JPM AT THE BARCLAYS FINANCIAL SERVICES CONFERENCE

TRANSCRIPT

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JPMorgan Chase & Co.

MANAGEMENT DISCUSSION SECTION

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

This is Jason Goldberg and I cover the US large-cap bank stocks here at Barclays and this is our 19th Annual Global Financial Services Conference. Next up, very pleased to have JPMorgan Chase. From the company, we have Marianne Lake, who's Co-CEO of the CCB, their Consumer Banking businesses, which is a very, very large part of the country. Actually, if it was a standalone bank, in revenues, it would probably be top five in the US and large business. Marianne, welcome.

Marianne Lake
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

Thank you so much, Jason. It's so great to be back with you guys, after a couple of years off, I feel.

QUESTION AND ANSWER SECTION

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Yeah, I guess – and maybe the best place to start, four or so months ago, you were named to co-head the Consumer & Community Bank. While JPMorgan, I always feel like has a consistent, strategic vision, different leaders tend to have evolutionary views of their businesses. Can we talk to what you see as the key tenets of your strategic view for CCB?

Marianne Lake
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah, happy to do it. And again, thank you for having me. I mean, I think you used a pretty descriptive word which is, evolutionary, because obviously you guys know that I've been pretty close now to the consumer franchise writ large, running the lending businesses for the last couple of years before the more recent announcement, but even previous to that, in my CFO seat, I would say, I had a pretty good purview and influence over the overall strategic direction of – in many parts of the company including CCB.

So, it won't surprise you to know that I was and continue to be largely bought-in to the strategic vision, which I think, without sort of being, in any way, shape or form, arrogant, we have, if not the best, one of the best consumer franchises here in the US, and so, if the proof of the pudding is in the eating, then I think our strategic vision has generally been working and we've generally been executing well.

That said, I think maybe three observations. The first is, while it is true that we don't have any significant gaps in terms of looking across the, sort of, product offerings and the continuum here in CCB, there are a few areas where we think there's still the opportunity to gain meaningful share, where we're punching a little potentially below our weight. And they include lending, so, areas I'm responsible for, but specifically small business Card lending, where we are the number-two, but there's a reasonable distance to number one and their margin is my opportunity, and I expect to continue to push in and gain share there. And there'll be some product development news and stuff coming out just to continue to invest in that part of the space.

We want to be the best mortgage provider to our primary bank customers, to our existing Chase customers, and so, while we do, do well, we don't do as well as our aspirations in terms of serving those customers.

Another area would be investments. We have some really, really great relationships. We have relationships with more than half of the mass affluent and affluent households in the US, but we don't have an adequate share of their wallet, particularly in investments. And so, we're continuing to invest in that space. And finally, just small business, we actually do very well in primary bank relationships, but we think we could do more to deepen those relationships through integrated service provisions, through value-added services. So, we're investing there.

I think the other area, which has never not been in focus, but for reasons that I'm sure we'll explore later, is increasingly in focus this year and going forward, is the sort of competitive environment and strides that competitors are making in terms of customer experience and exploiting potentially, small product gaps or areas in the customer segmentation where we haven't been as focused. And so, expect us to continue doubling down on both of those things, making sure that we have all of the right products and services for every customer across the

Marianne Lake
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

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segmentation in our space, and that we're not overly focused on one and distracted from another, but very importantly also improving the customer experience.

And I think the third thing I would mention is just a hotly innovative space. I think we do very well, but payment commerce lending innovations is an area of key focus for everyone and we're no exception. So, all of that is to say, the strategic vision is largely unchanged. I think we're doing very well. I think we have really great products, services, businesses. We can always do better, and we're focused on it.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

No, sounds like a lot going on. I guess one of the questions I get though as you kind of take this new role is, I think on a day-to-day basis, you and Jen, obviously segment some of the responsibilities, but just maybe discuss how kind of the co-structure impacts the decision-making process.

Marianne Lake
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. Okay. I mean obviously it's relatively early days and so, the feedback I would give you is, so far so good. We're definitely getting into a rhythm. I think it is helped by the fact that Jen and I have known each other for decades, a couple of decades. We've worked pretty closely together in a variety of capacities over the course of that time. So, she's not only a colleague of mine, but I would consider her to be a friend. It's also helpful that both of us know CCB well, and importantly, CCB and the people there know us both very well. So, I think that does help in terms of like trust and confidence from the teams in the leadership.

It's great to have a co-head, so we can get leverage and the way to get leverage is to try and divide and conquer. And so, we've done that as you said in terms of spacing out our majors and minuses in terms of the businesses, but also functions. And so, the way I would articulate it, the way we've sort of thought about it is, we are both ultimately responsible for the strategic outcomes. And so, any decision that is like critical, strategic, a one-way door, regardless of the discipline, we should both be involved, and we are. But to get the leverage of having both of us in the space, we should also take responsibility for the 80% of things that we can manage and keep each other informed at the back end.

When we took over the responsibility, we had a Town Hall and we said that we don't expect it to be the responsibility of our teams to try and manage the cohesion between us, that we will be responsible for that and we will be one voice. So, if you speak to one of us, you should consider that you've spoken to both of us. If one of us makes a decision, you should expect that it's a decision from both of us. You do not have to double-check. If we feel the need to double check, we will do it. And so, as a consequence, there's a lot of like, I've got this, I'm on it, and I trust her. So, there's no one I can think of that I'd rather partner with, and it's early, but, so far so good.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

I should try that approach with my wife and kids. For those listening in, just keep in mind, on the upper right-hand corner of your screen, there's a couple buttons. One is, Ask a Question. If you have questions for Marianne, feel free to send those in. We'll try to weave those in as we go. And then secondly, there's a button, Survey. As we have for all the companies, please, answer those questions. If we don't get them today, we'll certainly publish those results tonight.

That's helpful, Marianne. Maybe – I guess before we kind of jump into specifics, you obviously see reams of data, whether it's deposits, lending, spending, from the consumer. We are kind of shifting from the summer travel season to kind of the back-to-school season. Bennett's stimulus on the decline. So, maybe just kind of provide us kind of what are you seeing at the ground level.

Marianne Lake
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. I mean, so, I'm not telling you anything that many others haven't told you. We, here in the US, and in Chase, saw spend start to accelerate and strengthen up at the tail end of 2020. That acceleration into 2021 was strong, and in – you know, including travel, which was potentially earlier than people had expected, and that strength stayed with us, as you say, through the summer season.

And as we sit here today, if I just start with card spend, it is true that we've seen a bit of softening in travel, in airlines and lodging, most particularly. I think that's relatively to be expected considering the Delta variant has a little bit knocked consumer confidence, at least

Marianne Lake
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

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temporarily, but, overall, credit card spend, I would say, is robust and it doesn't really help to the – versus 2020, but if we look at spend right now, even with that softening relative to 2019, we're still up 18%, 19% relative to 2019, notwithstanding that those sort of key areas are down. And remember, that ours is a portfolio that has a decent skew towards travel and entertainment.

So, you also mentioned another important fact that is particularly pertinent right now which is the amount of stimulus and payment relief in the system has been extraordinary and led to a number of different effects in our businesses and you mentioned some of them.

So, deposit growth in excess deposits, in liquidity, in consumer balance sheets, not just those that received stimulus, but those that for a period of time were on a forced diet in spend terms, given restrictions and mobility. So, we saw cash balances in consumer accounts – deposit balances grow really strongly. We saw deleveraging, so, revolve balances decline, also relatively strongly, payment rates as you say, reaching record highs. That said, sitting here right now today, those trends have stabilized. So, they have not inflected, that is not to say that they've turned yet, but they have stabilized.

And importantly, you mentioned it, 9 million people came off unemployment assistance, 3 million have less in their accounts each week. There are other protections that are at the very least scheduled to decrease and end through the rest of the year and into 2020. So, I never like to call the point of inflection, but it is our expectation that as stimulus fades, if the health situation remains under control, which we think it will, the economy remains in solid growth mode, which we think it will, and therefore spend is strong that you will start seeing normalization.

The only thing I would say about normalization is we will start to see it in the coming weeks and months and likely in early 2022, however, back to the point about the extraordinary amount of stimulus in the system is that it's going to take time for all of those trends to normalize. So, as we look forward into 2022, we do expect that we'll see that plateauing of deposits start to come off. We do expect to see loans start to grow and we do expect that that will have natural consequence on NII, but also, we've been assisted by extraordinarily low credit losses and benign credit environment. That will also normalize. The perfect – the timing of all that may not be perfect, but it's all going to happen, but it's going to take time.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Okay. So still strong spend, normalizing...

Marianne Lake
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

...payment levels leading to [indiscernible] (00:12:05) over time.

Marianne Lake
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

A

Plateauing payment level – plateauing payment levels, expect them to normalize over time.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Makes sense. I guess against that backdrop, though, still it feels like a heightened competitive backdrop in Card, in particular. We've seen tweets from you around Sapphire, new products from other competitors. Can you maybe talk to in terms of what you're seeing in the competitive landscape, and how are you responding to that?

A

Marianne Lake
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

Doesn't it feel, Jason, like every time we meet, no matter the environment, the talk is about how strongly competitive the Card space is? So, by the way, you're right, competition is fierce, but I feel like that's a constant, not a new thing. And listen, the competition is fierce, and we're not complacent. We do very well. We still have number-one spend and number-one lend. We think we have the best products in market. We think we provide extraordinary customer value.

I think a couple of things that are noteworthy. The first is that we really – we saw really strong retention in our portfolio, across the portfolio during the pandemic which, for a portfolio that you know has a skew towards T&E, sort of speaks to the success we had in, like, rapidly being able to pivot value to sort of everyday categories, meeting our customers where they were during this extraordinary period in groceries and streaming and delivery, fitness, things like that.

So, actually, we saw a retention stronger and voluntary attrition lower throughout the pandemic and we've ended – not to say we've ended the pandemic, but we've ended, as we are now, with voluntary attrition lower than it was before the pandemic. So, I think that's a really good sign. I also think it is a bit of a trend that may be with us for a while, meaning that the lines between travel and cash back illustratively are blurring, probably on a semi-permanent or more permanent basis, and people are looking for more flexibility in how they earn and value that is going to follow them a little. So, if you're a cash back, if you know if you're with Freedom, we have travel accelerators. If you're in our travel portfolio, we have grocery accelerators and I think that may be here to stay for a little bit.

I think another trend then, you mentioned some of it earlier when we were talking is, customers are increasingly looking for flexibility in how they pay. So, things like buy-now, pay-later, or how they borrow, but also in how they pay themselves back. So, we launched Pay Yourself Back as a new way of redeeming points when redeeming for travel wasn't interesting to people, and it became rapidly our fourth-largest redemption option and people find great utility in it and we're able to provide them with great value.

So, look, all things considered, I feel like we're doing quite well. The competition is back. We all thought that return to travel was back and on fire and that softened off a bit, but it's coming back. So, we feel pretty good.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

I guess you touched on it for a second, and I know it's a small segment, but it's growing rapidly in terms of buy now, pay later. Although, the market cap in space is very big. I mean, you have Chase My Loan (sic) [My Chase Loan], Chase My Plan (sic) [My Chase Plan], but maybe talk about threat, opportunities from that, is it impacting your businesses at all, and do you need to respond?

Marianne Lake
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. So, I mean, I – to start with, a couple of things where I would say we feel like we have some competitive advantages, what we already have is an incumbent customer base of more than 60 million households in the US, we are a trusted payments provider across the consumer payments ecosystem to those customers and those households and lending is core to all of our businesses. So, I feel like we have a pretty good set of assets.

And you mentioned My Chase Loan and My Chase Plan, and in product terms, they're both babies. We only launched My Chase Plan in the second half of 2020. It's not only scaling nicely, but we're also seeing really good customer appeal, including in customers that previously were not borrowing on our card. So, we're seeing incrementality in terms of borrowing, which is to say that customers are telling us that these are things that they want, that they want to be able to leverage different ways of paying and borrowing and so, in answer to your question, do we feel like we need to innovate in the lending space to continue to provide the products and services that our customers want? Yes, we do.

And as you watch the buy now, pay later space, there is strong growth. There is impressive adoption. I would posit to you that specifically buy now, pay later has a sort of natural ceiling in terms of the share of the unskilled lending market, which is why you're seeing those people consolidate and partner up, so that they can get distribution, which we have, and so that they can broaden their product and service capabilities, which we have. And so, we may not be a first mover in buy now, pay later, but we have the full suite of payment lending and commerce capabilities and, like, over the longer term, I think that's the bigger picture. We have the customer base and the distribution, and so, we're working on all of that. So, stay tuned.

Jason M. Goldberg Q
Analyst, Barclays Capital, Inc.

Helpful. While Mortgage results, I guess, have been strong based on your prior statements that Chase Mortgage penetration, deposit customers are still lower than you want, maybe can you address that opportunity in addition to talking about the current environment?

Marianne Lake A
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

Yeah. So, as you said, Mortgage – the Mortgage results have been very, very strong, a combination of low rates and a higher HPI, up 18%, which I think is very, very strong, an economy that we think anyway should continue to be robust, all drove a record market in 2020 of above $4 trillion. It looks like 2021 is not going to be much different, might be plus or minus same, even a little better, and even though we're expecting there to be a downshift on higher rates in 2022, this mortgage market can withstand higher rates because the fundamentals are still very good, and we just talked about consumers, the liquidity, the cash balances, the level of strength there.

So, growing share with our core primary bank customers is a priority focus, if not the priority focus for us. We do well, but not as well as we would aspire to do there. We want to double our share with our primary bank customers over the next three to five years, and it's three yards and a cloud of dust how you do it. And just remember that one of the reasons why we want to do it – there's two reasons. From the customer's perspective, we should do it because we know them better than anyone else, we see their full financial lives, we should be able to digitally verify their income, their assets, give them pre-approved mortgage offers, give them streamlined digital re-fi and a better customer experience.

So, it should be much better for our customer and when we get it right, it is, and then for us, when we are able to deepen with our primary bank customers by doing their mortgage, we see significant value, we see much higher D&I coming from those relationships. So, it's a win-win when we do that.

As we think about what we're doing, then we're investing in and have delivered at the end of last year, a new sort of home buying, shopping, and digital financing platform, Chase MyHome. It went into market at the end of last year, so, it's whatever, six, nine months old at this point. We now have it available just within our ecosystem to 30 million of our customers and that platform, since it's launched, is now generating more than 2 million visits a month, and it is the entrance point for about 20% of our home lending leads. So, we're digitizing the lead, our process-lead-to-app conversion is strong, the experience is good. So, the mortgage market is strong, demand is high, home prices are holding up, the fundamentals are good. Our customers are valuable to us and we should be able to do a great job for them and we're investing in the platform to do it.

Jason M. Goldberg Q
Analyst, Barclays Capital, Inc.

Makes sense. Speaking of investments, I think after several new entrants this summer, you're now in the 48 continental states. Just maybe update us on the progress and the profitability of these expansion markets and kind of what's next.

Marianne Lake A
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

Okay. So, I think just a little bit of new news that we're super proud of, because back to the proof of the pudding is in the eating, we can see that our branch strategies and our investment in our branches is working, and the FDIC released its survey results last week and we're number-one in retail, deposit share up 70 basis points year-on-year and lots of other impressive stats that I could quote you from that. So, in terms of like how overall our branch investment and strategies are working, we feel great about it.

We are the first bank, as of August this year, to have planted a flag in all lower 48 states which we feel great about. We're more than halfway through the plan that we announced in 2018 to enter new markets and grow our branch footprint in those markets, 400 new branches. So we're 220 branches and growing daily. It could be more than that today. In 25 new markets, 30% of those branches are in LMI communities. So we feel really, really great about that.

Two things about performance, the first is that if I look at the performance relative to our modeled expectations, we are outperforming. I think obviously it's – you need to remember these are multi-decade investments. So to say after the first year or two, they are outperforming, it's not nothing, but it's – we just need to keep watching it. And we've added through those new branches $6 billion in deposits and $2 billion in investments and growing. So as they mature, we would continue to expect them to be profitable in their own right. But arguably more important, when we enter a new market and we start serving that community, it's not just about the consumer franchise. It's about bringing the full faith and force of JPMorgan Chase to that community. And that's, yes, Consumer, and, yes, it's Business Banking. And it's also Asset & Wealth Management. But I think it's also importantly enabling our Commercial Bank.

Marianne Lake

Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

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So when we enter a new market, we are able to bring the Commercial Bank and the Commercial Bank is able to do business with and lend to government entities, not-for-profit hospital, universities where previously they may not have been able to. So, yeah, we were pretty excited.

From here, what else? Well, we've entered new markets. We haven't perfected the footprint in them. So over the course of the next year or year-and-a-half, two years we not only need to finish our commitment to deliver the 400 branches, but then we're always perfecting the distribution footprint, whether it is staffing in branches, whether it's compensation, whether it's investment fit-out, whether it's distribution density, we're always adjusting that.

We're investing in digital and not just digital in terms of mobile and web, but digital capabilities in the branches for our employees and our customers, so like real omni-channel not just omni-channel being both, but being integrated both. And then obviously we're entering into the UK.

Jason M. Goldberg

Analyst, Barclays Capital, Inc.

Q

I guess on the UK aspect, you're going, I guess, a digital bank in the UK. You announced the acquisition of Nutmeg. You took a stake in C6 in Brazil. Just maybe what are the kind of the, I guess, international aspirations of CCB.

Marianne Lake

Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

A

Of the fun. So, obviously strategically entering new markets, starting in the UK and we're focused on the UK. And you mentioned Nutmeg and C6, but we will thoughtfully accelerate our capabilities through acquisitions both there and anywhere else. And so if you take Nutmeg, Nutmeg is a digital-first, sort of leading brand in the UK that has digital wealth management capabilities that we think will be very complementary to the Chase digital banking capabilities that we have built and we will be delivering into the market. So, think about that as a strategy that accelerates our go to market for investments in the location, but also where their existing and target customer base strategically aligns with our target customers. So, we feel like it's very complementary.

If you take C6, C6 has built the most comprehensive platform of any digital bank in Brazil. Brazil, we think, is a really critical market, when we think about international retail behind China and the US, it has the third bank – the third largest banking revenue pool. And Brazil has very strong adoption of digital tools. So, we're excited about learning through our investment in C6 too. This is what we're doing right now. Everybody always wants to know what's next. Let's get this done and then we'll let you know.

Jason M. Goldberg

Analyst, Barclays Capital, Inc.

Q

Sounds fair. Maybe shift gears to credit quality, because you always have to ask. Obviously, we talked earlier, environment very benign, lots of stimulus, stimulus fading, loan growth should come back. We'll need provisions. But I guess, how do you think about kind of the normalization of loan losses, particularly Card, like this year is going to be obviously extraordinarily low, but has to normalize. I guess how do you think that normalization process plays out? And then still feels like reserves are really, really, really high, how do, I guess, you to think about that context?

Marianne Lake

Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

A

Okay. So without repeating all the things you just mentioned in your question, I'll just start with one of the comments I made earlier, which is we have – we feel like we may be – feel like we may be I know it's a lot of caveats, but we do feel like we may be at an inflection point on many of those trends. And so that's true when we look at the underlying credit trends like it is anywhere else, where we've stopped seeing the improvement in all of the new entrants to delinquency trends. They have not deteriorated. And as you very well know when you're looking at, say, Card because it's kind of the elephant in the room and you're in consumer, you're looking at Card, you do get a pretty good lens six months forward of what you think loss is going to look like.

And we don't see that being any kind of step change. As I say we have yet to see there be any real deterioration and we're not looking for deterioration. That said, 2021 like we posted a record performance for credit metrics as you said. So no doubt, we're expecting the normalization trend to start taking place in 2022 and therefore loss rates and losses to be higher, but still low. And as I said earlier, the

Marianne Lake A
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

normalization process is unlikely. I mean, it could accelerate. We could be wrong. There could be things that change it. But as we sit here now with the lens we have six to nine months forward, we're expecting it to be a process of gradual normalization through 2022 and 2023. And unless that changes, we'll see loss rates continue to increase, but still be relatively low. At some point we'll get back to where we were pre-pandemic and then we'll be back on that same journey that we were on then, where we said as the mix of our portfolio changes, you will expect loss rates to grind higher, that's not necessarily deterioration, and we'll get there eventually.

I think it's also reserves, you talked about. I think it's also really important to remember that while reserves are elevated relative to previously, as much as things have improved, uncertainty is still elevated. I mean, just look at Delta. So, as we sit here today, we built a significant amount of reserves last year. We've released a substantial portion of them. If the only thing that happens is that our central case is realized, then there should continue to be less uncertainty in the future and maybe more reserve releases this quarter or next, but much more modest than you obviously saw over the course of the last couple of quarters.

And if we're right, you will also see revolving balances start to grow, not just because we're seeing a re-leveraging of existing customers on the back of the economy and spend because, as I said, that's going to take time, but also because we're already seeing strong demand for credit and strong customer acquisition. So it's going to be a tale of two cities. We're going to see re-leveraging and also like new customer acquisition drive loan growth. And with both of those things together with some normalization in credit, then over the course of the next year or two, we'll be building again. And that would all be in the normal course of normalization before we see any deterioration.

We don't see anything that leads us to believe that things are going to deteriorate. We see nothing in the things we follow or the trends. But as you and I both know; cycles don't die of old age. So something will change at some point.

Jason M. Goldberg Q
Analyst, Barclays Capital, Inc.

No. That's fair. And maybe just if we could touch on deposits, obviously been robust growth flight-to-quality government stimulus. You talked about starting to see people borrow more. I guess just how do we think about kind of the outlook for deposits? I guess how sticky are these – the deposit growth that you've seen? And how do you think about betas in the next cycle?

Marianne Lake A
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

Okay. Starting with the sort of like big, big picture, I feel the cycle point of view on betas at this point is not meaningfully different now than it was in the last cycle. And why is that? It's because we are and have continued to be focused on primary bank relationships. There's a reason why I think we have done as well as we have and better than the industry in terms of deposit growth and we have been able to gather those deposits, including excess deposits because we have the primary bank relationships. And so, we do expect that our deposit customers, much like the last cycle, are going to stick with us through the next cycle, largely speaking.

And why is that? Because I also think the other trend that we talked about exhaustively during the last rate cycle was the trend that like rates paid is only one part of the story. And increasingly, our customers value the, for lack of a better word, the sort of convenience yield associated with the other investments we're making with our brand, our distribution, our platform, our products, our capabilities, the things that we're delivering to them that we're doing for free, while others may be charging for them. And so I do think that this cycle like the last, we may see less pressure on betas as people value other things, our customers, our primary customers certainly do.

I also think it's fair to say that and you see it obviously, everybody sees it, that we're living in a liquidity abundant world across the system. And that unless there is a significant change in liquidity conditions, then that might also mean that betas are under less pressure in the next cycle, just given the marginal cost of deploying the next dollar of cash or the cost of bank balance sheets will factor into the equation, in a world where liquidity is abundant.

If it does change, if there is an abrupt or significant change in liquidity conditions, then we'll see what we always do, which is that retail deposits will come down. But we'll see it on the other side of the house in wholesale deposits, and we're a leader there too. So, we do expect our customers will stay with us. We expect they'll keep substantially their deposits with us. We think that there's not a big, big difference in our view on through the cycle betas, but just the trend of people valuing more than just rates paid, I think will continue. And then liquidity conditions will be a factor at least unless they change.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Helpful. I have a lot more questions, but I do have a lot of questions from the audience I want to get to.

Marianne Lake
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

A

Okay.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

And one of them – I've gotten like eight times, so if I don't ask, I think I'm going to get in trouble. So just bear with me. I do appreciate you're on CCB, but you and I have done this fireside chat format many times as you as CFO and I know you're on the Operating Committee. So, I'm going to ask this. Any thoughts on the 3Q environment is tracking for trading and Investment Banking fees?

Marianne Lake
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

A

You had to try. So, okay, yes. I'll start with trading and let you know that right now in markets, we're looking at revenues being down about 10% both sequentially and year-on-year. Importantly, that is better than we expected at second quarter earnings. We're seeing particular strength in equities, a little bit less so in FICC. But on an absolute basis, we're really happy with the performance in markets.

So, that's kind of trading and markets revenue. And IB fees in the second quarter, we talked about, we were expecting and seeing a very robust Investment Banking environment. At that point, we said expect fees to be up year-on-year, but down sequentially from a strong second quarter. We are continuing to see those dynamics in part, continued momentum in M&A. In fact, on average through the quarter, we've done better than we expected and the pipelines through the quarter and now are still strong.

So it's still true that we expect to be up year-on-year and down sequentially, but more up year-on-year and less down sequentially than we thought at second quarter, so better in trading and better in fees than we thought at the second quarter on average. So feeling pretty good about that.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Well, thank you for answering that. I guess while we open the Pandora...

Marianne Lake
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

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Did you think I wouldn't?

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

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...while we open the Pandora's box on firmwide guidance, I'm going to try again. But JPM has talked to $52.5 billion for NII for the full year. And obviously, it's down from initial expectations in part because of the high credit card payment rates. You mentioned credit card payments plateauing, just any thoughts on that $52.5 billion for this year. And just how do you begin to think about next year?

Marianne Lake
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

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Yeah. Okay. So I will answer half the question. I'm not going to give you guidance on NII for next year. I'll leave that to – you had to ask; I'll leave that to Jeremy over the course of the next couple of earnings quarters. Yeah, you're right. As we've been going through the last couple of quarters and revising our NII guidance downwards, Card and consumer behavior particularly elevated payment rates, like posting records quarter-after-quarter was a very, if not the significant driver of that.

Marianne Lake

Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

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So, the good news sitting here today is that we have seen those payment rates for now, anyway, stabilize. They're no longer increasing. They have stabilized at elevated levels, we should say, levels we've never seen before, but they are in line importantly with our expectations and with the guidance that we gave in earnings, which is all to say that Card will not be a big driver of NII change in guidance this quarter and so all other things being equal we expect our outlook to be in line.

Jason M. Goldberg

Analyst, Barclays Capital, Inc.

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Got it. I guess earlier you mentioned I think the Jeff Bezos quote, your margins my opportunity, and you're talking about the small business core. I guess a lot of people kind of view you as their opportunity. So, I know we kind of always talk about the competitive landscape being competitive, but it does feel like it's more competitive, could we just talk about kind of the threat of fintechs more broadly and just how you're competing against them across CCB and just reacting?

Marianne Lake

Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

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Yeah. And the discussion on fintech has actually evolved a lot over the course of the last, I don't know call it six years. It started with fintechs significant competitive threat, to fintechs looking to partner up, to a bit of both. And there are obviously and have been obviously some extraordinary success stories. And so back to the point that I made before and put aside the fact that we actually think we have a good hand and there's no one I'd rather have, it is true that some fintechs have done a very, very good job of identifying gaps in products or services for particular customer segments, creating beautiful customer experiences, super easy and intuitive and earning the right from there to expand.

And there are − those that have done that very well and others that are doing quite well right now. And so, we need to learn from that. So what do we do to respond to that? Well, we want to be the bank for everyone, the bank for all Americans, which means we need to have products and services and solutions that are suitable for all customer segments and if we have gaps we need to fill them and we're working on it. We need to have customer experiences. It is very rare that we see in our wheelhouse people who have products that are better than ours.

They quite often create experiences that are easier and so we need to make sure that we're investing in our core customer experiences, the things that people use with the highest frequency, the things that are what we call moments of truth. So they may be less frequent, but when they happen, they matter. And we need to be better for our deepest relationships.

So if you are a customer of ours and you have multiple products, we can feel a little disjointed. So filling out any products or services gaps, any strategy gaps we have in risk and servicing across the customer segmentations, doubling down on customer experience, connecting end-to-end journeys, connecting journeys across the ecosystem, improving our mobile navigation, we released a new bottom NAV in our app this quarter. We're working on all of that. And so, I hope a year from now you will tell us that you've noticed a big difference.

So the other thing we're seeing in fintech which we've talked about is consolidation. There are obviously those that have grown and expanded or created a broader ecosystem, but still they are partnering up to add broader sets of capabilities and to get broader distribution. And we do have I think advantages in that space. So we're investing in making sure we have competing offerings. We'll obviously inform you when they happen.

On the big tech space, most big tech players are partners of ours, as they grow, we grow. That's not to say we don't also understand the competitive nature of much of what they do. They compete and they're partners, and that's true across our ecosystem, but like we do expect to continue to leverage their channels of distribution together with our own owned channels to reach our customers. And so look, for both of those groups of competition, as well as by the way, don't discount the traditional competitors, some of whom do very, very well, there is something to learn from everybody. And so we are constantly like scanning the landscape, figuring out what we think is working, making sure that we have at parity products and services and that where it matters we are to trying to leapfrog the competition and we won't get it all right, but we're working on it hard.

Jason M. Goldberg

Analyst, Barclays Capital, Inc.

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We have about a minute remaining, but you mentioned the words filling in gaps and you mentioned consolidation. You've done a bunch of acquisitions. We talked about Nutmeg and C6 earlier. You did cxLoyalty. I think you're buying Zagat, which I never would have imagined. Just I guess, what – I guess what is the kind of – what's CCB looking for, with respect to consolidation and you obviously can't buy a US retail bank. But other than that, I guess where are you spending your time looking?

Marianne Lake
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

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Okay, it's true in CCB as it is everywhere in the company that we would look to build or partner or buy anything that can meaningfully accelerate our ability to deliver strategically important products or capabilities to our core customers. That's like the – like beginning and the end of it. One example of that is either an area of core strategic importance to our customers and or customer experience. We talked about that and cxLoyalty in travel and The Infatuation, which is a leading dining, discovery and recommendations engine are both really important to our core customers, not only in Card, but more broadly in the ecosystem and they're both going to allow us to own and deliver a better end-to-end experience. And so, they meet those criteria, the same is true of Nutmeg. So, we're open-minded and we'll review anything that we think is aligned with our strategic vision for the company and can accelerate our capabilities.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Perfect way to end it. Marianne I can go on all day, but we're out of time. So, very much appreciate you being with us here today.

Marianne Lake
Co-Chief Executive Officer of Consumer & Community Banking, JPMorgan Chase & Co.

My great pleasure. Thank you very much.