JPM AT THE GOLDMAN SACHS US FINANCIAL SERVICES CONFERENCE

TRANSCRIPT

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MANAGEMENT DISCUSSION SECTION

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

I think we're close enough to the start time, so we're delighted to have Marianne Lake with us as our next presenter. She is the Co-CEO of the Consumer & Community Banking businesses at JPMorgan. She's a member of the Operating Committee. She leads three industry-leading businesses: Card Services, Home Lending and Auto Finance. She's been with the firm for over 20 years. And the last time she was at this conference it was 2017, and she was CFO. So Marianne, welcome back.

Marianne Lake

Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

Thank you. It's great to be back. When Richard said was the last time you were here in 2017? I was like no, no, it's got to be like 2019. So the last five years, super quick.

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

So it's not like nothing happened in the last five years. So...

Marianne Lake

Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

No, I know. Trust me.

QUESTION AND ANSWER SECTION

Richard Ramsden

Analyst, Goldman Sachs & Co. LLC

Q

So why don't we start off with just a broad discussion about the macroeconomic environment? I know there's a lot of moving pieces here, and I know a lot can change. Can you talk about two things? First is, what's your view of the current state of the economy? What are your expectations as we head into next year around inflation, interest rates and monetary policy? And how do you see it playing out from here over the next 12 months?

Marianne Lake

Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

Okay. So look, as we sit here today, the US economy is still strong. I'm sure we will talk more about it. My sort of center of gravity being in Consumer Banking and Lending, consumers and small businesses are still generally in good shape. And so, everything today is pretty good. I do think as we look forward, we are generally, at least – we're supportive of moderating the pace of rate hikes looking forward, more in restricted territory, no longer need a shock normal approach to monetary policy.

Inflation expectations, I feel like they've stabilized, maybe even rolled over. And so, our economists, looking forward, have obviously a 50-basis point price hike in December and another 50 between February and March. And clearly, there's an appreciable risk that the Fed will go higher. At this point, we don't think that there's necessarily going to be a need to do that. Could happen. We are seeing signs that inflation will moderate through 2023 and 2024, but remaining meaningfully above target, but still show, we think, clear and convincing signs of moderation.

And then I think the labor market is still super tight, no matter how you measure it, obviously. But it does feel like in the tail end of 2022, things improved slightly. And so, it feels a bit like we've got the peak of wage inflation that we might have thought that true coming into 2022. And there was a lot of wage action in 2022. But it does feel like we're past the peak of wage inflation. It feels like the sort of frenzy on hiring and the super-elevated attrition rate for us, and generally, have abated a bit. And so, we look for that to soften into 2023. We could clearly be wrong.

With that, updating our outlook for unemployment, has unemployment moving higher in 2023, peaking in 2024, at or slightly above 5%, which in the context of any kind of stress test – sort of in the context of history – is like really quite modest. So a shallow and short-lived recession at the end of next year, again, with all of the caveats around that.

What does it mean for us without being flippant in any way? It will be what it will be. We don't manage the company based upon short-term macro expectations. We understand that there are a range of potential outcomes. We look at all of those, including the sort of tail risks. There will be impacts. We can talk more about them.

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

We have worsened our central case very slightly on macro variables, including unemployment. That comes with impacts most notably on reserves, less so losses in the near term. And if rates hit a terminal rate of 5%, a lot less or more, and slightly higher through 2023 and 2024, which we think will be likely the case, that we could earn some more NII as that happens. But reprice is a wildcard and QT is a wildcard. I think we're pretty sanguine at this moment. So obviously, there are ways we could be wrong, and we'll update you as we know more.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

Just as a very quick follow-up. Has your view of the economy for the next few years changed in any way over the last three months?

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

I would say that we feel like a modest recession is more in our near term, so the probability of a recession has gone up. We're actually looking for that right now. We think it could be like a lower case "v", mild and short. And I think if you – we'll talk, I'm sure, about credit and risk and tightening. But unemployment at 5% is not super elevated in the context of how we think about running our businesses. We know we run them through cycles.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

So maybe you can talk about what you're seeing in your platform in terms of consumer spending patterns. How has that changed in the fourth quarter, either compared to last year or compared to the third quarter? And then, it would be really interesting to hear if you've seen anything different in terms of trend by consumer segment.

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

Okay. So consumers, small businesses, obviously, sentiment reflects recessionary fears not yet fully reflected in the data. So if you start looking at consumer spend and you know this, this has been pretty well telegraphed by us and others, nominal spend is up strongly since the pandemic. It's up year-on-year. That's across sectors. It's across risk profiles and income levels. It's across geographies, so on a nominal basis spend continues to be strong.

Spend trends are moderating through 2022, so we're ending the year above 2021, but at a much more normal level. And that more speaks to the base effects of 2021, which was going in the reverse direction. If I'm thinking about areas where we're watching, subsequent to the third quarter, we started to see retail spend a little softer. Now base effects matter. The quarter – third quarter last year was very strong. So I don't think there's anything flashing amber or red right now, but it felt a little softer. The holiday period will be a watch item. So far so good on the holiday period. It could break either way, but I would say solid. And then in terms of areas where I still think that potentially there is room to go, I think travel. We still feel like travel momentum is in the run rate, and so we're looking for that to continue into 2023.

Cash balances, credit, I mean, the words we've used continue to be true, slow normalization, they're continuing to normalize, continuing to normalize somewhat slowly. Obviously, normalization is deterioration on an absolute basis, but it's not accelerating and we're not back to pre-pandemic levels. But that normalization is stack ranking exactly how you would expect, so higher risk, lower income consumers normalizing faster.

And then if you look at the small business space, it's pretty similar story. Small businesses have been very durable. They were able to pass on a lot of costs for a long time. More recently, so over the last few months, the smaller end of small businesses, particularly the consumer-facing ones, have had more margin pressure, but still at reasonably healthy margins. And there, too, cash is normalizing. Credit performance remains strong. And there, too, normalizing faster on the smaller end of small business.

So pretty much how we expected, with everything on a normalization path to 2023. We can talk about where we think those things will end up. But it's true in consumer and it's true in small business that normalization is faster at the lower end of the spectrum.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

So I know on the third quarter earnings call, Jamie said that excess cash in consumer accounts could deplete by middle of next year. Can you just expand on that? Do you still think that's something that could happen? And what are seeing on the consumer balance sheet in the fourth quarter? Has anything stood out to you or surprised you?

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. So right, just in the fourth quarter, nothing has specifically stood out, and we haven't seen a step change or a material change in that sort of pace of change, let's say that. There are a couple of different ways you can look at liquidity in consumers' accounts. And so, I think if you just look at the absolute level of deposits, by absolute deposits today versus pandemic, it is absolutely true that they are elevated and remain significantly elevated. But lots of things have changed since the pandemic. And inflation has had an impact both on inflows and outflows to consumers.

So one of the ways that we like to look at excess liquidity in consumers accounts is to take a stable cohort of customers that were our customers at the time the pandemic hit, and to take a look at how much cash they have on hand today, so how many days' worth of operating expense can they pay today, acknowledging that their operating expenses today are higher than they were. So we call that the cash buffer. We measure it in days, and basically it says how much cash does the average consumer have today to pay their bills in comparison to how much cash did they have relative to the outflows before the pandemic.

So if you look at the lower income spectrum, less than $50,000, they're about halfway back. They are down year-over-year. They are normalizing faster. They are not yet at pre-pandemic levels. And so, that's good news. Even with inflationary pressures, there still is excess liquidity when you look at how capable people are at paying their bills. If you just flow that forward and you don't – all other things are equal – that's when we would see the middle of next year being important. If you flow forward those rates of change, then they would be back to effectively pre-pandemic levels of capacity to pay bills, call it, the middle of next year.

And so, we're expecting that to be the case. They are a large portion of our deposit base. So while the overall picture is slightly different and a bit longer, it's pretty instructive base. That's what we're looking for. And we're looking at all of our metrics normalizing through 2023. And what that tells you is that you should start to see things change because that's all other things being equal.

Clearly, depending on the macro environment, it could be faster or slower. But also, we would expect consumers to start to change behaviors in more noticeable ways – to start pulling back on spending, to start re-leveraging maybe a little faster, the credit metrics to start normalizing a little faster. So that kind of second quarter of next year, I think, is going to be pretty instructive. We could be wrong about the exact pace, but that's what we see happening.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

So let's talk a little bit about credit. It's very much top of mind. Obviously, being a focus all year, but credit conditions remained pretty benign at least through the third quarter. So maybe you can talk a little bit about what you have seen in the fourth quarter. Are you seeing anything stand out to you? Maybe talk about what you are tracking most closely? And then, maybe talk about what your expectations are for credit normalization next year?

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

Okay. And if I miss any of those things, you can remind me.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

Okay. I'll do that.

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

So I mean, I said it before, delinquency levels, loss rates remain relatively low in comparison to pre-pandemic levels. We told you we were expecting Card loss rate for this year to be 1.5%. We still are. But we know that we expected them to be a bit higher than that coming into the year, so normalization has been slower so far this year than we thought.

As I think about things – I should say that you will all have a view. I do not think that there is a fundamental change in how people think about managing or using credit, which means that when I think about normalized performance, I am thinking about reverting back to kind of normal pre-pandemic levels, my view.

So things that we're looking at, obviously, we look at payment rates in Card. And payment rates are still very elevated. They've come off the peak a bit, but they're still very elevated. We look at how many people are making min pays. That's usually a leading indicator – when people start migrating to making min pays – haven't really seen much movement in that space yet.

We look every day at delinquency trends. In particular, we look at entry to delinquency, so into that first bucket. If you look at entry to delinquency, we're at about 80% of pre-pandemic levels. We were 50% at the trough, but we're a little over halfway back and continuing to

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

normalize. There, too, by the way, if we project that forward, we see that sort of entry to delinquency normalizing middle of next year. And just knowing how things roll through buckets that means that, if we're right, losses will normalize closer to the first quarter of 2024.

So nothing has changed in the fourth quarter, the continuation of what we saw. I told you what we're expecting to happen in terms of unemployment next year. It will have a minimal impact on losses next year. It will take time for that to roll through, peaking at or above 5% in 2024. So, for 2023, we're still going to be on a normalization path for the full year. Right now, today, with all the caveats around it, we would say Card losses would come in around 2.6%. I say that a little bit more specifically and a little bit more prematurely than when we'd normally give you guidance for next year because that also happens to be what you guys have in your models and so I think it's a good place to start.

So, health warning on it is the following. We've been wrong about the pace of normalization so far. If things normalize more slowly, it will be better. If it normalizes faster, it will be worse. So. there's a plus or minus around that and we'll have to watch that and see. Where I think a slightly worsening central case for macro variables does have an impact in the near term is on reserve levels. So, obviously, our central case features in our reserve models and methodology. And so, in the fourth quarter, we were already going to be building reserves as we're growing Card loans strongly and growth more broadly. We will be incrementally adding to our reserves, reflecting those slightly updated macro variables.

And as we sit here today based upon assumptions of the third quarter, and you all know what goes into modeling CECL outcomes, we would expect for Consumer that our reserve builds would be about $1 billion, plus or minus, and for the Firm about $1.5 billion, plus or minus. So based on third quarter assumptions, that incorporates both growth and the update to our central case around macro variables.

I should just put that in – I know Jamie made a comment, I think, in third quarter earnings that if we saw unemployment get to 6%...

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

Yeah.

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

...you could be talking about reserve builds of the order of magnitude of $5 billion or $6 billion. So, two things. The first is, this is a small first step. We don't know that that's where things are going to go. That's not our central case expectation. And for reserve levels to get to that level, it's not just the peak that matters – it probably matters a lot, but you need to see things worsen a bit more sharply and there to be a higher level of uncertainty. But the point that he was making, that even if we see unemployment at those levels, even if it happens more quickly than we're expecting, the kind of reserves that we would need to build are, in the context of our capital and our earnings, relatively manageable, is still true. So this is a modest down payment on whatever the end result will be.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

That was a very comprehensive answer. So thank you. But let me ask you a follow-up in terms of underwriting standards...

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

... and I know that you are a very consistent underwriter over the cycle. But are there areas in the Consumer business that you have tightened underwriting standards over the last three or six months in any meaningful way? And are there lending categories where you think it is worse or unattractive at the moment, just given where spreads are relative to your perception of the risk?

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

Right. So, kind of start with a very big picture and the very big picture out there is not a lot tightening yet. Why is that? Because we underwrite through cycles. We know that there are cycles. We incorporate an expectation that there will be stress in how we think about onboarding new relationships. We didn't widen our buy box when we saw the outperformance over the last two years.

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

Back to my point that we think normalized performance would look like pre-pandemic performance, that's where we've been underwriting, all those things, we don't want to pull back just on small changes to expectations of the environment. We want to be able to serve our clients through the cycle. So that's all true. Obviously, if you get super detailed and granular, of course, we are tightening. And I'll just give you a few examples.

In Home Lending, we saw home price appreciation nationally above 40% over the last few years. We're expecting it to come off the peak this year, to go down nationally by about 5%. You'll have your own view. Clearly, there were markets that had more significant appreciation that may come off a little more. We're, obviously, looking, therefore, at LTVs in certain of the hottest markets around the country, still pretty marginal, but we are obviously doing that.

Auto has seen more normalization a bit faster. Our policy has actually been a little bit faster, still pretty marginal but in retail indirect used cars, LTVs again being something that we're tightening slightly at.

The area where it's honestly tweaking is Card and I should start by saying we're always tightening and we're always also expanding, we're always trying to swap in goods and swap out bads based upon improved modeling and data and expectations. At the margin of our most marginal new customer acquisition cells, we are paying more attention to low tenure on bureaus, we're paying more attention to thin files, we're also paying more attention to customers who don't have a Chase relationship, super tweaking at the margin of customer acquisition.

And so we'll always be doing that. I think there'll be more tightening ahead of us. But, again, I just think we have to look at a 5% unemployment number as not being a bad outcome, relatively speaking, and certainly not one that we don't contemplate happening over the course of relationships with consumers when we onboard them.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

So before we talk about strategy, maybe we can just talk about the current quarter just from a update perspective, so could you – and I appreciate you're no longer CFO, but flash back to 2017, but maybe you can talk a little bit about whether anything has changed either in terms of guidance on NII. I think you talked a little bit about credit, but I don't know if there's anything else you want to talk about there, but also around the trading environment in terms of Investment Banking, and Equity and Fixed Income trading.

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

Okay. No good will come of me keeping going down the credit road. So, hopefully, that was helpful. In terms of NII and expense for the fourth quarter, I would say things have panned out pretty much in line with the guidance on each, if a little better, right? So, Jeremy gave you guidance for NII for the fourth quarter. You have still your expense guidance. The fourth quarter is coming in line with our expectations, a little better on each.

So, I'm not going to do 2023, I'll leave that. You've only got a few weeks to wait for Jeremy. You've had the health warning about reprice next year is going to be a prominent feature in terms of whether you should or could annualize the fourth quarter NII. So you should take that health warning that, I think Jeremy gave in the third quarter and we would continue to see that's an area you should be somewhat cautious.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

On trading?

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

Oh, right. Let's start with fees. So, pipeline fees relatively robust. Catalysts to convert haven't materially sort of resolved themselves, so volatility, macro uncertainty, et cetera. The overall wallet, as you know, is down about 60% year-on-year and we'll be down in line, if not a little better than that .

And then in Markets, I think the performance of Markets thus far this quarter is good, good particularly in Fixed Income, specifically in macro. The last three weeks of the quarter are always hard to predict, so I will give you quarter-to-date year-on-year guidance, which is up about 10%. So, quarter-to-date year-on-year up about 10%. Next three weeks, your guess as good as mine, somebody else's guess is better than mine.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

And just to be clear, that's Equities and Fixed Income

Marianne Lake A
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

Yes, total Markets.

Richard Ramsden Q
Analyst, Goldman Sachs & Co. LLC

Got it, okay. So maybe we can go on and talk a little bit about deposits and deposit betas. Obviously, a critical component to your overall asset sensitivity and something that's getting a lot of focus at this conference. So maybe you can talk a little bit about deposit flows this quarter, how they've tracked...

Marianne Lake A
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

Yeah.

Richard Ramsden Q
Analyst, Goldman Sachs & Co. LLC

...what you've seen in terms of deposit betas. And if you can talk across Consumer, Corporate, then that would be helpful. Also, perhaps talk a little about what your expectations are for both deposit flows and betas as we head into next year...

Marianne Lake A
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

Okay.

Richard Ramsden Q
Analyst, Goldman Sachs & Co. LLC

...with Fed funds up 4% and QT ongoing

Marianne Lake A
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

Okay. Again, if I miss...

Richard Ramsden Q
Analyst, Goldman Sachs & Co. LLC

I'll come back.

Marianne Lake A
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

...some of that. So, so far in 2022, I think our deposit levels and deposit betas have generally tracked in line with our expectations. I'm not telling you something you don't know when I say in retail – and that's for mortgages and Consumer – I'm not telling you anything you don't know when I say that in retail, it's not just a function of product level pricing, but very, very importantly, a function of migration as there's money in motion, people seeking higher yields.

So the starting point matters a lot in any cycle. The starting point in this cycle is one where there's significant excess liquidity in the system, in bank balance sheet, also one where we're coming off a decade of low rates, near zero rates in many cases. And so that matters a bunch.

The second thing that matters, and I think it's specific to us but may not be unique to us, is mix matters. And so, the Business Banking deposit is a bigger part of our deposit base today than it has been in previous cycles. And Business Banking deposits, they behave like operating deposits, they are operating deposits and so they have a little bit less price sensitivity. So just a bit of context.

That said, this cycle is already different. Rates are higher. They've moved faster. The expectations are higher and we do expect that repricing betas will continue to react. We've had a decade of discussions of all factors that feature into repricing higher or lower. Technology, people can move money easier, but they also love the convenience yield of living their life in one app. Liquidity, excess liquidity means competition is lower, but bank level specific liquidity might mean competition is higher, and smaller banks may see that manifest more quickly. Macro factors matter. So we've had all of those debates.

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

Reprice lags are real, we're experiencing them. The industry is experiencing them. They will continue in 2023. The NII benefit is real, but it is somewhat transitional because we are continuing to exact our model that both migration and reprice will happen.

So when we think about our strategy then, what do we care about? We don't care about protecting outflows at all costs. That's not what matters to us. We want primary bank relationships. We want to both grow them and defend them. We want to compete on value and not price. And we want to capture money in motion. We think we have the right product to do it, right? So we are seeing migration into CDs. It's just we're seeing it from a pretty small base, so it's having a not particularly big impact on average rates paid yet, but we are seeing it, it will continue. We do think we're competitive on CDs.

And then we look at flows. We look at inflows and outflows on a growth basis, every day, every week, every month. We're capturing a healthy share of those into our Wealth Management complex. We've been investing heavily in that. So we're happy with that. And that's what we look at and we adjust our tactics going forward.

We haven't changed our view on deposit flows overall, which is, we continue to see that through the cycle our overall deposits should be flat to slightly down because we are going to see some outflows that we think are natural, that don’t meet that set of framework criteria we used, and we continue to add new relationships and we continue to deepen existing ones. And they don't completely offset but they are an offset. So our deposit levels are expected to be through the cycle kind of modestly down. They're up year-on-year, but down quarter-on-quarter modestly at the beginning of that and we haven't changed our expectation.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

Just very briefly, the competitive environment to compete for consumer deposits, has that changed materially over the last three to six months?

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

I mean, it's changing all of the time, right? With rates rising at the level they're at, we're pricing our CDs nationally at 3%. That was not true three months ago. I'm trying to think that – yeah, that was not true three months ago. We started that, and yes, everything is moving. But I don't think it is irrational. I don't see – yes, online banks pay more, we know why. Smaller banks have a different pricing methodology. We know the value that we're providing to our customers. Liquidity matters, nothing yet is changing, obviously, and every day, and we look at it every day and we look at it every week, and – but nothing that I think is super unexpected.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

Got it. So, let's look on loan demand. So, if you can talk about loan demand, both in terms of what you've seen so far this quarter, but then again, talk a little bit about how you think that's going to play out over the course of next year? Do you think there'll be more of a bifurcation through Consumer and Corporate loan demand as we head into 2023?

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

Right. So, I'll start with the area of strength for us in Consumer, which is Card and you've seen the industry seeing strong growth in total outstandings. We're not an exception, obviously, strong spend growing over pandemic levels, all a part of that. We've seen our total outstandings grow and our revolving balances grow about 20% year-on-year.

In fact, if you look at revolving balances now, on an absolute basis, they’re at pre-pandemic levels. So if that were your benchmark for they're back, then they're back. If you actually look, however, at a stable cohort of customers and are they back to pre-pandemic levels, on a per customer basis, they're still down about 13%. Now, they were down 20%, and so they're nearly halfway back. But that will be a tailwind for Card growth in 2023. But we still have not seen, on a per customer basis, all the re-leveraging, let alone the kind of growth we would have seen had there not been a pandemic.

So, I think Card growth looking into 2023 will still be strong overall. It will moderate through the year and I would say double-digit growth for credit card outstandings but with strong growth in revolve, which is obviously pretty important looking into next year. But the story on secured lending is totally different for reasons that are obvious. Obviously, the macro environment has had an impact, a pretty significant impact to the size of the market this year, it’s about $2.2 trillion for Mortgage, it'll be less than that next year, refi is like pretty much gone.

And then, we specifically, as you know and pretty publicly said, are also very actively managing our balance sheet and risk-weighted assets and they’re having an impact.

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

So demand on a much, much lower market with rates much higher, is pretty low at or trending to historical lows. Home buyer sentiment is low. So, our average balances in Mortgage should be flattish through 2023. And in Auto flat to slightly down, because higher rates and inventories are still a little constrained.

But I'll deal with Small Business rather than Corporate more broadly. In Small Business, we talked about cash balances are still elevated. Small businesses are focused on managing expenses. That's what's top of mind, borrowing is not top of mind right now. And so, while there is still reasonably healthy demand for all the credit, like all traditional lending and utilization is low, remains low and we expect it to stay quite low in 2023, which means that our Business Banking loans will be lower year over year a bit.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

So, let's talk about your strategic and investment priorities for the Consumer business over the next few years. And I think at the Investor Day, you said that you're going to invest $7.5 billion in the business this year, and an additional $4 billion in Card marketing. How should we think about the trajectory of that investment spend? How should we think about expense growth more broadly for the Consumer business, given the inflationary environment that we're in? And how should we think about the return on those investments?

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

Okay. So, we showed you what we thought we would spend in investments in 2022 Investor Day. That is still our outlook, maybe a little bit inside of $7.5 billion, but in the context of the law of big numbers, that's still a pretty good number. We showed you what we're spending it on, right? We're spending on things that are very important to the long-term strategic growth and profitability of the franchise. That's how we're spending our money. We are spending about $3 billion – a little bit less than $3 billion in tech and product. That has stepped up a lot over the last several years, both a combination of an increased investment in modernization. We're seeing some benefit from that already, but that's a part of it. But also in – as a focus on not just modernization, but on utilities and platforms and products and customer experience and how we deliver product. We are investing more heavily in product and design.

And so, we saw bigger changes in that in the years running up to 2022. We do see also hiring. We do still have a healthy backlog of strong business cases. We are still therefore expecting the amount we spend on tech and product to go up, but at a much, much lower rate in 2023. And as I say, we have strong business cases. We want to get this work done.

And that's pretty much the story across all of the categories. Branches – the strategy is working. We've added 500 over the last five years. Number one retail deposit share, 60 basis points of share year-over-year, record branch customer satisfaction. We're now number one in the top three markets in the US. We feel great about the investments we've made. 20% of the network is still young. That's a huge amount of deposit growth opportunity. But we still have more opportunity in these exciting high growth markets like Boston and Philadelphia and D.C., where we are underpenetrated and branch share matters. But we will continue to be expanding in expansion markets, yes optimizing, but net expanding.

Marketing, I think I did to death at Investor Day, I hope. All I will say is that we have been acquiring customers strongly this year, and that we're excited about the performance. It's even a little better than we showed you at Investor Day. And so, as we grow that business, we would expect quality growth there. Our investments in Commerce are largely behind us, but it’s still a business that we intend to grow, and Wealth Management too.

All of that is to say that we feel great about the investments we're making. They will be higher year-on-year in 2023. They will be higher at a much more moderated pace because we’ve caught up on some of the modernization and other things that we wanted to get done, and it’s all in the guidance Jeremy gave you for 2023. So, this is not new news. This is not something that you didn't already have largely in your expectations. And I think it's all a bunch of investments that you would feel great about.

And how do you measure the performance? I know that everybody would want us to show the business case, but we measure the performance by are we able to generate industry leading profitability, market share, market share gains in this year, while we still continue to invest significantly in long-term growth and profitability, so that we can spend in the future. And I think if you look over the last several years and if you look forward, you'll feel good about that too.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

So, we've got a few minutes left. So, let me ask about the branch strategy as well. I think you gave some interesting numbers on the Investor Day. I think you said the average branch serves 25% more households than in 2017, and another 20% deposit market share is something that Jamie talks about. So, do you think the...

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

Long game.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

So long game?

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

Okay.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

But do you think the current platform is sufficient to get you to 20%? And are there products or geographies that you're particularly excited about, when you think about the long-term...

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

Yes.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

...growth of the business?

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

So, I gave you some thoughts a bit earlier about how we think about the markets we're expanding in. We're expanding in high growth markets, where we are currently punching below our weight. And so we will continue to identify our presence in those markets. We are in all lower 48 states, we have that done. Now, we need to get more share in some of those markets. That's not to say we won't be consolidating or de-densifying elsewhere, that's true. It is definitely true that branch share is strongly correlated to deposit share. And it is also true that in markets where we have more branches, our digital channels performed better, and they performed better across products.

So, we are focused on all of investing in our digital channels, investing in products and services. Yes, investing in growth in the network, because it matters not just for the deposit base, but it matters across products.

Do we have the network to 20%? So, if you look at our ratio of deposit share versus branch share, it's a little less than 2:1. If you use that as a measure, it's an indication you'd want 10% market share in branches to deliver 20%. While we definitely have that in some of our more mature markets, we definitely don't in others. So again another way of saying, we continue to be committed to densifying in key growth markets. There will be some offsets, but it's a long game over the next several years, we'll continue on that journey.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

Okay. So just a final question. Can we just talk about the regulatory landscape, again, briefly in terms of what you're focused on? Obviously, a lot of focus on capital requirements, how those could evolve, but there's also new leadership at the Fed, at the CFPB and the SEC. I mean, what's top of mind when you think about regulation over the next couple of years?

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. And I'm not going to be able to give you any particularly new insights. But when we think about our advocacy for regulation, we think customer first, we think system second, we think competition third, and we don't think hostile or adversarial, we think robust and all of those things.

And so, you know our view. We've been pretty public about the things that we think could or should be changed. But hope is not a strategy and so we are optimizing the business and the company under the current rules of engagement and you've seen us make significant progress

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

A

doing that. It feels regrettable that to do it, it has impacts on important parts of the business at the worst moments in time. So for me, Consumer lending is an area, when you are trying to build capital, you shrink what you can. And Consumer lending is an area we've been very focused on thinking about balance sheet and RWA rotation, which is a shame, but we know we're optimizing to the current rules of engagement.

We're supportive of the overall cohesive review of the regulatory framework and really believe that it's an opportunity for there to be many things recalibrated and tested, many moving pieces, not just RWA. And so I'm hopeful that there is a future to the incremental capital in the system for us. I have no added insight. We have a good relationship with our regulators. It's challenging and robust, as it absolutely should be.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Okay. With that, we're out of time. But, Marianne, thank you very much for joining us. And hope to see you again...

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

Thank you.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

...in less than five years. So thank you.

Marianne Lake
Co-CEO-Consumer & Community Banking, JPMorgan Chase & Co.

Five more years.