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TRANSCRIPT

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JPMORGAN CHASE & CO.

MANAGEMENT DISCUSSION SECTION

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

So I'm delighted to introduce our next panelist who's Jamie Dimon. Jamie needs no introduction. He's now in his 14th year as CEO and Chairman of JPMorgan. Since the merger with Bank One, JPMorgan's total returns have outperformed the market by more than 100%. He's distributed more than $200 billion of capital back to shareholders and he's clearly created one of the world's greatest financial services franchises. Jamie, I think the first time you spoke at this conference was when you were the CEO of Bank One in December 2000, so exactly 20 years ago. And we really do appreciate you coming back so regularly over the years.

QUESTION AND ANSWER SECTION

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

Q

So, Jamie, I thought I would just start off with a question about the macro environment. And I know there's a lot of different moving pieces here. There's a lot of uncertainty. But what's your take on the current state of the economy? How does corporate and consumer confidence appear to be shaping up and what are your expectations for 2021?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

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Great. Richard, welcome, happy to be here and congratulations on all the great work that you do. So, look, there's no mystery. We had the worst downturn we've ever seen in two months and if you use a single point, 4% to 15% unemployment. The biggest up turn we've ever seen in three months aided by tremendous amount of U.S. and kind of global fiscal and monetary stimulus. And now, it's a little murkier but murkier but better.

So, unemployment has been better though participation was a little bit worse, confidence is really bifurcated. The companies that are doing well have high confidence, the companies that are not doing well have lower confidence. Consumer confidence has been okay. But the reason to think that it might get a little bit worse now at the lower end is because they've run out of the extra money. Part of consumers have their savings way up but they're the ones who don't really need it. So, it's all over the place. We're still in the middle of COVID, how bad the winter is going to be and thank God there's a vaccine, so it's just going to be a little spotty for a while. I just think it's unavoidable. Hopefully, and then I look at − really look at the book ends. One book end is the base case the Fed has where unemployment is now below 7% and by the end of next year it's below 6% or 5.5% and continues to improve that's a great case, I give that a 50% chance. And then, of course, there's always a case where we'll have some kind of double dip and return to something worse.

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

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So, I think since we last spoke, we obviously had an election. We obviously now seem to have a successful vaccine that gets rolled out. But can you talk a little bit around how important another round of fiscal stimulus is to your outlook, whether you think infrastructure spending is something that could happen, could that be meaningful? But also perhaps you could touch on regulation and whether you think we will see any significant changes to the regulatory backdrop under a new administration.

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

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Yeah. So on the first one, we absolutely need another stimulus package and it should focus on those who need the help. The long-term unemployed, some of the new unemployed and you can debate the $200, the $300 or $400 extra but something and then literally the small businesses. There's a whole bunch of other people too, I feel terrible for the airlines and stuff like that but those two really need help and the damage will be far less if we help them kind of think of it as bridging them to May, June of next year with the vaccines out and, hopefully, the economy recovering well.

And so we support that and I think the regulators − I think the government did a very good job getting out the money and these programs, of course, there are always negatives when you roll them out but who would have thought that our government can get programs out like PPP in literally three weeks. And so − and then the regulations, obviously, we have a new administration coming. I think they put professional people already in those jobs, Janet Yellen, I don't know personally know Brian Deese but a whole bunch of others. And I hope that they focus on growing the economy in a healthy way. And it will be true - the regulators will probably be tougher on banks. And that’s just something that we’re going to have to live with. We’ve lived with it before. Obviously, the banks are much sounder, better run, they've met years of consent orders and things like that. And then you – unless the Republicans change, even if they change by the way, it's going to be hard to pass major legislation. So I think for at least for banking you'll see regulation but probably not something the way of legislation.

And I'm hoping, hoping beyond hope that the regulators look at all the rules that were put in place which were substantial over 10 years and they’re still putting some in place now 10 years later and then kind of recalibrate. They should do a victory lap over the fact that Lehman could not happen today. They would had too much equity. They would have too much liquidity. They would have – they would have been the most over-equitized bank in the world at the point of failure. And I think that would be good for the bond market, not bad for the bond market. They would have an orderly dissolution as opposed to a disorderly in Lehman. That's a victory.

And the FDIC has the right to take them over. But all of these other things, G-SIFI, cash being counted in G-SIFI and LCR and SCR and treasuries being counted, that's causing issues in the ability to intermediate in the markets when times get tough. You saw that last year. You saw it in March and you're going to see it again. So to me, I hope that they recalibrate all those things and we don't have so much capital liquidity tied up in a very rigid way forever.

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

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So, Jamie, let's dig a little bit deeper into both of those points. So let's start off with how the banking industry and how JPMorgan performed this year because this really was the first real world stress test that we've had since 2008. If you were to give yourself a scorecard in terms of how JPMorgan performed, what would it look like? If you were to give the industry a score card, what would it look like? And do you think the industry could have done anything better or differently over the course of 2021?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

I think, look, obviously, the naysayers jump in to say, well, the Fed if not taking all these actions it would be far worse for the banks. That's of course true. They didn't take those actions to help the banks. They took those actions to help the economy and the average American. But in general, the banks have so much capital, so much liquidity, so much capability. They all jumped all over themselves to help PPP and help all the businesses. They put up a tremendous amount of money. Revolvers taken down, bilateral agreements done. So, I think we’re coming out of this looking great.

But its banking, you've got capital – you have got to be disciplined and stuff like that. And if you look at CCAR, most of base could easily handle the CCAR numbers which are far worse than what actually happened. And so -- and we may be disclosing some of that down the road. Like you should be asking, what do you think your real results will be if you went through a CCAR scenario, because it would be nothing like the ones that these are – I understand why the Fed does their thing. And then of course liquidity, the system just runneth over and that will be true forever. A lot of that liquidity can never be used the way it's been set up. And I think that's got to be relooked at.

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

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So, let's talk about the regulatory environment because, obviously, this is the first time the regulatory environment that was largely introduced in 2010 has gone through a period of stress. Do you think that the rules broadly impacted your ability to service your clients in a meaningful way?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

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No, not broadly, but I think you’ve got to look at the macroeconomics like, how much capital is enough capital? Can the bank, every time you start to have – if something looks bad, you have to cut the dividend, something like that. And why are your bank stocks selling so cheaply. The banking -- and you should do this, Richard, the banking system as a size relative to the global economy is getting smaller and smaller, and smaller and smaller. And remember, the market sets capital requirements, not just the bank, and not the regulators. So, you've had 80% of the mortgage business go outside of banking, tremendous amount of private credit has gone outside of banking. And you can go down one after the other things that are leaving banking because they get more favorable treatment outside. And the regulators should ask, is that what they want because eventually they're going to regulate the banking system out of business.

But it didn't stop us in the crisis from making loans. It didn't stop us in the crisis intermediating. I do think that some of the things like temporary measures don't really work because you got to think about when it goes away what position are you in. And it – but the thing it did stop a bit and you saw it in March and you may see it again is the ability of banks to intermediate because they hit a whole bunch of walls, which you've studied and therefore they have to stop doing it because they – because SLR, or it could be a bank's LCR, or it could be – because certain things don't get counted the same way. And of course if the bank can’t intermediate, who intermediates, the Fed. Is that what they want? That they are the permanent step in when something goes wrong, that they come intermediate. That's what happened in March with the repo market.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

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So, let's segue a little bit and talk about your strategic priorities. And look, I feel your strategic priorities have been remarkably consistent now over a five-year period in terms of growing your footprint, deepening customer relationships, conducting business much, much more efficiently. As you digest this year, do you think your strategic priorities change in any way or do you feel the need to accelerate any of your strategic priorities as a result of what we've gone through?

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

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They don't change in any way because we want to serve customers with great products, great service, great pricing, and we still think branches are important. And obviously, technology is used to get to build a technology for straight-through processing, lower error rates, AI, cheaper production costs and that's all the same. But literally, the technology world has accelerated and AI is real, the whole cloud stack is real and you got to really move quickly. And recently, you saw Google and their entering the banking business kind of as a marketplace, look, that's a real competitor. We knew it was going to happen and you're going to see, I think, others do that same thing. So, yeah, if you want to compete with that, you better get better, faster, quicker and if you have any complacency about that, you're a little crazy.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

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So let's talk just briefly around...

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

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And I've also mentioned, by the way, there's some great competitors out there not in the banking system. PayPal is worth more than most other banks. Stripe is worth more than most banks. Square has done an unbelievable job with Square Cash. So you've had a huge amount of value and what you and I would call the financial system which has moved out of the banking system and so and when you look at those companies have done, they've done a really good job. It doesn't mean some of the banks didn't do a good job, but I look at some of those things very often and say, we could have done that too and we didn't.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

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So we'll come back to that I think because I think it's an important point. But before we do that, can we talk a little bit around financial targets and how your thought process around those has evolved? So prior to this pandemic, you had an ROTCE target of greater than 17%. You had an efficiency ratio target of less than 55% over the medium-term. Do you think that those are still appropriate targets for JPMorgan and do you think you can hit those targets given your view of the operating environment over the medium term? Let’s call it 3 to 5 years.

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

A

They're not – the ROTCE is not appropriate next year. I mean, it's just too low and we believe that a consumer deposit is worth more than is currently represented, so we're not going to try and make up for that but that's obviously too low. But if you go back to a normalized environment, yeah, we think it's kind of reasonable but I think it's very good. I mean, if I can get 15% a year for the rest of my life and grow my business, that's pretty good for shareholders. So I think it's a little ambitious but it's possibly achievable. Remember, a lot - some of those businesses have very low capital deployed. So we're very critical of ourselves. We look at certain things. There's no capital deployed and other things there is capital deployed. So you’ve got a way to measure that and, obviously, mix is going to matter, and same thing with efficiency.

And the thing is -- most important to me with efficiency, I don't – we don't aim for an efficiency target because when we sit around at the management meetings here, they can all hit their efficiency target. But I want them – I want to run an efficient business while investing for the future. So we spend more time in the while investing for the future part so we're always doing both. Improving cost over here but seeking out the things we need to grow to get better over here. And that – there may be more of that.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

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So, I think that one of the hallmarks of JPMorgan's success has been that you have taken, I think, market share in pretty much every single business that you operate in over the last three, four years. In a world which is digitizing even faster post the pandemic, is it reasonable to expect that some of those market share gains should accelerate as customer behaviors continue to evolve?

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

A

First of all, just so you all understand how we do it. At the aggregate level, yes, we've gained share. But if you actually look sometimes by country, by state, by branch, by product, by services, we haven't. So we actually go much lower down, a lot of places we didn't, so we think there's opportunity to continue to grow share.

But it's – we're more at the point now where it's like trench warfare. I mean, you've got everyone's out there. There are a lot of very good people in digital. And I've mentioned some who are not banks, some of the banks who are very good, it's trench warfare. I mean, your company, Goldman Sachs in investment banking. You've got all these new entrants in consumer banking. So, I just don't think it will be easy just because you have a good position today that you can grow share. You got to fight for that share.

And it's like – it's an ongoing battle with lots of competitors out there. And there's some invisible ones. And then also think of the ones out there that are playing in a piece of it today. Think of some of the directed, self-investment, cheap apps. They want – they're going to go into banking one day. So, everyone's coming through and I've mentioned Google, that's not going to stop some of the other big ones from doing almost the same thing. So, no, I think the competition is going to be very tough and we hope to be able to eke out continued gains.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

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So, the revenue outlook for the industry is challenging, obviously, given the rate structures, given lower economic growth. What are your expectations in the near-term for areas that you've got some visibility whether that's net interest income or fees? And I guess linked to that, if interest rates remain low for a long period of time, do you think the industry is going to go back and revisit some of the pricing structures especially around consumer products and start rethinking the balance between fees and spread income on those products?

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

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So, for NII, the way we basically do it is we just forecast it right now using the implied curve. I think we told you all it would be $54 billion in 2021, it is still $54 billion. That hasn't changed. And there are probably some ins and outs of that but that's the same. We're a little – with NIR, we're a little bit different. Like on Markets, we don't assume Markets can be good all the time. So, we go back to a more traditional and we don't want to run the company like its always going to be a bull market in Markets or Investment Banking. So, when we look at it, we kind of budget more of a normal not like it was 2020. And what was your last question again about?

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

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About whether or not the industry is going to revisit pricing structures in a low-rate environment.

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

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I think it's very hard to do. And if you look at the consumer business, if you just take one side, take the wholesale business, for the most part, people in the wholesale businesses price for the drink. Like you, so many tickets, so many trades, so many dollars, and for the most part, now this is an exaggeration. But in the consumer business, you price and you give a lot of services. So, I mean you may remember people say things like banks haven't done anything new for years. That's just not true. Banks added bill pay, debit cards, and mobile and the ATMs that take deposits and checks and all these things.

So, I don't really know – I think you have to find a way to serve that customer to earn a fair return. And, yes, you might start to charge more fees but you have to do something for it. Just like Prime, they raised Prime from whenever it was; $99 to $129. People didn't mind because they got free streaming. So, I think that – if I just try to compete, get my revenue by charging it, I'm not going to lose clients. If I can do something better for them, I think I can keep the client and maybe get paid in one way or another for stuff like that. But it's hard. And you look at around the world, you haven't really seen it.

I think you can go into negative rates. You're definitely going to see people resetting how they want to do business, what they want to do, which will change how big the bank is, and a whole bunch of different stuff. But I mean, we're not going be sitting here, running negative losses in all these accounts even at the margin. That we won't do.

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

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So, let's talk a little bit about the Markets businesses. I mean, they did very, very well this year, not just for you but for the industry. I mean, we think FICC and Equities revenues could be up as much as 50% this year. This is actually the first year though that those revenue pools have grown in a long time. Do you think this marks the reversal of a trend? I.e., do think that some of this increase in fee pools is going to stick or do you think it's just reflective of the extraordinary environment that we saw in the first nine months of the year?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

It's reflective of the extraordinary environment. I think if you look at FICC, I forgot the exact numbers – it came down probably 40% over a long period of time. So, I do kind of feel that was at the bottom and then you're going have normal organic growth and that normal organic growth driven by more assets under management, more need to trade and just the fundamentals with always a little bit of decreasing margin. There's always been the spreads you get. There's always been a little bit less every year but volumes can make up for that and when the value of the stocks and bonds of the world go up that's more things that you could buy and sell and stuff like that.

So, I do think we hit the bottom and we're growing. I think the huge numbers you saw this time were because of the extraordinary environment we're in. It wasn't because of a return to some kind of normal. So in our own mindset, we're looking at next year as being not going to look like 2020 but look more like 2019. But that's not a prediction by the way. We just don't know and therefore, I'd rather just put a lower number in.

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

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Sure. So maybe we can talk a bit about operating leverage. So you've done a really good job again in terms of improving the efficiency of the franchise as you have grown and it's very clear that that has not come at the cost of investing in the long-term value of the franchise. As the revenue environment gets more challenging, as credit costs could remain higher for a period of time, how are you thinking about the balance in terms of driving operating leverage versus investing in the franchise over the medium term? And are there investments at the margin that you think you will deprioritize?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

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Yeah. No. So the way I look at it is, I mean at one point, your margins are good and your returns are good, to think you can increase that forever is probably a huge competitive mistake. And so we don't necessarily try to do that. Now, a lot of our investments are adding very high returns at the margin but, of course, you're losing somewhere else, there's always compression somewhere. So, I don't expect to have operating leverage meaning that somehow our margins are going to go up. I think that's just a fool's errand thinking that you can just keep doing that.

And on the investment side, we're different. So I'll say now our cost next year are more likely to be a little north of $67 billion. I think a lot of the analysts have $66 billion. Because we find things that we want to invest in and we try to have real rigor on is it a real investment, will it have a real return. And sometimes, it's just a skunkworks. Now, we're just trying something, practicing with something. You're always going see us do that too. Some work and some don't work, some we tell you about and some we don't. But I think it's important that a company like JPMorgan is always trying to think a little bit out of the box, a little bit creatively.

And I also think you should be thinking acquisitions too. Organic growth is hard and it's far harder than acquisitions, believe it or not, in terms of getting people to add sales force, add branches, add products, do a better job connecting our product together. But that doesn't mean we shouldn't be looking for things we can acquire at the adjacencies. And so we're going to do a little bit of both.

I would love to spend more money. I mean, we're not like – I never look at it saying it's going to be $66 billion. In fact, even though we have a budget, when we sit around these tables and go through plans and stuff. If you could say, well, we could put a lot more money to work at this kind of return, I would do it.

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

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Have you learned anything this year specifically around having 90%-plus of your employees working from home from an efficiency standpoint? Do you think there are things that you'll be doing differently?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah. It was amazing that all of the banks can go do it, right? And so, work-from-home is a real thing, you can track – in some jobs, you track the productivity and some you can't. It's amazing we were able to manage the company and get them the telecommunications kits and you could do trading and accounting, and customer service. So that's a lesson.

The speed with which certain things took place, that's a lesson, and the efficiency of Zoom to do certain things. But on the other hand, Zoom doesn't work for all, you know that banks are basically an apprenticeship model where you learn by sitting next to these people and going on a trip with them or seeing mistakes being made. It very often needs a lot collaboration in the room to go through straight processing, it's hard to manage. You missed all the creative combustion that takes place from having a meeting and having immediate follow up.

So, I took a trip to California, and you know like 100 people, all outside, all safe, all venture capital, private equity, tech companies, et cetera. And you just – you're constantly learning, and you're not going to learn that way by sitting at home. So, yeah, we've learned there'll be more – probably be some permanent work from home or rotating work from home, that will change how we look at real estate a little bit, but it's not going to change the world. And we still need the collaboration where people work in a room together.

And some of our folks sent me a note the other day saying that in China, their people are 90% back to work and without masks, and they like it. And that 90% of domestic travel, both business and personal it's back up to 90%. So, basically China once they could go back to the regular way, they went back to the regular way. And they had learned also that you can work from home. So, yeah, there are a lot of lessons, but I just don't think they're earth-shattering.

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

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So, let's talk a little bit about credit, and I guess a couple of questions here. The first is underwriting standards. Did you feel the need to change your underwriting standards over the course of 2020? And as a result of what you've learned over the course of this year, are you thinking about risk/reward or even risk management broadly differently going forward in any areas of where you operate?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah. Well, look, we're pretty disciplined on all types of credit exposure, stuff like that. And you have to separate a little bit taking care of clients is a little bit different than extending new credit. So, we go – we take care of clients like you wouldn't believe on the wholesale side and on all sides. But then – but for new credit on the wholesale side in certain industries, of course, you have to take in consideration the future prospects of that industry. And on the consumer side, basically, a little bit of tightening in credit card and mortgage.

And if we tightened 100 points, we might have untightened 50 or 75 points already because obviously unemployment's way down. The government took actions, stuff like that. That was just prudent risk management I don't think any of that changed how we look at it. This recession, I think is important to point out that if you look at job losses in most recessions across all income classes, in this one, it was predominantly at the low-end.

So, we – if you today you see savings balances are way up, okay, and the people could afford homes, they're buying a lot of homes and mortgage prices are way down and you see the activity that creates. But for the bottom quartile, the extra cash that came in because of the unemployment checks, that's gone. They're now at the point where they may have to start cutting their spending. So, when it comes to credit and underwriting it's also our heart, who we think needs help, they're going to need help.

And so, we look at it a little bit differently. And as you know, we try to go out of our way to support our communities in bad times. I would tell people, we would rather lose money in some of these communities and help them through bad times than save the money from losses but have them hate us for the rest of our lives.

And so, when you're a bank, you got to be very careful by how you treat industries. We stuck with the oil industry when oil went down, if you remember correctly, like negative $20 or $30 shockingly. But we stayed with them. Those clients are hugely appreciative. And we probably lost a little bit more money than we should have, but that's life.

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

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So maybe, you can just talk about the reserve level. So, the reserve, I think peaked at around 3.3%. In the context of what you've seen so far this quarter, do you still think that's around the right level? And then the reserve was set at the end of the third quarter before the vaccine, I guess, was effectively confirmed as being effective. How does that feed through in terms of how you think about the appropriate reserve requirements?

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

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I mean, you do know this is crazy, right? So, let me give you the big numbers, okay? We put our reserves of $34 billion. If you said, what would they believe – and this is based from probabilities of the outcomes, so it's not based upon what you believe. If you said do a forecast, that will be a different number. But the $34 billion, if you said take the Fed's central case and give it a 100% probability, our reserves are probably $20 to $24 billion. So, we're way over reserved for that.

If you said take the Fed's severely adverse case, like the case of the CCAR case where unemployment is 12% or whatever that number is, we'd need $50 billion. We could easily handle going from $34 to $50 billion, so to me that's not a big deal, but that's all about how you set those probabilities. And in those probabilities, you look at effective unemployment, what's the government going to do, how's the COVID. But it shows you the ridiculousness of what we're guessing.

So I just look at we – charge-offs look great. They're not really going up at all, and we do expect to go up next year but − and then we set that and we're going to fully disclose, in a totally transparent way, to the shareholder how we set it, why we set it, but it's ink on paper. My guess at those probabilities is no different than yours and you now when you do your models have to look at probabilities too, and guess what we're going to guess and so – but it is no question that things are better than people thought three months ago and six months ago.

So, whatever your base case is, it's now better. Do I expect that people will take down reserves because of that? They might. People might look at it as a little premature, we're still about to go into a COVID winter. And so, people want to be comfortable and most banks don't want to be in the position where they swing those reserves up and down every quarter like just in a way you can't understand. So we expect charge-offs to go up, but if you have – if the base case happens, you're going to be taking reserves down next year too. And then the net, we don't really know yet.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

Okay. So let's talk a bit about capital. So even assuming that you need all the reserves that you have, you're in an excess capital position, you're 100 basis points above the range that you set out at least at the start of the year. When the Fed lifts some of the moratoriums on distributions, buybacks, in particular, how are you going to think through the attractiveness of increasing the dividend versus buying back stock? How are you thinking about that just given the sharp rebound in your share price in particular?

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

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So the first thing we'd like to do is invest our money. That's number one. And then have a steady dividend, which is not too high because I think that is, look as a matter of fact someone wrote about it recently that it was a little bit like a yoke on the neck of banks. But being forced to buy back stock is also a bad thing. So, if I thought that our stock was cheap and there's no way we can use the capital, I might make the dividend too high for a while and let – and grow into it to use up the excess capital.

We have tons of excess capital. You see banks now paying a dividend. That capital numbers, they're going up and up and up and up. I just gave you the worst case of reserves. It would be a drop in the bucket. Now by the way if that happened, and then I told this to the regulators, don't make banks cut their dividend now because it doesn't make any difference this quarter, next quarter. If the bad case happens by the way, my board will consider cutting the dividend. I'm not contradicting myself because if the bad case happens, it could be worse. So, you're just trying to prepare yourselves for – at that point, you prepare yourself more for Armageddon or something like that than the dividend.

But right now, the dividend is very sound, and I would love to buy back stock. But again that's just every time we get a chance to buy back stock, it's always the higher price because we're not allowed to buy at the lower price, which I'm not sure is good for the industry. And so, I think people have to be a little bit cautious about that. And also the absolute level of capital is extraordinarily high. I mean I think G-SIFI is so flawed in how it looks at things. And like CCAR, I've always pointed out our earnings, we would make money every quarter probably even in a CCAR scenario. And we'd never dipped down like that. It's just not even remotely possible. Even in our own people, I feel like we have Stockholm syndrome. Someone said the other day, well, in 2008 we never lost any money due to the Fed. No, no the Fed – remember, Bear Stearns failed in 2008, okay, the Fed really didn't do anything. We bailed out Bear Stearns. WaMu, in September, we bailed out, bought WaMu. Fannie failed, Freddie failed, broker-dealers failed, Lehman failed. The Fed didn't really step in until later. And we still never lost money in those quarters.

I mean, so I – people have got to be a little more rational. Now it's far better because you won't have a Lehman, a disorderly failure of a major financial company. It'll be an orderly failure. And they'll have a lot more capital and liquidity. And they should be allowed to fail. I had a conversation with one of the Fed governors, he said, we cannot allow any bank to fail because if even Lehman – if Lehman failed, it would be a disaster. And if you kill it, the bonds go. I said well, no that's not true. Lehman failed, didn't take out any of the banks, the derivatives contracts didn't hurt anybody from Lehman. And the $80 billion of Lehman debt, Lehman was basically just fell apart. So, it wasn't an orderly. They didn't run as a business. The $80 billion of Lehman debt, they originally collected $0.30 a dollar – had collected $0.30 a dollar.

My view is it had been orderly, it would have been one hundred cents on the dollar. Under the new regime, they would have like $120 billion or $150 billion of available debt. They would have all that equity at the point of failure. And my guess is the company would probably be worth more than $150 billion. It'll be good for the system and bondholders are adults, they can afford losses. They take them all the time. Remember, the banks lost a lot of money in Fannie and Freddie preferreds. And – so we have to get back to a system where you'll allow failure, and that's a form of discipline.

There's a lot to look at. I hope that after all of these crises, some people will take a deep breath. The other problem is it's all been politicized. So, how do you make intelligent decisions when politics gets involved in the way, it's just anything, which is a change, looks like it's favorable is treated like they're favoring the banks. No, actually, they're favoring America. They're actually favoring the economy. And yes, you may have a bank failure one day.

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

Q

So, before I take a couple of questions from the audience, let me just ask you about your view around inorganic growth. And I think, look, you've been open to the concept of M&A for a while. I mean, obviously, you can't buy a depository institution, but there's a lot of other assets that in theory you could buy.

I mean, which part of the franchise do you think would benefit the most from an acquisition? What would you be looking to get from an acquisition? And how open do you think regulators would be to you buying something which obviously doesn't have deposits?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah. I think very open. I mean, at one point, you have to do business here. With Morgan Stanley, I think Morgan Stanley has done a good job in the couple of deals they've done. So, asset management, my line is open. It's a scale business. It's a distribution business. It's a brand business. It's got to make sense. Asset management deals could be difficult sometimes. We just bought 55ip which does tax managed separate accounts.

And so, there will be others. We're looking more at adjacencies. We bought InstaMed, which is healthcare payments, WePay which helps hook Chase Merchant Services in ISPs. So, what we're trying to think about is everything we do, if you look at what Square did, it was the adjacencies of that dongle that made a difference. The data and the ability to process on one iPad – cash, checks, debit, all so the person running the store can do all that in one place.

And so, I – there will be stuff, and it might be software, it might be fintech. We have lots of investments in some fintech companies that we partner with. It might be something overseas. But yeah, we're open-minded. If you’ve got brilliant ideas, give me a call. And if you're a competitor investment bank and you bring the idea, you get the fee.

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

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There are some people probably in this conference call that might call you afterwards. So, let me take – there's a ton of questions from the audience. Sadly, we don't have time to get through all of them. So, let me just pick and choose a few which I think are – I think very relevant.

So, here's one. You spent a lot of time with management teams and with boards. How does that tone compare to the optimism and euphoria that we're seeing in parts of financial markets today?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

It's not like the markets, okay? It’s considerably less than that, but its growing confidence. Again, it's really different in different industries - exactly what you would expect. Your travel, retail, and stuff like that. But in general, this confidence that the country is going to get through this, the vaccine is going to be there, the people are trying to – we do get surveys from businesses that they're basically talking about that 75% think they'll be fully recovered, of the bigger ones, by the way. These are public companies, fully recover by the end of 2021. You don't get the same data with small businesses, and that's why we have to be very sensitive about small businesses.

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

Q

So, as a follow-up, do you think that markets are appropriately pricing credit risk today given everything that you can see across your franchise and given your view of the world in 2021?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Not really, but I don't know why it's such a surprise. The central banks of the world bought, I forgot the number, $12 trillion of assets. There's something like $275T in global trading, that's a lot of assets. And when they buy assets, those assets have to be reinvested and it lifts up prices and reduces bond, yields, et cetera. But when you look at markets, and this is a very important thing, if you said − if you sat around a table right now and said the base case is the case is going to happen, I'm highly confident we're going to get back to growth and unemployment under 5% by such and such, bond spreads and most equity prices will be justified.

If you said, oh, no, it's going to get much worse than that, they won't be. And since neither you nor I know it's going to happen, so the market is an accumulation of all these probabilities of folks thinking through what's going to happen, and stuff like that. I think there may be a bubble in a small part of the stock market, not all of it; if you actually analyze it by segment, by this, that's not true. And I'm not – I would not be a buyer of – I think treasuries at these rates, I wouldn't touch them with a ten-foot pole.

The other thing which is very important, there's also $10, $11 or $12 trillion of fiscal stimulation. Fiscal stimulation is completely different than QE, okay? So, it's like QE, fiscal stimulus is putting money in people's pockets to spend. And they spend it. Maybe not right away, but they spend it. That's why the GDP's stayed up, stuff like that. That's by its nature is inflationary. QE by its nature may not be. And it's also even more inflationary when you give money – if the government finances it and the Fed buys the bonds. So, basically financing a deficit.

And now, of course, that interplay is in global recession, COVID, high unemployment. So of course, you're not going to see the effects of all that right away, but you might down the road. So I wouldn't be a buyer of rates at these rates. And unfortunately, we have no choice about how we do that. And credit spreads themselves are all-time tight. I'm not sure that it's ever justifiable if you want to be paid for risk.

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

Q

So, here's a second question, which I think is an interesting one which is look every retail industry that has digitized has consolidated at the same time with the top three or four players ending up controlling 70%-plus of the market. Do you think that retail banking will follow the same route?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah, I wouldn't necessarily tie it to digitize. I mean, for all the folks listening this thing, the American banking system is hugely fragmented. We still have, I forgot the number, 5,000 banks, 6,000 banks, and it's going to be consolidating. It's been consolidating my whole life; it's going to be consolidating for the next 50 years. There's too many. Very hard to be efficient in that business.

If you take a quick tour around the world, most other countries – developed countries have a much consolidated banking system. Australia, Japan, France, U.K., Spain, Canada, parts of Latin America, not Germany. The countries that didn't have it work is because of regulations. Wherein the United States many years ago, you couldn't have interstate banking. Some places you couldn't even open more than one branch, I think the old First Chicago had one branch in Chicago, and by law that is all they could have. Once they – you know, mergers at the top, it's really hard. You're starting to see it in the banking field and you'll see a lot more who's going to consolidate.

And yes, the digital probably would be really important part of that because that's a way to generate customers at a lower cost and people have come up with different schematics and what's the best way to serve the customer, while we think branches are important, you may have a hub and spoke strategy and this one may have a small branch strategy without tellers, this one may have blanket with ATMs in a central bank − central branch, and several strategies may work, but we test a lot, we're always thinking about that, but we do expect that. And so, you'll have bigger and bigger banks here. But of course the bigger banks can't acquire. So the acquirers are going to be the middle-sized banks.

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

Q

So, look, we have time for one last question and I think this is a very good one to end on which is, what is the two or three most important attributes you think JPMorgan's board will look for in your successor and what is the single most critical piece of advice you would give him or her? So, we'll finish with that one.

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Oh, that's a tough one. I had my board meeting today by the way and we spoke about this very thing. Look, I think there's some very basics about analytical skills and detail and facts and analysis and work ethic, character is a sine qua non. But there's also a part of character that you got to be tough to make decisions. I mean, I love that song about the Boy Named Sue which talks about the gravel in the gut and the spit in the eye. I mean, you're like a deer in headlights – you can't make those decisions. You have to be able to serve the client and not panic when you have bad times. You got to be able to see around the corners a little bit because you know you're going to have bad times. But I think the most important thing is, and this is true for all of you out there, you want to work for people you respect. You want to work for people that have a little humility to know that I don't know everything that you know.

I mean, I was telling Richard before we started this formal session, what a great job he did in that research report talking about SLR and effects in markets, et cetera. And so, the leaders, we become more like the coach. And when you have a coach, the coach may kick your ass.

They also celebrate your victories; take blame for the bad plays. I ask myself a question now that I didn't always ask myself when I was much younger is, would you want your kid to work for that person? And it's not how smart they are or something like that, it's about whether that person is – wants you to succeed and wants to help you. And not artificially and not like stuff like that.

So, I think it's a full spectrum of values. Fortunately, JPMorgan has tons of quality people. So you didn't ask me, so I'll tell you anyway, trading and investment banking numbers up about 20%, maybe a tick more, because I already told you that the expenses are higher than in your models. So I would give you the good news and the bad news at the same time.

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

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Okay. Look, Jamie, with that, we're out of time, but we really do appreciate you coming. So thank you very, very much, and hopefully we'll get to see you in person next year. So thank you.

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Absolutely, Richard. Thank you.

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Thanks.

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Keep the faith, folks.

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

Q

Thanks.

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