JPM AT THE BERNSTEIN STRATEGIC DECISIONS CONFERENCE

TRANSCRIPT

June 1, 2022

JPMorgan Chase & Co.

MANAGEMENT DISCUSSION SECTION

John E. McDonald
Analyst, Autonomous Research

All right, great. Thanks everybody for joining. We're really happy to have JPMorgan Chase Chairman and CEO, Jamie Dimon, return again to the conference. Jamie, thanks so much for joining us today.

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

Thrilled to be here. Thank you.

QUESTION AND ANSWER SECTION

John E. McDonald Q
Analyst, Autonomous Research

So, you hosted an Investor Day last week for your investors and analysts.

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

Yeah.

John E. McDonald Q
Analyst, Autonomous Research

Lot of generalists in the audience today probably didn't get a chance to listen in. Maybe you could take a few minutes to summarize the key takeaways that you and your team wanted to convey at your Investor Day last week.

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

Yeah. So, we did have an Investor Day. It was long. It went from like 8:00 to 3:00. All the major executives made presentation, including one on tech, one on CCB, CIB, Asset & Wealth Management, payments, markets, et cetera. And the point was is that we really hadn't spoken to investors in detail for two years. So, some had complained that we're spending a lot of money, lot of issues out there, we've done a bunch of acquisitions, and they were right. So, we took the time to explain it in detail about why we're spending $6 billion more in 2022 versus 2021, how we look at investments, and there was a lot of detail in that like how we look at application investments, how we look at acquisition investments, how we look at new branches and bankers and hardware and software and modernization, all of that. And so, you got to go through the detail, but that's how you have to run a business is at a very detailed level.

We gave some updates on things which don't surprise people very much on NII for this year and kind of a first view about kind of a benchmark for maybe next year. And we spoke – obviously spoke about the economy and stuff like that. I also think it's a great chance for you all to see our senior management team in person, answering questions up on stage, explaining their business, why they're doing what they're doing, a couple of things are different, a couple of things are not completely normal. And we didn't describe everything. I think sometimes we describe too much and give way too many things that help investors. And after that, I went to Fidelity and Wellington, and I went up to Boston, did a kind of a Boston tour, and some people were asking some really great questions which were exactly the ones we didn't want to answer, because we're not going to. But there's other great stuff we're doing. We're quite comfortable with the company and we're quite comfortable with how we make these investments and such, so...

John E. McDonald Q
Analyst, Autonomous Research

Yeah.

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

Yeah.

John E. McDonald Q
Analyst, Autonomous Research

Traditionally, JPMorgan has been a stock for all seasons. It's done well in good markets and in tough markets. And particularly in down markets have been defensive. Do you think the characteristics of what's built the company historically and the balance sheet and the diversity are still true today and could make it perform well on a tough day?

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

Totally. What protects a company in a downturn is, first of all, you're prepared. We always talk about through-the- cycle. So, we acknowledge when we're over-earning on credit and that that's going to normalize. We're quite clear about that and that might be $3 billion of charges more a year. And we have to prepare for things like CECL and AOCI and downturns and all of that. But your best preparation is that fortress balance sheet, is conservative accounting. We don't have a lot of – not a lot. We have almost no one-time gains or losses or MSR. Even when you look at MSR, that's conservative too because there's very little FHA services in there. When things go bad, FHA servicing is very expensive when the delinquencies hit 5% or 10%, which is guaranteed to happen in a downturn. And it's same with – look at our real estate portfolios, the ones you worry about are mostly Class A, fully leased up, no spec, all these various things which it's hard to look at, but that protects you.

And those margins – when things get bad, we'll still have margins, we'll still be making money, and the reason we want to do that is so we can serve clients in the toughest of times, and we have plenty of capital, plenty of balance sheet. There's a lot of capital uncertainty because we still don't know SCB, we don't know if there'd be any adjustment to G-SIFI, which we're not counting on. We did some acquisitions which took away from some buyback capability, though I'd much prefer doing really smart acquisitions than stock buyback. You may not like that so much sometimes because you want consistency and all of that, but – so, yeah, we'll be a fortress balance sheet in the next go-around too. We're quite concerned about the environment. So, I try to separate if you ask me what – right now, if you have a benign environment, like you all will have forecasts, what's in your forecast, what's your forecast as a benign environment. I don't know what it's going to be like by the end of the year, and I'm prepared for a non-benign environment by the end of the year. So, to me, we try to explain all that as best we can, and I think it's important we do that. But we'll be prepared for bad outcomes.

John E. McDonald Q
Analyst, Autonomous Research

And on that front, what degree of difficulty do you attach to the task at hand in front of the Fed right now? You mentioned storm clouds. Maybe talk about...

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

Yeah. I'm going to change the storm clouds, because I said – I said there were three things that we're going through which are – I hate the word unprecedented, which are kind of unprecedented. And you got to put this in the back of your mind. When you haven't – when you've seen things that have never happened before, then you have to question your ability to predict, okay. One is huge growth in this country driven by fiscal and monetary stimulation. That isn't a normal recovery, okay. And that fiscal stimulation is still in the pocketbooks of consumers, they're spending it, they're spending at very strong levels, and the data is completely distorted, distorted by inflation, distorted by – they went from goods back to services, distorted by all these things.

But jobs are plentiful. Wages are going up. Consumers are spending. The lower income folks not quite as much as before, but everybody else, it looks like they have $2 trillion more. Savings rate dropped. I don't think they're going to stop their spending in the next six to nine months. And so, that to me is the bright clouds out there, but it's different. The Fed has to meet this now with raising rates and QT. And the new part of this isn't the raising rates. It's the QT. The QT has – we've never had QE before like this. Therefore, we've never had QT like

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

A

this. So, you're looking at something they're going to be writing history books on for 50 years. What was QE, what worked, what didn't work. I think a lot of parts of QE backfired. I think the negative rates was probably a huge mistake for a whole bunch of different reasons I don't want to bore you with now.

But they're going to have to raise rates and maybe they have to do QT. They do not have a choice because there's so much liquidity in the system, they have to remove some of the liquidity to stop the speculation, to reduce home prices and stuff like that. And you've never been through QT. So, all the major – if you go back to 2010 and say who are all the major buyers of treasuries all that time, it was central banks, foreign exchange managers, banks who were topping up their liquidity profiles because we had to for regulations. All three won't happen this go-around. Banks are topped up. Foreign exchange managers are topped up. The central bank will be selling, not buying, and governments have much more fiscal deficit to finance. That's a huge change in the flow of funds around the world. I don't know what the effect of that is. I'm prepared for minimum to huge volatility.

And the third thing is Ukraine. You've not had a European land war since 1945, okay, and you could – and the complexity of Ukraine is we don't know the outcome. I always make a list; you predict the outcome. Well, you couldn't predict the outcome of Vietnam, Korea, Afghanistan, Iraq, 10 other conflagrations, all wrong. Wars go bad. They go south. They have unintended consequences. And this happens to be roiling the commodity markets of the world — wheat, oil, gas and stuff like that, which in my view will continue. We're not taking the proper actions to protect Europe from what's going to happen in oil in the short-run, and we're not taking the proper actions to protect you all with what's going to happen to oil in the next five years, which means it almost has to go up in price. We're not investing enough money to keep oil at that number.

And for all those who love climate change, if oil prices go to $175 or $150, which I kind of think is in the cards to tell you the truth, not in the immediate run, but down the road, then CO2 won't go down, which everyone predicts because people will buy less oil and gas. It's going to go up because all those other countries out there, the poor countries who need oil and gas to feed and heat their citizens, will turn off – will not buy oil and gas. They'll buy coal. That's what's going to happen. CO2 will go up. It won't come down. And we're not dealing with these challenges. So, those three things — fiscally induced growth, QT, Ukraine war. So, I'm going to change the storm clouds out there, because I – look, I'm an optimist. I said they're storm clouds. They're big storm clouds or – it's a hurricane.

Right now, it's kind of sunny. Things are doing fine. Everyone thinks the Fed can handle this. That hurricane is right out there down the road coming our way. We just don't know if it's a minor one or Superstorm Sandy or – yeah, Sandy or Andrew or something like that. And you better brace yourself. So, JPMorgan is bracing ourselves and we're going to be very conservative on our balance sheet. And with all this capital uncertainty, we're going to have to take actions. And I kind of want to shed non-operating deposits again, which we can do in size to protect ourselves, so we could serve clients in bad times. And so, that's the environment we're dealing with. And I think it's okay to hope that we'll end up okay. I hope it. That's my goldilocks, I hope. Who the hell knows?

John E. McDonald
Analyst, Autonomous Research

Q

What do you think it means for the potential credit cycle that might ensue and the preparedness of the banking industry?

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

A

So, the banking industry is in great shape and the credit cycles follow a norm, okay. And even in the Great Financial Recession, it followed a norm with a couple of little exceptions. Mortgages, there was $1 trillion actually to be lost. We all woke up sometime in 2008 or 2009 and said, my God, it's $1 trillion. And it was everywhere. It wasn't derivatives. It was in CLOs. It was in banks. It was in insurance companies. It was – but that caused panic because people woke up – the investors and they said, my God, it's everywhere. What do you do, you sell. So, there's panic selling and stuff like that. And I think you may see that again, by the way, too, because I don't think that banks can intermediate in the market like they used to.

So, when all this liquidity gets run down, we're going to hit a wall. And then, when that wall gets hit in terms of intermediation, you're going to see very volatile markets again and no one's going to be able to step in other than the Fed, which maybe they can't do this time. So – but the credit cycle follows a norm normally, and that's the minimum you should expect. And we've shown people credit card – it's all-time lows today, but in the Great Recession, it peaked at 10%. We would have told you before that 8%; so you know, we were off but not that much. What surprises people is it won't be mortgage this time. It won't be – we don't see it there. There might be something in the private credit markets – Archegos. When things happen, it will – someone will get hurt somewhere, and sometimes it's industries you just least expect.

And so, you have to be very careful in that. Like in the 00s, it was telecom and utilities, the ones that were the most stable. In 2007-2008, it

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

A

was Warren Buffett newspapers. So, there's underlying changes in credit you have to be very careful about, very hard to spot. And therefore, the discipline is you never put all your eggs in one basket. You're very careful, no matter how people think real estate is or something like that. And so anyway, you have a normal credit cycle, charge-offs will go up. We'll still be earning money. CECL makes it very volatile. Like I think I pointed out at Investor Day, we put up in two quarters, so the first quarter of 2020 and the second quarter, $15 billion of CECL, and then in the next four quarters, we took it down. I don't know what kind of accounting that is. I think it's crazy. I don't know who invents this stuff, but we have to deal with it regardless.

John E. McDonald
Analyst, Autonomous Research

Q

There's been a big expansion of credit outside the banking system. You kind of referenced that. Is that a concern in your mind?

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

A

It's hard to tell. This is the private – look, I think some of these direct lenders are very smart people, and you got – you had Blackstone here, you have Ares. They're all very smart. It's huge numbers now. The issue for the world is that those borrowers may be stranded when this hits the fan, because these people cannot roll over that credit at 13% or 14% – they're going to have to charge 13% or 14%. And so, they're going to call up JPMorgan and say, look, will you have us back? In some case, we're going to say no, because we'll have tapped out what we could do too, because we also hit our own red lines and stuff like that.

So, is that systemic? I don't know. There's a lot of leveraged lending out there. Will someone get hurt? Probably. Will that credit dry up in that segment of the market? Probably.

Are there other things we see out there that are particularly bad? No, but we have this little report we have called shadow banking. We put it all together from repo to money market funds to commercial paper to CLOs to mortgage banking – and the mortgage businesses have moved away from banks for good reason. The capital and liquidity requirements are so high to the bank, it really doesn't belong with banks anymore. And will they be able to make mortgages when this hits the fan? Maybe not. Even today, if you look at private label mortgages, they're 50 to 75 basis points higher than what retail banks are doing. And the only way the other folks can finance it is by securitizations. I don't know why a retail bank is issuing something at 4.25% when you can buy it in the marketplace at 5%, right. You have to question that logic a little bit. And so, you're going to see – this stuff is going to get worse if the markets get tighter and liquidity dries up a little bit. We will be prepared for it and so should you if you are smart.

John E. McDonald
Analyst, Autonomous Research

Q

Talking about some of the industry issues that you're dealing with, in terms of expense pressures, how much of the inflation burden are banks likely to see and where are you seeing that now?

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

A

It's no different than everywhere. It's – you see it every day now. But this – when we told you all numbers, we kind of embedded that in. I don't know what other people did when they told you their numbers. We were embedding in – you can embed in your own number, 4%, 5%, but it's relentless. And so, you're going to see a lot of people making adjustments. And by the way, I want to keep our best people. So, like we have to pay well to keep our best people. We're quite religious about that. And it'll be what it is. Remember, there are benefits from inflation too, like NII is going to be much higher and it's not a one thing. But you're going to see it and I think you're going to see a lot of banks, tech companies – I think a lot of companies are facing it and...

John E. McDonald
Analyst, Autonomous Research

Q

Yeah, yeah.

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

A

But you – when you guys do your own estimates for 2023, you should tell me what you think it should be. Because I could be thinking 5%, you're thinking 2%, or you're thinking 2% and I'm thinking – I'm thinking 2%, you're thinking 5%, and it will be what it is at that point.

John E. McDonald
Analyst, Autonomous Research

Q

Yeah.

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

A

We will deal with it intelligently. We'll manage our expenses like we always have and...

John E. McDonald
Analyst, Autonomous Research

Q

And for banks…

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

A

And in 2023, remember, if you have a – if a severe recession starts sometime in 2023, inflation – wage inflation can go to zero like literally overnight, so.

John E. McDonald
Analyst, Autonomous Research

Q

And how about capital? The capital pressures are growing on yourself and other banks from a combination of the macro environment and also the regulatory rules. How does that influence...

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

A

It's mostly – it's mostly accounting rules. AOCI and CECL and so – and yeah, it'll...

John E. McDonald
Analyst, Autonomous Research

Q

QE.

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

A

It'll constrict what we do a little bit, and G-SIFI and you got to predict – project forward and all that, and so...

John E. McDonald
Analyst, Autonomous Research

Q

How does that affect your plans for growth and how you allocate capital?

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

A

Not – it doesn't affect our plans for growth in terms of growing our company, all those investments we're making. It will affect how we deal with non-operating deposits, what we put on the balance sheet or not, what we sell or not. We can be much more aggressive about what's on the balance sheet and what's not. There are a lot of things we simply don't have to keep or don't have to do. Some are to facilitate market. Some are to help the clients. And so, if we have to, we'll tighten that up too and we're probably going to.

John E. McDonald
Analyst, Autonomous Research

Q

But earlier in the year, you laid out a medium-term ROTCE target of 17%. At the Investor Day...

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

A

Yeah. It was never a medium-term target. That is what we expect to earn through the cycle. I'm getting rid of the medium – I don't even know what medium-term means. I remember when I first got to Bank One – or JPMorgan, I said we aspire – maybe it was Bank One – we aspire to earn 15% on tangible equity. Inside the company, it was like an aspiration and people thought I didn't mean it. So, I eventually said, no, that's your freaking target, buddy, like that's what you're going to earn. Like that's what you should be earning. Let's not pretend. So, we said 17% is what we expect to earn through the cycle, and we have.

And – but the way I look at it is through the cycle. So, this cycle, we're under-earning NII, but over-earning in credit. We still got 17% last year or better. I don't really include CECL in there because that just swings around just too much. But I obviously include charge-offs and stuff like that. And next year, NII is going to be a nice kick for us and expenses are going up a bit and all that. So, it's still 17%. And if you have a recession, well, it won't be 17%. It'll be something lower, like that's life. And – but I also told our CFO, Jeremy Barnum, to do a little calculation. Anyone have your 12C in front of you? HP 12C, whatever it is. Do the calculation that if JPMorgan earns 17% on capital and grows at 7% a year, for how many years it'd take before we're 50% of the GDP of the United States of America? I would take 17% all day long, okay. That's pretty good. Now, you all don't earn 17% on your capital.

John E. McDonald
Analyst, Autonomous Research

Q

One of the drivers this year is loan growth, and you're looking for loan growth to be kind of growing in the high single-digits. How broad-based is that? And then, how does the hurricane kind of factor into that...

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

A

Again, you have to separate the hurricane from...

John E. McDonald
Analyst, Autonomous Research

Q

Yeah.

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

A

...running the business day-to-day. And that hurricane is making us be careful in how we're running the business day-to-day. Loan growth is an output. If you run a bank and you think – a lot of loans, you do not want loans. A lot of loans have a suboptimal return. If I generate a loan and I put it on my balance sheet, but you can buy that same loan in the market, okay, without any overhead, why would I have 240,000 people doing that a year? Why not just have no people and buy the loan. It's called a fund. And so, the reason you do a loan is because you're building a business that for every loan – and for the most part, loans are priced at the market, and of course, with regulations – and one day, I'm going to show you all a chart. If I have to hold twice as much capital as somebody else, then somebody else should own the loan.

Now, I may not be able do it overnight. You're damn straight I'm going to do it over time. Why would you own loans that you can hold much more profitably than me? And so, to me, it's going to – you got to recycle your capital. And it happens in some markets and not in others. But

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

A

loan growth is an outcome. If you don't have the whole business, you wouldn't probably be in the business at all. And the whole business is – and think of the subscription businesses, cash management, custody, other flows, fee businesses, the relationship. So, one of the benefits of JPMorgan, we make it – this why we're doing unitranche lending now. Like in unitranche lending, they're bigger loans. They're priced better than our Term A, Term B and sub and all the stuff like that. You're getting paid more per dollar of risk and – but that's all they get. And you – and then people invest in that.

We get that plus all this other stuff. That's why we do it. I wouldn't do it just to get that. And so, you got to be very careful when you're a bank about why you are a bank at all. And so, loans are an outcome of – obviously an outcome of growth in the economy and all that. So, we see a lot of – today, middle market companies are taking – they kept the revolvers. They need more to finance the inventory, the receivables and CapEx, which seems to be going up in a whole bunch of different places. So, it looks right now you got a pretty decent loan growth this year. We may very well reduce what we hold in the balance sheet, which is a different issue. That's more of a best execution issue to us or managing the balance sheet. But the loan growth itself, it looks to be pretty robust right now.

John E. McDonald
Analyst, Autonomous Research

Q

How about the demand on the consumer side? Are they revolving a little bit more on cards? And what are you seeing in terms of consumer demand?

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

A

Honestly, I haven't looked at it since Investor Day. So, I don't want to update that, yeah.

John E. McDonald
Analyst, Autonomous Research

Q

Okay.

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

A

But I've been clear from then, I expect that to happen. You can guess when it's going to happen, but it's like a given, and you already see it in subprime. So, my guess is it'll just happen in prime a little bit later, but it's the same basic thing.

John E. McDonald
Analyst, Autonomous Research

Q

You mentioned managing the non-operating deposits.

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

A

Also, Marianne always points out that you got to look at two things. Well, NII went down because revolve went down. Charge-offs went way down because revolve went down. So, they have some relation between the two.

John E. McDonald
Analyst, Autonomous Research

Q

Yes. In terms of industry deposits, do you expect deposits to leave the banking system as QT gets going? And you mentioned you still have to manage the non-operating...

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

I want to push them out. I'm on the other side of this one. I want to – we have a lot of non-operating deposits we keep as a service to clients. I don't know, I mean I...

John E. McDonald Q
Analyst, Autonomous Research

Yeah.

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

But the issue for the industry is what happens when they reverse QT, and what does it come out of first, and we don't really know. Like I said, we've never had QT. If I had to tell you my current thinking, it's at first, you're going to see a reduction in money market funds, kind of wholesale-related deposits. The Fed RRP facility is now an astounding $2 trillion, but eventually you're going to see it filter into consumer. Because when we had QE, if I remember correctly – and actually, we should get this data because we did some real work way back when. That first QE showed up in wholesale deposits, but eventually morphed into consumer deposits. And so, you're going to see that. So, we – again, we have to be prepared for both, like where is the runoff going to be. So, we – I think Jeremy gave you guys a number about the expected deposit growth of all of our assumptions, and that number is probably still pretty good. And I gave that it could be plus or minus $300 billion or $400 billion.

John E. McDonald Q
Analyst, Autonomous Research

Yes.

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

But again, if it is $400 billion and it comes out of non-operating deposits, it doesn't really mean that much to us.

John E. McDonald Q
Analyst, Autonomous Research

And maybe you could talk a little bit to these folks here today about the investment agenda that you laid out at the Investor Day. Just – and you've got a leadership position in most of your businesses.

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

Yeah.

John E. McDonald Q
Analyst, Autonomous Research

So, where are the opportunities you see that are attractive?

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

Yeah. Well, the team showed, which I think is really important, not just where we're a leader, but where we're not. Like you could be number one in fixed income trading, but we know we're number four in Asia. We're number seven in this country. We're number 10 in FX in this country. We're number – so, if you look at all the weak spots where we don't have big shares, we don't – like even in our Chase Wealth Management because Jen and Marianne showed the huge growth opportunities, but we have like a 1.5% share, and from $100,000 to $5 million of assets under management, why not 10? And Jen mentioned that someone – I think someone is going to have 20% share of

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

deposits. I'm talking about 10 or 15 years from now, because almost every other country has that, as you add services and products.

So – but anyway, the way we look at branches, bankers – and these could be – and we don't – we're not going to give you all the numbers. It's somewhere embedded in the presentations. But opening a branch, we know exactly what the profitability pretty much is going to be down the road and we've been positively surprised. And now, we're in 48 states. Hiring bankers in middle market or Chase Wealth Management bankers, we pretty much know what the outcome is going to be and we've been positively surprised. Marketing is – that can go up or down. So, we sit here – and Marianne showed a number of $7 billion of marketing. Another accounting ridiculous thing is in a lot of the credit card business, it's expensed against NII in 12 months. So, you don't see it. The only thing you see – we tell you about that. But I don't know. That doesn't seem to be matching revenues and expenses to me, just like CECL doesn't, AOCI doesn't, and Banks is like the only industry where all the losses are fronted and everything else is on the come, which hurts capital by the way. It hurts capital formation in banking, which I again think is a minor mistake.

But that – those numbers could – you could have $1 billion of opportunity that gets very high returns or can disappear right away. And the other lesson – I should probably – secret lesson is sometimes when things get bad, that marketing money is worth more, not less, because you get far more bank for the buck. So, you got to be a little careful. That's why I don't like making promises on expenses at all. We could spend $500 million more on marketing credit card or marketing something like this and if the returns are extraordinarily high, we're going to seize it and then explain it to our shareholder, just like you would if you owned 100% of the company. And then we went – the harder ones are – and every business went through stuff they're doing some of the tech – and we gave like very specific things, just some examples of AI, okay, where we know we're spending – we didn't tell you how much we're spending, but there's $1 billion of identifiable benefit.

We gave one – I'll give you one example on risk and fraud. Our risk and fraud in the Consumer Bank is – losses are coming down, while volumes over the years have doubled. And you all know how much fraud is out there today. That's AI. A couple other examples like that, and AI does things like hedging a lot of our equity portfolios today, which is astronomical. In a way, you couldn't do it as a human being. And then, we gave specific examples on software we're building that has identifiable returns and some that doesn't really, some of the modernization stuff and data center stuff. But even like the data center stuff, we know when we move something to a new data center that the operating costs for that application would drop 20% or 30% and it becomes accessible to far more services. It's kind of invaluable, but – so, we try to give people a taste for all those things. And of the $77 billion, about $15 billion is what we call investments. And we try to have rigor around those and...

John E. McDonald Q
Analyst, Autonomous Research

And in terms of how the investment agenda gets set at JPMorgan, it's not Dimon says from the top-down, right? It does come from the bottom-up and people come to you with ideas and...

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

It's a little bit of both, and it should be, like so people – we ask them, what do you want to do, how do you want to do it, what are your opportunities, and that surfaces up. Some things – and we don't tend to – if they're obvious, we tend to let them do it, okay. But there are certain things that have to be set at the top. Modernization has got to be set at the top. Certain things like we have to – like I've been in a lot of companies where operations is always underinvested in because no one sets a budget for operations. If you have operations that's in the CIB or the company, the rebuild and fixing and technology that supports operations has got to be budgeted centrally. If it's budgeted in a fight, front office will always win. And the new data centers will never be built. So the new data centers were top-down, some of the modernizations are top-down, some of the other stuff that's, in like, if you ask Daniel Pinto in the CIB is top-down, and then other stuff bubbles up. It's both.

John E. McDonald Q
Analyst, Autonomous Research

So from the outside, how should we gauge the success of the investments over time. I mean, just in terms of how it plays to your operating metrics, ROE?

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

A

Well, we – I mean, we try to show you tons of examples that should give you comfort in how we go about it. But the end of the day, do we earn 17% of tangible equity through the cycle and do we grow? Do we compete? Because it's very easy not to grow. It's very easy not to invest in your future and have higher margins. I also think I've always been opposed to this concept of ever-increasing margins. I don't know what people are thinking. We live in a capitalistic world. So when people – I remember that when Citi was under all the – they're constantly increasing their margins and they're increasing operating leverage. Well, what do you increase operating leverage to? Jeff Bezos says your margin is my opportunity. So we take, very often we're giving the customer a better deal. That's what we do. It's called capitalism. You all do it, required, the thinking that you can always increase your margin is a mistake, as long as you're building a great company with great returns, great customer results, good growth and stuff like that, you should be happy with your company.

John E. McDonald
Analyst, Autonomous Research

Q

In addition to the organic investments...

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

A

But the other thing to keep in mind is if we don't think the stuff is working, we can cancel it. We're not like the federal government, you start a program that doesn't work and it's there 30 years later. We can cancel it. And we apply rigor looking backwards about some of the stuff we did that didn't work or did work or...

John E. McDonald
Analyst, Autonomous Research

Q

You've been using fill-in, bolt-on M&A a little bit more in the past couple of years, in addition to your organic investments, what's the change that led to that?

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

A

Well, I think for a long time we wouldn't have been allowed to do acquisitions for a whole bunch of different reasons. And the other thing, which I think is very important, I think every company should – I grew up in an environment where every time a business wasn't doing well, at the management meeting, you quickly start bullshitting about M&A. Well, we need to have size and scope. I think every business should have your own plan, how you're going to build it, how you're going to compete organically. And organic growth is the hardest growth. Adding sales force is hard, adding research is hard, adding branches is hard, and you can't turn them on and turn them off.

And I always tell people, you have a job, organic growth, that's a huge discipline, you add bankers and clients and services and products and it's the best growth. It's your culture. It's consistent. It's you know what it is. It's like opening a branch in a – like, Doug Petno showed a chart, since WaMu where do we open? We're now in all 75 – I think in all 75 major cities. We were in 25 of them, when we started before WaMu. Getting him to open in every – not getting him, he wanted to do – but to open it every place, to hire bankers, to add the credit officers, to add the treasury services, product managers, it's a lot of work, but it's great work because the returns are enormous. And I could have bought in – we couldn't buy another bank, but acquisitions are also very hard, they shouldn't detract from organic. So years ago I told you all we wanted – I'd rather invest in our own business organically, M&A, after a dividend, and then buyback.

And so I think acquisition opportunities are opened up and we start to take them, and I want the management team to be looking and they're disciplined enough that they can grow organically and look as opposed to it distracts – sometimes it does distract from growing organically. When you do a big acquisition, all of a sudden, all your teams are focused on consolidating and putting things together, a management team, and kind of innovation and organic growth drops by the wayside. It doesn't have to, but it often does.

John E. McDonald
Analyst, Autonomous Research

Q

Is there any kind of common denominator or thread of the type of things you'll do inorganically versus build?

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

A

No, if you, in asset management, you'd all understand this, we bought a company that manages Timberland, we bought a company that does tax. It takes single accounts, MSAs and does tax advantaged investing. So it automatically adjusts for. And a company that does ESG, OpenInvest, where you can basically say, I'd like this index, but I want to over index to boards that have more women on them or that have done a better job on scoring on this climate score, ESG. So you can run a portfolio and then direct it the way you want.

In payments, we – you've got to look at Viva, its capabilities are extraordinary. So it's kind of a fabulous add on for us, in a little bit, the one that's a little bit different, the stuff we did in travel, cxLoyalty, a rewards company and Frosch, a travel agency, but it's fabulous stuff and we expect it all to pay back. And not only will it pay back and defend the business, it'll also defend the business.

So, we have to execute, but the fact is, I think it was a fabulous strategy and I congratulate them for even coming up with all of that. And we've got some very competitive folks there who want to win big time in travel. The other amazing thing, and I always said, is there a reason you win. One quarter of all US travel goes through our credit card. That's a huge number. And only a portion of that goes through our own travel related stuff. And if we can increase that portion even a little bit, it's fabulous for the client, it's fabulous for the company. And it's hugely competitive – offensive and defensive.

John E. McDonald
Analyst, Autonomous Research

Q

Yeah. In terms of the competitive environment, and as long as I've been doing this, you've always said as a financial institution, there's competition everywhere, from every angle, always. But with the rise of fintechs and maybe big tech looking at financial services, is the nature or intensity of competition changed in recent years?

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

A

Well, I think in the recent months it's come down a little bit. Look, I think there's going to be a lot of winners and losers in this. So I was trying to point out that 20 years ago I was sitting here, our competition was mostly other banks around the world, US, around the world, stuff like that. And now you have very intense shadow banks. Think of Citadel, the mortgage brokers, direct lenders, lot of payments companies, exchanges, data companies, but they are skimming off a lot of profit from the financial system. And then you have fintech and they're good ones and not, but Stripe and PayPal and Adyen and Square and they're all doing interesting stuff.

And then you got big tech. So big tech you've all seen Apple has made their announcements about they want to do P2P, they've already got the Apple Wallet. They want to give you some kind of credit journey experience. They're going to do merchant processing. They're going to do merchant lending. It may not be their own balance sheet, but that's a bank, that's a bank. It may not have insured deposits, but it's a bank. If you move money, hold money, manage money, lend money, that's a bank. And then everyone's going to try to embed payment systems in their ecosystems, which just makes sense, it could be as a bank, it could be white label, it could be – which we're not going to do, but someone will do it – or it could be they'll give you a marketplace, so there's a lot of – I think there's a lot of competition coming.

And the reason I talk about it is – I'm not afraid of it. I'm in favor of competition and there are strengths and weaknesses for banks. But you should – you better not put your head in the sand. I mean, the worst thing a CEO can do to a company is have this ABC – arrogance, bureaucracy or complacency. If you put your head in the sand, you die. And I think that I'm just trying to note that, I think JPMorgan is in pretty good shape. I think the competition is going to be brutal and fun to watch. And I think there'll be a lot of losers in it, too, by the way.

John E. McDonald
Analyst, Autonomous Research

Q

You've written about the need for a level playing field between banks and new entrants, how much of that…

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

A

I didn't say that. I simply – because we're not going to get a level playing field.

I just don't expect. The regulators aren't going to change anything on banks at this point. But what I was pointing out is that among the

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

A

things we have to deal with is we have capital requirements. Some of these people don't. We have liquidity requirements, some of these people don't. We've got social requirements, some of these people don't. We've got AML, KYC, which they have in some capacity, but they don't. We've got insurance requirements, they don't. We've got resolution requirements, they don't. We've got – that's I'm just pointing out the truth. It is, what it is. Just acknowledge it, that's all. And if they ever want to change it, let them change it. I can't rely on any of those things being changed. There's been 10 years since Basel, they still came out with Basel IV and we still don't know what it is. So that creates uncertainty for banks. I – it's not what I like, but that's my lot in life, I got to deal with it.

John E. McDonald
Analyst, Autonomous Research

Q

On the consumer side, Marianne and Jen touched a bit on this last week. You reach over 66 million American households, got a dominant footprint in retail banking. What's the strategy to connect with younger generations as they begin to build wealth and connect with them on broader levels?

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

A

Yeah. Well, I think I've got the numbers they put up there, but we already have a huge share of Gen Z and Millennials, so it isn't like we're missing anything. They like our product, they like our service, they like our Sapphire card, and then we added things like self-directed investing, which we acknowledge we didn't have the best platform of all, but it's already up to $50 billion or $60 billion. So, it's there – so you can now go on your phone and we got to make it easier for you, we got added a bunch of stuff that other people have, so we have your account, we got your deposits, you get your credit journey, you get free bill pay, you get free risk rewards, you get free offers, you get free this, you get free trading. It's pretty good.

So we're trying to offer the customer more and more, which will appeal to customers in general. We're not trying to gamify it or anything like that, but we want to be there for customers – younger and older. And so – and I think we've been quite successful at it and more to come. I think some of these things – Marianne just gave you a snippet of travel and offers, more to come.

John E. McDonald
Analyst, Autonomous Research

Q

Could you touch on the credit card environment and how you differentiate as a credit card issuer and a payments provider in a very competitive environment and maybe what you're doing with travel and some of the engagement stuff?

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

A

Yeah. So payments, I think payments is kind of probably the most challenged and people talk about like it's all – it's not all challenged, JPMorgan moves $7 trillion, $10 trillion a day around the world, very cheap, very effective through our AML systems, our BSA systems, our risk and fraud systems, 99.9999% accuracy and all that. But some parts are challenging – trying to move money overseas, so people are looking at their whole ecosystem trying to reduce their costs, their price to merchants or consumers. And we have to make sure we do that too. I just – I think it's a whole thing, I've got obviously credit card on the consumer side, credit card, debit card and all the other payment systems, ACH and wires all that make it easier and better for customers which we intend to do.

So on credit card, we've got the brand, our brand, Sapphire, Chase cards and things like that. And we've got wonderful co-brands Southwest, United, great partner companies that kind of enhance our system of travel and stuff like that. So what we want to do is give you better travel packages and better rewards programs and better offers that are more targeted to you, more personal – more personalized in a way that you really like using those platforms and we're convinced it's a great strategy and we have to execute. But I think you're going to see that early, early – late this year or early next year some really neat stuff coming.

John E. McDonald
Analyst, Autonomous Research

Q

And then just more broadly on technology, the cost of it and the benefits of it, right?

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

A

That's the other thing by the way about data. We protect people's data and privacy. A lot of other people out there in the financial services, they're selling that data all the time. We don't. We're not allowed to, but we can use it to help you on risk or fraud or marketing. And we can partner with someone without giving away data where we could offer you something better. And so that is both a plus and a minus, how you look at how things get to use data and stuff like that. So – and that will be a big asset, I think, hopefully one day.

John E. McDonald
Analyst, Autonomous Research

Q

And you've touched on this in the past, but could you help us kind of demystify a little bit what moving to the cloud means for JPMorgan?

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

A

Yeah. Well, we've been writing about it for years – digital, cloud, and AI, they're all related and they're real, okay. The cloud allows you to do enormous compute. I think, Lori Beer gave a thing, that you go from like one server to 14,000 servers to do a bunch of calculations all the way down to one. We can't even do that in our big data centers. And it's unbelievable compute. That compute when you can access multiple databases in a split second to do something for you, for risk or fraud or marketing is extraordinary. That compute power, whether that's in the private cloud or the public cloud. So you have to put – you can put stuff in the public cloud, that you need unbelievable compute, stuff which you don't need it, it's very steady. You don't have to. It's all different, but you have to spend the time to re-factor and re-platform data and apps, so they're cloud eligible, whether it's in the private cloud or the public cloud.

The new data centers we have are going to reduce the operating cost, the actual operating cost of running something by 20%, 30% or 40% and make it accessible to machine learning and stuff like that because we can do machine learning in our own data centers or in the public cloud. So that's a journey. I tell people, you really want to do is to constantly innovate, a lot of stuff is already in the cloud, already has AI, ML. And some of the stuff you may never do. Like there are certain mainframe applications, you got to run it just that way and you retire it one day or you build a new cloud eligible one. But a lot of it – stuff around us has already been put in the cloud. So you may not change the mainframe, but all the stuff of digital, compute, AI, ML, you're slowly moving to cloud too. So I say innovate, but it's a slog, it's like hard work to get all the stuff there and you look at any company that does it, but you need to do it. And if you don't do it right, you'll be at a huge disadvantage down the road.

John E. McDonald
Analyst, Autonomous Research

Q

How hard is it for smaller banks to compete? And as we've seen a consolidation of certain products like mortgages and credit cards, do you see deposits getting consolidated into the hands of bigger banks and other products as well? And is there still a role for smaller banks?

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

A

Yeah. Look, I think you're going to see a lot of consolidation and I think they need it. I mean, I think you need economies of scale. As you know, consolidation is really hard, you have social, names and consolidating systems. And then, you're going to have a lot of people, third parties, who offer cloud-based type of benefits to

smaller banks. It isn't like they can't have them at all, they're going to get them from a third-party. Some of those third parties, I'm not going to throw around any names and stuff like that, are ahead of others. Some of the banks are doing it, some don't. I always think a very well-run community bank or regional bank can do well. It's just got to be very well run. You've got local knowledge, and local people, local authority and they sit on the local boards and – but they have to accommodate it too, because clients do walk with their feet. They've got to offer these – some of these great services and products to their clients too.

And it's not possible – I mean, if you look at the world out there, all these fintech companies, if you combine them all, have 400 million, 500 million, 600 million accounts in America. They're owning 150 million households. So if you take them all, they've got their – so JPMorgan may have 66 million, and we may have all these deposits, but there's this – these people chipping away at every single piece of it, we can't all win. It's not possible. And what you see now is like, and you see people are like fintechs are deepening. Some will – it's very easy to cherry pick. So like I remember when SoFi was first coming out and said, all the student loans, the price was one, was the same for everybody, but I'll take your student loan if you went to Harvard, Princeton, or Yale, little did they know how little that meant. But I'm serious they were just cherry-picking credit, that's happened my whole life.

Now they want your investment account, your checking account, your debit account, your this account, that means they have to compete with us too. That's a whole different ballgame for them. But we'll see. Some will do it well and some won't. And I think Square has done a great job in a whole bunch of different stuff. But then as if – they charge customers to take their money out. Their revenue stream is charging you 1.5% to take your money out. We don't charge you to take your money out or put it in. So we have huge competitive advantages and I have enormous respect for them. I'm not sure how sustainable that model is. Some of it, they're building so much stuff so quickly they're just – they're out there bobbing and weaving, and they are very good at it. And my hats off to them, so...

John E. McDonald
Analyst, Autonomous Research

Q

Great. A couple of minutes left, a few questions here from the audience. The first one was, could you talk broadly about how you're thinking about your business and footprint in Asia over the next few years and what kind of growth investments you're making there?

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

A

It's the same. And I think we put some charts up there. In commercial banking, we've opened offices in Asia to do more, think of not middle market, but corporate type of banking businesses, which I would put in a low-risk category, by the way. But it's country-by-country, there are plans for every country out there and we want a certain share of corporate business and financial institutions business and payments businesses and trading businesses, it is country-by-country. Obviously, the big one is China and India, the big ones, Greater China and India. So our plans in China are pretty much the same, where we've got our full licenses. We're growing carefully. And same with India, though it's hard to do business in India too, so nothing much change, we’re just continuing to grow there. And I think huge opportunity over time, and obviously, Asia is going to grow faster than the rest of the world for quite a while.

John E. McDonald
Analyst, Autonomous Research

Q

Just from an ESG perspective, you were Chairman of the Business Roundtable a few years ago and kind of led the effort to re-conceptualize corporation's duty to serve all stakeholders or banks. How are banks doing on that, how is JPMorgan doing on that?

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

A

First of all, just I am a red-blooded free market capitalist and I'm not woke. And I think people are mistaking the shareholder – stakeholder capitalism thing for being woke. All we basically said for stakeholder capitalism is when you say to me, when you say the Americans – forget you all, okay, there is 325 million Americans, and when you say shareholder value and fiduciary responsibility, they hear short-term profit taking at the expense of employees or customers. And fiduciary, they hear, white shoe, high paid lawyers protecting CEOs. All we're saying is when we wake up in the morning, what we care about is serving customers, earning their respect, earning their repeat business. And we do that through employees. And that's what we do.

And obviously, we want to earn shareholder value and stuff like that. And so it's just why should we get buttonholed into a stupid legal debate? So all you general counsels are going to say, oh, you're fiduciary, yeah, so what? Explain to the American public what you do and why you do it. And of course, and when we do things like climate, we're quite serious about climate. I don't think America is getting climate right. I think the chances of getting it right, is virtually nil. I don't think we remotely understand the complexity of this, and we can't turn on electricity from hydroelectric power as much less. And then we're going to reduce oil and gas, which is going to cause more CO2. And we're just – we're not getting it right because it's uncoordinated. We're confused between hugging trees and yelling at the lending. It's just way off base. There's no – we need real leadership in this area and we're not getting it.

And so – and then other stuff, we like – we said we want – if you're an employee of ours and whether you're black or white, Jewish, or Muslim, Indian, Asian, disabled, LGBT+, we want you to be treated with respect in our company. We want to give you opportunity, that's not woke. That's what I want from my – what we want for you, that you can contribute to the company to the best of your ability. So any senator or congressman that says that's woke, they're not thinking clearly because I want to win in the marketplace. I want the best employees. I want happy employees. And so – but some of the other stuff we don't get involved in because it is woke. I don't think people should get involved in some of these issues where it's far more detailed than you think. And people just getting jazzed up about, you got to do this, and you got to – no you don't, no you don't. So I agree with that. I think some people are overdoing it and I think like – I mentioned this hurricane, part of that hurricane is the higher oil prices, which I think are in the cards. And I just – I'm watching that train coming down the tracks and I'm very sad about it. I don't know, I wake up every morning I'm quite sad about it.

John E. McDonald Q
Analyst, Autonomous Research

Just this last question in terms of succession, succession planning. It sounds like you're going to be in the seat as the leader at JPMorgan Chase for four-plus more years, how is the board using that time to prepare your succession?

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

Yeah. So it's totally – remember it's totally up to the board. And so whatever – and then as I said, it's up to the

board. I've 10 board members who decide every day whether they want me in this job or not. I'm an employee at will. They can fire me tomorrow. I think just – when I went up to Fidelity and Wellington, I explained to them that the most important thing that I think sometimes the press misses this too, is does the board meet without the Chairman and CEO all the time, not is there a Chairman and CEO. My – the lead director has all the authority of a Chairman; they meet every single time since I got to Bank One. It's not required by law, now it's required, I think, once a year under Dodd-Frank. But I have insisted every single time that they get full access to the management team, full access to everything, and they go play golf with them, they go to lunch with them. They meet, not just my direct reports, they know them well, but they meet the next layers down and they meet every single time without me, and they have since 2000. And they have an open conversation about what's working, what's not working, what feedback should we give to Jamie, what are you happy with or are you not happy with, and that's what they do. That is the most important thing.

And while I'm making a pitch to you all, you – corporate America has a problem, okay. And the problem is that I think investors have to do this, I can't. So think of asset managers, we've gone from 7,200 public companies in 1996 – and this may be a real problem, and I'm begging you to pay attention to it when you go home, okay – we've got from 7,200, ex. SPACs like 4,200, now, that number should have gone from 7,000 to 14,000. And what happened? Well, private equity, I'm only talking about the big ones because I can't even add up all the smaller ones, has gone – I'm not against private equity, I'm just pointing out some facts – has gone from only 1,000 to 10,000 companies, and all this other capital is moving private.

I'm not against private capital. I'm not against private equity. I'm just wondering why that's taking place. And you think some of you may be thinking about what you want in America? You want active public markets, and we're driving companies out of the public markets because of litigation, regulation, press, cookie cutter governance, oh, you got to have this amount of directors, and this amount of that, and who said so, which one of the free market systems, where you see companies – I mean what's independent mean, or Warren Buffett would say independence is independent minded. There's not anything else if you rely on fees, you're not independent. So we and – so but in private equity, management teams focus on the business, boards focus on the business. They don't – they can – they come with the comp schemes they think work the best for that business. They don't have to deal with Glass Lewis and ISS, which shame on you if any of you – if that's how you vote, shame on you. I mean, seriously, you should be embarrassed, okay.

And do your own homework. And this stuff I hear from people about, well, you know there's too many – no, there's not. If you own 100 companies, the average proxy you got is 6, that's 600 – there may be 10 that matter.

And like even that, we talk to our investors and we send up, I don't do it the lead director does and stuff like that. So the lead director goes up there and they talk to a 27-year-old compliance officer who writes a memo, and then votes Glass Lewis. I think, I think if we send up a director of ours who's a decision maker, they should sit with someone from your side who is a decision maker and you should be able to say to that person on the spot, you've got my vote, or you don't. As opposed to, we have to wait until the proxy day. And I just think we're just slowly destroying corporate America for all the wrong reasons. And if you don't fix it, folks, you better go private too, because you are not going to be able to – enough public companies. I don't think it's good for America, because I think our active transparent markets are great. They have been one of the engines – with all the flaws we've had, they've been one of the engines here. So I'm begging you, I'm begging you don't allow this to happen with no aforethought. Figure out what it's going to look like in 10 years and see if that's acceptable, because in my view, it's not.

John E. McDonald Q
Analyst, Autonomous Research

Jamie, thanks so much for joining us today. We appreciate it.

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

Thank you very much. Appreciate it.

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