JPM AT THE CREDIT SUISSE FINANCIAL SERVICES FORUM

TRANSCRIPT

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JPMorgan Chase & Co.

MANAGEMENT DISCUSSION SECTION

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Good morning, everybody, and welcome to day two of the 23rd Annual CS Financial Services Forum here in Florida in person. I'm Susan Katzke. For those of you who are with us virtually, I cover the large-cap banks at Credit Suisse.

So starting the day for us from the banks, I'm pleased to be here with JPMorgan's CFO, Jeremy Barnum. I've got to tell you, I do kind of miss Investor Day, which used to conflict with this conference. But we're happy to make the trade-off and have you here with me but do you miss Investor Day?

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

Yeah. It's funny you mention Investor Day. And thank you for having me. And I'm very happy to be here. It's funny about Investor Day. Obviously we cancelled one Investor Day during the Pandemic and as we were together as an operating committee this summer debating what to do, we couldn't quite see our way to doing an Investor Day at the usual February timeline in light of the way things looked at the time.

But at this point, it seems pretty clear that market wants to hear more from us and we're eager to kind of tell the story and take some time to go into more detail. So we are actually going to do an Investor Day this year. Exact timing TBD, but it's definitely going to be before the summer. So stay tuned. We're really looking forward to that and we'll take some time to talk about some things in a lot more detail.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Great. Okay. So...

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

So you're breaking news. You're breaking news.

QUESTION AND ANSWER SECTION

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

There you go. We'll do the precursor to Investor Day and have a little fireside chat here this morning and I know we've got a lot to cover with you. So let's get started here. And why don't we just start and level set a little bit with your latest thinking on the macro environment? In the CFO seat obviously you see a lot of the current state of the economy, touch on some consumer spending.

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure yeah. I mean, I gather you heard quite a bit about this yesterday, so I don't think I have a lot new to say. But our core view and everything that we're seeing is still super-bullish in general. Obviously, we saw a little bit of a slowdown on the card spend data through Omicron but that's reaccelerating very nicely now.

So really it's more about the interaction between that underlying very robust demand story and supply chain and the inflation narrative and how that plays through monetary policy. But our base case is very positive around all that and the dynamics are quite good for us.

So, obviously, we're in that kind of elevated geopolitical tension moment. I gather from the morning news that Blinken and Lavrov are meeting. So that's good, but that's definitely a watch item. So we don't ignore that, but the central case here is very strong.

Susan Roth Katzke

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. So we've done that. Let's get to what people really care about and where the debate is here. You're guiding to a significant increase in your investments this year, up $3.5 billion from 2021 to reach a total of $15 billion. So let's dig into this a little bit because it has obviously set you apart from some of your peers and started off quite a debate in the investment community. So why don't we start and just help us all understand. How do you evaluate your investments? How do you determine what's the appropriate level of investment spend in a given year?

Jeremy Barnum

Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. Yeah. So, look, you won't be surprised to hear, fundamentally, given who we are as a company, this is a very bottoms-up, field-driven, commercially-driven, client-driven process. So it comes out of the businesses. It comes from several levels below in the businesses, where people see what they need to do, what they want to do, the stuff that they need to deliver to clients, the opportunities that exist. And they make the case for that.

And it goes its way up the chain and it gets challenged sideways by my team and others. And then eventually, it gets proposed for inclusion into the budget and it gets reviewed by Jamie and by Daniel and by me and, sometimes, stuff makes it in, sometimes it doesn't. Sometimes it makes it in with a demand that it be self-funded when we think that we have – when we think there are opportunities to generate additional productivity from inside the business. And sometimes, there are kind of top-down strategic decisions that get made too that drive the decision. So it's really kind of the weave all those things that generates kind of the final budget.

But importantly, I think it's also worth saying that the key thing is that we hold the people that make these cases accountable. So if you make a case for investing because you think it's going to generate X outcome, we hold you accountable for delivering that outcome and that's a key part obviously, of the culture as well.

Susan Roth Katzke

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. So then why did the big step up now? And is it that you're just discovering the areas of underinvestment? Is it the changing competitive landscape? Why now?

Jeremy Barnum

Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. So I think it's obviously a question we've gotten a lot. And I think the main thing to say is nothing's really changed philosophically for us. So there isn't some radical shift. In fact, there isn't even a non-radical shift in our internal thinking or process or philosophy here. But a few things are true. So one, there are some post-pandemic reopening effects. As I talked about at earnings, some of those in particular flow through the card marketing line.

And second, it is the case that in this moment, we do see an increasingly competitive environment out there with a lot of dynamism in the marketplace that makes us feel like it's particularly important to be aggressive in this moment to prepare the company for the future. But most importantly from my perspective is the fact that we can actually generate quite good current returns, and getting better with the rate environment, while making these significant investments that we think are so critical.

Susan Roth Katzke

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. So why don't we break down the $3.5 billion increase a little bit further if you would?

Jeremy Barnum

Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah, sure. It's funny because when you ask the process question, one of the things that that process produces is a series of $10 million to $20 million level business cases with detailed ROIs and NPVs and all that type of stuff. And I could kind of take...

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

We've got hours.

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Well, I was going to say, right, I could run through each one of those. But by the time you add up to $3.5 billion, we'd kind of be here all day. So, I've been thinking a little bit about what is a useful way to aggregate this into some buckets that make sense for people.

So one easy thing to say right off the bat is that of the $3.5 billion, about $1 billion of it is tangible projects and business cases that are designed to deliver revenue outcomes in the relatively near term. So I'll give you more detail about all this stuff in a second, but you can think of that as the classic hiring bankers example. You don't have enough share, you hire the person, they make money. It's a pretty straightforward investment case. And $1 billion of the $3.5 billion is straightforward stuff like that with relatively near-term payoffs.

Then a little bit less than $2 billion is equally tangible, but the outcomes in question are more in the mode of products, services, innovation, technology enablement, all of the package of things that we need to do to gain share, be competitive, retain share where we have high share and really set the company up for the future. So, the outcomes there still ultimately produce revenue, but in many cases, it might be to be able to deliver a product or a service or something like that, which is key down the road. And so, I think, the best single example of that is everything that we're doing in the payments space both wholesale and consumer. And then the remainder is just the run rate impact of acquisitions. So that's one simple way to break things down.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. So maybe you could give us a few more examples of those kind of major investments with outcomes that are directly linked to revenue in the near term?

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. Sure. So – and I used to be in the CIB and Daniel always used to talk about the sort of reds and ambers behind the greens at the high aggregate level market share. So, it looks great at a high level, you dig underneath, you see areas of weakness, you invest to close them. And that kind of framework actually applies pretty clearly across the company in this moment.

So, for example, you look at in the consumer space, the affluent strategy in wealth management, which we define as the $500,000 to $5 million segment, we have relationships with 50% of the households in that segment. But we have a very, very small share of that investment wallet. So that is an area where we're very excited and we're – sort of feel very confident about the business cases that are associated with the investment. And it's quite tangible kind of visible payoffs. So that's one example.

Sort of along the same vein, we also think we can take more share on the private bank. So, we're adding advisors in order to deliver that. In the commercial bank, we're expanding both domestically and internationally. So, we're hiring bankers to deliver that.

And then, of course, there's the branch expansion strategy where we're going into markets where in many cases we have 0% deposit share. So, despite the fact that we have the number one retail deposit share there are still many markets in the United States where we're basically not present. So, when we go after that, it's a highly addressable space. And by the way, it's not just about deposit share, it's also about advisors in the branches and the link back to the wealth strategy.

Now, all of these are great examples. But of course, the single best example in this category is card marketing, where every single dollar that we spend in card marketing has super tangible, highly scientific business cases, which produce ROIs and NPVs very much in the near term and new account growth, et cetera, et cetera.

And just to give you a sense, right now, new account growth in the last six months compared to the comparable period pre-pandemic is running 15% higher than it was. And the combination of that and the ongoing iteration of our line and pricing strategy in the card space is making us particularly confident about the returns that are associated with the investment in card marketing, and that obviously drives revolve and the NII story for us. So that's a little bit the sort of best examples of the $1 billion bucket of near term particularly directly linked to revenue type stuff that we're doing.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. So, let's go to the $2 billion.

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Just less than $2 billion bucket, so investments with tangible outcomes that are a little bit longer term. Best examples in that category?

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. And the question of time is interesting, right? I mean, there's a continuum of time and there's a continuum of the directness of the link to revenue. I think in the first bucket, it's generally relatively near-term thing. Here you've got both short term and longer-term things. And I think the point is that it's across the continuum of products, services, technology and enablement technology in the background. So, it's a lot more specific if you think about the payments space starting with the wholesale payments space.

So, you think about this world that Takis runs and this is classic legacy banking business. We've been in this business for a very, very, very long time, big international network of payments and correspondent banking and so on, classic old school bank rails. But the world is changing. We have extremely sophisticated large tech clients, big sophisticated multinationals, and we have increasingly in the space competition from fintechs.

In that landscape, this business has grown share from something like 4.2%, five years ago to 6.4% in a very fragmented market. So our kind of strategy, our core view here that we were going to see consolidation is playing out. But we still have some gaps to some of our competitors and these investments, we see as being critical to closing those gaps.

And so in this space, we're delivering, real-time payments, e-commerce wallets, pay-in and pay-out solutions, modern liquidity solutions that are going to be increasingly relevant in the rising rate environment. And all of this stuff is not only helping us win mandates with our most technologically demanding, most sophisticated large tech clients but often, resulting in winning those mandates against digitally-native fintech competition. So that's a particularly good example of the type of stuff that we need to do in the space.

Now to do it, you need the product experts, kind of the client-facing people, you need the engineers to build the kit inside the business. But critically, you also need the enablement technology in the background to enable the engineers and the product people to deliver this stuff in a kind of sufficiently agile fashion.

And so, you kind of see the whole continuum of enablement in the background, so-called modernization, through to agile development and product innovation in the front as being critical. And that whole same theme actually continues into the consumer space. So it's, I think, clear to us, and I assume it's clear to all of you, that it's a critical strategic imperative that we be able to compete head-to-head with digitally-native fintech competitors in the consumer space and deliver kind of fintech-grade user experiences.

And again, to do that, in consumer, we need the same thing. We need rapidly developed, excellent user experiences that are responsive to a dynamic marketplace, and doing that requires a back-end infrastructure that is supportive of that. So that's like a big area of focus there.

And then finally, in this category is also actually international consumer, which is a little bit different, but similar in the sense that it's highly tangible but is obviously going to take a little bit longer to play out. And what's interesting about international consumer, we've obviously looked at that strategy and rejected it in the past. And we rejected it because we didn't feel that we had the competitive advantage to go head-to-head with incumbent domestic banks with a branch-based footprint.

What's different now is that this is a cloud native de novo bank that we're building in the UK and the investment that we're putting into that is going to scale very nicely as we expand out of the UK with much lower marginal costs associated with that expansion. So when we ask ourselves, what's the competitive advantage associated with the strategy, the answer is, well, it's a different strategy with significant scale benefits associated with technology expertise and we have staying power, we have brand, we have product expertise. So we feel good about that, and it's going to be an interesting space to watch. And worth not forgetting too, the Brazil leg of that strategy which is distinct, but we're very excited about it.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. We've covered a lot of ground in that.

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

There's a lot.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Including really kind of this concept of modernizing the infrastructure embedded in the long term consumer initiatives.

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. And the word modernization is like a little bit problematic. We debate it internally a lot because it kind of makes it sound like we're starting from scratch. We're definitely not starting from scratch. And we've actually – technology has been a focus for us for a very long time and we've built great traditional systems that run the company really, really well and we've been aggressively innovating for some time now.

And one example that I find particularly compelling is we've got an AI-powered ML fraud model in card right now live in production that's producing noticeably better results in terms of reducing fraud losses in card as we speak. And that's kind of one of many examples of the payoffs that we've had from being focused on innovation for a long time.

We built a whole new set of data centers, completely clean. No old stuff goes in there, our own kind of Kubernetes service layer-type of thing. So we've done a lot, and at the same time also it suggests that there's a date certain where the modernization process ends, right? Which is also not true. Like you're always refreshing your stack and we know that that's sort of a requirement to stay competitive for the very long term.

But having said that, one thing that is true is that outside the four walls of the company, it does feel like it's a moment of accelerated innovation in the broad space of cloud and associated modern tech stuff. And what that means is that there are opportunities to use things from the open source community and from the public cloud that we think can help that we wouldn't have otherwise had. And in some cases, there are competitive threats associated with that too that we want to be set up to address, so hence the focus there.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

That all makes sense. So, in the final bucket, the expenses related to acquisitions, and acquisitions really is a driver. You did, let's call it a healthy handful of acquisitions last year. You did some partnerships and strategic investments as well. Just talk about the strategy and how it fits into some of the specific business entities.

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. Sure. So, just like the rest of our investment strategy, our acquisition and strategic investment strategy is also kind of very bottoms-up and a function of what people identify that they think of adds bolt-on capabilities or addresses a need or gets us to market faster or whatever. Obviously, it is very highly scrutinized before anything gets done but it's very much of a bottoms-up rather than a top-down thing.

And for me, like the single best example of all this, which also has the virtue of being one of the more material ones, because there are obviously some that are quite small, is what we did with cxLoyalty. And, just to give you a sense, I think, in 2019, there was $500 billion of travel spend in the US. 20% of that was on our cards and a tiny portion of that was booked on our own system. And that system was a joint venture and we didn't fully own the economics, it wasn't the best tech. So for us, we feel that the travel space in card is absolutely critical for our customers and to win in that space. And by transforming that through this acquisition, we think we get a much better engagement, and as well as a better economics. So it's really a very compelling value proposition.

And there are some others, too, but they are quite a bit smaller. But for example, in AWM, we did OpenInvest, which has a significant ESG theme to it, and that theme pops up in a few of the other acquisitions as well.

Susan Roth Katzke Q
Analyst, Credit Suisse Securities (USA) LLC

Okay. So we talked about the bottoms-up analysis, the strategic agenda. The other question I hear a lot from investors, and I ask it myself, is how much of this is actually doable, right? There are a lot of initiatives, it's a lot of spending. Where is the binding constraint? Is it – doesn't seem to be dollars...

Jeremy Barnum A
Chief Financial Officer, JPMorgan Chase & Co.

Yeah.

Susan Roth Katzke Q
Analyst, Credit Suisse Securities (USA) LLC

…so?

Jeremy Barnum A
Chief Financial Officer, JPMorgan Chase & Co.

Well, yeah. I mean, look, for us, the doability narrative is not that much of a thing, and that doesn't mean that we don't recognize the problem. It means that we've been focused on it for a very long time.

So, we have absolutely no interest in rushing to solve problems by throwing tons of people at it in a disorganized way. I mean, I personally tend to believe that, when you do that badly, not only do you not get the right returns on the investment but, more often than not, you actually get negative returns on the investment.

The team gets slowed down, you build bad stuff that you have to rebuild later. And, I think, that view is shared across the entire organization. It's a bit corny, but the whole how many plumbers can you get under the sink at the same time metaphor is actually somewhat useful here, and we're quite aware of that.

So I think, I can say with a lot of confidence that we don't do anything, and we don't put anything into the budget that we don't think we can do properly and execute up to our standards in a way that's going to produce the outcomes that we want it to produce. And we're not going to have to go back and redo it later or start over because we did it in the wrong way.

Susan Roth Katzke Q
Analyst, Credit Suisse Securities (USA) LLC

Okay. So, last question on expenses, and then you're off the hot seat on this one.

Jeremy Barnum A
Chief Financial Officer, JPMorgan Chase & Co.

No, we can talk all day about expenses.

Susan Roth Katzke Q
Analyst, Credit Suisse Securities (USA) LLC

You also guided for structural expenses to be up about 6% in 2022. And we all know about the war for talent. We all know about inflation. So how do you think about expense growth or the rate of growth post 2022?

Jeremy Barnum A
Chief Financial Officer, JPMorgan Chase & Co.

Yeah. So on structural, so our base case here is that it should moderate. We would expect it to moderate. Now, I should say, if you remember from earnings, we did obviously see a significant uptick in 2022, and there were some pandemic reopening effects in there, particularly associated with our assumption that we'd be doing stuff like this and we'd be traveling again and so on for our clients. But the CAGR of the structural expense over the preceding three years was something like a little less than 3%.

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

And I should also say that despite all of the time that we spend talking about investments and so on, we remain just as focused as ever on internal structural discipline and generating productivity in BAU as well. So, it's getting a little bit less attention right now. But, obviously, we're extremely focused on that.

And I should note, by the way, when we were talking about modernization, I omitted actually quite a critical point, which is the cyber agenda. So for us, cyber has been a huge focus for a long time, and we spend a lot of money on it. And it's become even more important as you try to ramp-up your agility and your speed to market while preserving the sort of large banks safety and soundness standards, both for regulators and for customers because you just – it's not an area where you can afford to make mistakes.

And so being as agile as we want to be and delivering the experience we're trying to deliver while also remaining safe on the cyber front is a particular challenge and it makes us very happy that cyber has been a priority for as long as it has, but it's going to continue to be and it's obviously not cheap, so.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. So let's switch gears. Let's go to NII and loan and deposit growth. And starting with loan growth in particular, it's interesting to see there's not much loan growth in the first quarter but it's outpacing deposit growth, which is kind of an interesting thing to start to see. In January though, you spoke to the positive indicators in card in particular expressing confidence in the return of revolving balance growth. Is there any change to that outlook?

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

In short, no. Of course, not surprisingly, we see – we saw a little bit of a dip in connection with Omicron, but we're now seeing quite robust reacceleration as Omicron fades. And so, the sort of core case of having revolving balances get back to the pre-pandemic levels by the end of this year is really still in place.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. And then I think what people – when we think about your balance sheet in particular, how are you thinking about deposit growth or not growth?

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Right.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Both on I guess, let's separate the consumer and the wholesale side and think about in the context of monetary policy, QT, et cetera?

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. No, clearly. So look, I mean, obviously QE is basically over at this point. So the system-wide deposit growth coming from QE is no longer a factor and QT will come at some point. So these are obviously generally speaking, headwinds to deposit growth.

It's worth noting that when it comes to QT, one of the questions is, where does the system drain come from? Where does it hit first? Does it hit RRP? Or does it hit banking system deposits? Our base case would be for a reversal of what happened on the way up. So you would think that QT would come out of RRP first.

And also linking back to your – to the loan growth point, we do see more robust loan growth for ourselves and in the system. And obviously, all else equal, that will contribute to deposit growth. So it's certainly going to be a much, much more muted deposit growth environment. But we don't see it shrinking right now in light of the intersection between all these dynamics.

Susan Roth Katzke Q
Analyst, Credit Suisse Securities (USA) LLC

Okay. So let's put together the loan growth and the deposit growth. And in January, you spoke to – you established an outlook for NII for 2022, $50 billion ex-markets, which was up $5.5 billion from 2021. We can all see the yield curve. Any changes in your assumptions for rates, balance sheet growth, mix, et cetera?

Jeremy Barnum A
Chief Financial Officer, JPMorgan Chase & Co.

Yeah, sure. So in terms of balance sheet growth and mix, not particularly. I mean, we've touched on that already. But, yeah, so as you recall, at earnings, we had 3 or 3.5 hikes in that curve that produced that $50 billion ex-markets. So right now, we have about 6 hikes in the curve. So assuming that those materialize, we see NII being kind of in the 53-plus type of range at this point so up at least $3 billion from what we had at earnings, again, as a function of the current expectations of hikes. Those need to actually materialize, but if they do, that's what we believe.

Susan Roth Katzke Q
Analyst, Credit Suisse Securities (USA) LLC

And, just to be super clear, if that materializes and that's a plus $3 billion, you've already set, from a bottoms-up standpoint, your expense and investment budget for the year.

Jeremy Barnum A
Chief Financial Officer, JPMorgan Chase & Co.

I mean, yes, with the, I think, necessary caveat that we always talk about the volume and...

Susan Roth Katzke Q
Analyst, Credit Suisse Securities (USA) LLC

Understood.

Jeremy Barnum A
Chief Financial Officer, JPMorgan Chase & Co.

...revenue-related portions of the expenses that can fluctuate as a function of the business environment, but the investment budget is definitely set.

Susan Roth Katzke Q
Analyst, Credit Suisse Securities (USA) LLC

Okay. Okay. So, in terms of the $3 billion and how you generate the $3 billion, you've discussed deployment is really a very modest contributor to NII growth. So let's think about the upside that comes from a little bit more of an aggressive approach on liquidity deployment and when would you start to do that?

Jeremy Barnum A
Chief Financial Officer, JPMorgan Chase & Co.

Yeah. So just, it's worth the risk of being a little bit pedantic, but it's worth pointing out that, in this type of environment, where the timing of lift-off and the magnitude of lift-off has relatively little uncertainty, the difference between deploying and not deploying and just burning IOER on your cash, even on like a two-year time horizon, is mostly just a matter of timing, especially when asset swap spreads, in particular for treasuries, are mildly positive, but not sort of super attractive.

So I mean, that's just another way of saying that, if the short rate consumes the forward rate, there's not any difference between owning the long-dated instrument and just like earning IOER. So – and, I think, particularly in this particular moment when as I say, that the trajectory is so clearly visible in the near term, that's acutely true.

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

And in a world where there is all this uncertainty about inflation, and it seems to be a little bit of a one-way train right now with risks skewed to the upside, we do have a little bit of a bias for not kind of locking in the current level of rates with deployment that's too aggressive.

We do have some modest deployment planned, and that is in the numbers. But we, of course, reserve the right to change that as a function of market conditions. And sure, if asset swap spreads change or we see value elsewhere, we will potentially be more aggressive but that's going to be situational.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. So kind of in the context of market-related revenues and things that vary day-to-day, let's switch gears to the markets and the IB, which you are very well versed in. So relative to record levels of market revenues and IB fees in the last two years, we're all poised for normalization, right? We just don't know exactly what that means and how to quantify.

You spoke to modest normalization for the wallet in 2022. And modest would suggest to me that you do not expect to retrace to 2019 type of fee pools. And that makes sense to me as well. So let's talk about first, the longer term secular trends that are supporting the fee pools over time.

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure. Yeah. I mean, look, on the banking side just to sort of put some numbers around this, on the IB fees, the pool grew by 60% through the pandemic period. And our share of that grew from 8.9% to 9.5%, reaching sort of an all-time high with 9.5%. So that's a lot. The combination of those two is really pretty remarkable in terms of overall fee generation in the market. And for us, and so yeah, as you say, from there you have to assume some degree of normalization.

But a few things, so one, CEO confidence remains very strong and that is a big driver of like all of the sub portions of the revenue pool there. And also for ourselves, despite that 9.5% of share, which is high and may raise a question of whether we're capped out, sort of linking back to my earlier comments, that's not really how we see that working. We think that the competition occurs much more at the sector and region level. And so we continue to look there at areas of weakness, so to speak, where we can be – where we can invest and actually take share and we're continuing to do that.

So we also see some significant concentration at the top of the wallet there which has been helpful to us and we see that trend continuing as well. So, the core case is basically still in place, modest normalization, but there's some robust like supportive factors there on the banking fee side.

And then on the markets side, it's kind of a similar narrative like the performance in 2020 and 2021 was obviously exceptionally high. And so it's hard for us to see how that gets repeated, but there are some things in the background that make it better supported than you might otherwise think. So on the equity side we've obviously had asset revaluation and growth in AUM across the entire space. And so that, all else equal, is supportive of revenue generation in the equities business.

And on the fixed income side actually, and you see this playing out a little bit right now, this kind of normalization of monetary policy with both short-end dimensions and long-end dimensions with QT and stuff like that and both domestically and internationally, that type of dynamic global rate environment tends to be quite supportive for the fixed income business. So those are dynamics that make us feel like there's a little bit of support under what you would otherwise expect in terms of normalization from these exceptional years of performance.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. And so, I know it's always really fun on February 18 to make a prediction about the first quarter, but what are you seeing so far in the quarter for markets and investment banking?

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. So, on investment banking, I'm not going to bother to predict that number. You can look at the Dealogic tables as they come out and make your own guesses. But certainly, it's true that on the back of the volatility in the equity markets in particular, we have seen some deals get pushed out. So that is a little bit of a headwind, all else equal. But the way we see it right now, that's really just timing issues. So we see it getting pushed out to outer quarters, waiting for more stable conditions rather than anything more fundamental than that.

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

On the market side, from where we sit here today, our expectation for the first quarter is that we'll be down a little bit more than 10% year-on-year, which actually, is better than we would have expected at this point. So we actually feel pretty good about that, sort of consistent with the underlying drivers that I mentioned.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. So next topic, capital management, another challenge of sorts. There are a lot of moving pieces on the capital side, you've got the G-SIB, you've got Basel IV, you've got the SCB. How should we think about the capital target for JP?

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. So there's a lot in there, obviously, and I think the Basel IV topic has gotten a lot of attention. So I'll just repeat that there are ways to look at that Basel IV narrative where you can convince yourself that it's going to create significant RWA inflation for the industry as a function of the introduction of operational risk capital and standardized RWA and so on and so forth. I won't go into all the details here.

And I think the main point here is that that's not what we believe is the central case of Basel IV. We think there are a bunch of offsetting tools, whether it's the output floors or changes to the SCB and so on that enable the regulators to achieve their stated goal, which is not necessarily to increase capital in the system. So that's the Basel IV point.

Now for us, we obviously have some increases in G-SIB coming, and I can't not make the point that that is wrong, that that should be recalibrated, that we are carrying a bunch of extra capital for basically absolutely no reason, no increase in risk whatsoever. But I won't burn too much time on that speech.

I think the important point is that our 17% target that we talked about at earnings, which by the way, we actually feel increasingly confident that – like that could happen much earlier than you think. Like it's entirely plausible that we could hit 17% in 2023, in fact. And I think, when we check the models out there in the market, people don't even have 17% in 2024. So I think that's interesting.

And the important point is that our achievement of that is not contingent on a G-SIB recalibration. So we can afford to run at the upper end of 12% or lower end of 13%, and still deliver those returns. So from there, recalibration, which we still think should happen, and we believe, may, should happen, would be upside, relatively speaking.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. So if we think about – I know I embed 13% CET1 in my estimates, and I'm close to 17% in 2023. But I'm curious, if you have a higher target for those CET1 levels and agree that they carry something closer to 13% at this point in time, what does it mean for the size of your buyback program?

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. So, all else equal, that's obviously a headwind for buybacks, and you know our capital hierarchy. So we're going to invest in the business. We have loan growth that we need capital for. We're very excited about that loan growth, it's highly accretive. So obviously, that consumes capital.

There's AOCI a little bit in this rate environment that's consuming some capital. We're still in the market potentially for deals when they make sense. So that'll be what it will be. And of course, we're always going to prioritize the paying of the sustainable dividend. And at the end of that, you have what's left over for buybacks which, in this current environment, is less than it otherwise would be.

So – but as you know, of course, in the current SCB environment, we have a lot of flexibility and dynamism associated with the buyback plan. So if any one of those ingredients changes, we'll adjust the buybacks. But I think the critical point is that we can afford to build to support the increases in G-SIB, still deliver the returns, still support the loan growth, still do things that we want to do and still have some room for buybacks. The quantum is just a function of how that all interacts.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

That seems to make sense to me. So at the end of the day, putting this all together, the expenses, the investments, the balance sheet positioning, the macro environment, the operating environment, the regulatory environment, what do you think is the best way for all of us to hold you accountable over the next few years as you work to translate all this investment spending into a tangible benefit?

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. Look, at the end of the day, it's just returns. It's returns, returns, returns. And it's – so we feel really good about the 17%. As I said, it's coming sooner than it otherwise would be in the current rate environment. So hold us accountable for that and hold us accountable for share gains, for maintaining share in the areas where share is elevated. And we have a lot of competition.

Hold us accountable for executing on the investments that we need to execute on to stay competitive in a world that's highly competitive. Hold us accountable for growing in the areas where we're trying to grow. Hold us accountable for the quality of our products and services that we're getting out of these investments that are critical to being competitive. So, that's what it's all about for us. And at the end of it, it's that 17% through the cycle that we've always believed in and we continue to believe in very strongly as we sit here today.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Well, I will tell you, we look forward to Investor Day in the spring.

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

As do I.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

At which point, we'll get a list of KPIs that you'll work against so that we can check down that list of accountability and look forward to a return to 17%.

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Indeed. Thank you very much, Susan.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you very much.