, oil companies down 50%, airlines are down 80%. And then of course you've got the winners, Amazon, Walmart, Target, Netflix. So, it isn't like you don't have – so you can't look at the stock market as one vehicle, one beast. But you also have a tremendous amount of liquidity out there. When the Fed puts trillions of dollars of liquidity into the system, when we talk about liquidity, when they buy assets, that cash that they're putting out there is kind of like water that fills every crevice. The crevice that get filled may not be that the buyer who sold the treasuries, buy more treasuries, the buyer may buy emerging markets common stocks. They may make venture capital investments. They may look at stocks with 2% or 3% dividends and say that's a hell lot better than 68 basis points on the 10-year treasury.

So, I do think that that liquidity lifts up, in some way, and it's almost impossible to measure the stock market and all asset prices. And so, we got to hope for the best which is that that recovery takes place and that may very well justify the stock market valuations, et cetera, than the bad case takes place. And I think we should all do everything we can to maximize the chance that the good outcome takes place and that means the regulators, the government, fiscal policy, monetary policy, financial regulatory policy, to make sure we get out of this thing because I think if it does go on for a year it won't be very good.

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

Q

Well, we are bumping up against the end of the session. So, Jamie, thank you so much for joining. I know there's a lot of interest in your comments. So, thank you for you and JPMorgan participating again this year.

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

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You're very welcome. Everybody, keep the faith. We will get out of this thing. We'll talk to you all soon. Thank you.
