
JPM AT THE BERNSTEIN STRATEGIC DECISIONS CONFERENCE

TRANSCRIPT

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MANAGEMENT DISCUSSION SECTION

Ken Usdin

Analyst, Autonomous Research

Okay, good morning, everybody, and welcome to the 42nd Annual Strategic Decisions Conference. I'm Ken Usdin. I'm the large-cap banks analyst here at Autonomous. Really happy to be back, and also joining us today for our first session, Jamie Dimon, Chairman and CEO of JPMorganChase. Jamie's led the company for over 20 years, since becoming the CEO in 2006, and JPMorganChase has grown to now being the largest bank in the U.S., with over – nearly \$5 trillion in assets. So, Jamie, thank you very much for being here today with us.

Just as a reminder, before we go, there's the Pigeonhole app you can submit questions through.

QUESTION AND ANSWER SECTION

Ken Usdin

Analyst, Autonomous Research

Q

And we're going to start big picture. Jamie, so you've described the environment as cautiously optimistic, but recent Company Update and earnings you talked also about several existing risks out there. So walk us through your base case of how you see the economy progressing from here across the different areas of the bank and what are – might be your top concerns as we look forward?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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Okay, so welcome, everybody. I think I was cautiously pessimistic, because I am quite cautious, and I also, just as a matter, a base case is a mistake in this kind of environment, because it's kind of a false sense of security that somehow you think this is a forecast, and it'll be a little bit better, a little bit worse than that. I think it's more dramatic than that today.

And so if you look at like the short run, the One Big Beautiful Bill is \$300 billion of stimulus. Deregulation is a form of stimulus. The AI spending is a form of stimulus, \$300 billion year-over-year. Another \$300 billion for next year. So all those things, money, money supply is going up, that's a stimulus. Banks lending more money, that's a stimulus. So that's what we have today. And you see that, you see that in markets, you see it in liquidity, you see it in pricing. But there's a long list of issues which I think should concern people.

And it's not concerning for banks, per se. We're just canaries in the coal mine, when it comes to that. But it is concerning for the free and democratic world. You have a real war taking place in Ukraine, unresolved. You have terrorism in the Middle East, other than Iran. And then you have, obviously Iran.

You have huge global deficits, you have very high asset prices, very low credit spreads. So I just put that, there's a lot of uncertainty there. There's Trade 2.0, people negotiating what that means for them. People looking at how they want to protect their nations. And then you have things like rare earths, our relationship with China.

So I just think it's a lot of uncertainty to kind of take a base case, and you should really be looking at what are the potential range of outcomes? And when might these things happen or not happen? They may not affect the environment at all. They all may disappear over time. Then again, they may have consequences, which are bigger than people think. So base case, so far so good this year. Hold on. You really don't know.

Ken Usdin

Analyst, Autonomous Research

Q

And JPMorgan, you have top market shares across all of your businesses. And in your annual letter for the last couple of years, you've acknowledged that there's a lot of competition out there. Some stronger than ever across all subsectors. Traditional banks, non-banks, fintechs, new digital entrants. So as you think about building the business for the next decade, what are the most important moats you have to defend? And what are the areas that you need to really focus on to ensure you maintain those leadership positions?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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And things have changed. So if you go back like 15 years ago, it was almost like set pieces. Wells Fargo and Bank of America and JPMorgan and Goldman and Morgan and specialty banks and credit card companies and all that. Today you do have this extraordinary amount of competition. And I think the view, my view is they're very smart and they're coming.

Some have been quite successful and have taken piece of our business that we coulda, woulda, shoulda. I think it's very important that management acknowledges what it also missed, not just what it did well. And there's more money, there's more capability. AI and things like that will create opportunities and they also create additional risks. So we look at – you can go by any area of payments, credit card, consumer banking, investments. Every one of those areas has got all these different types of competitors.

And banks, by their nature, didn't have very big moats, before. So when Warren Buffett talked about the moats, there are real moats out there for companies when you have virtual monopolies or people can't catch up. So one of the biggest moats is having a bank that is hungry and not complacent and not arrogant and constantly investing in its future, like technology. That does create a little bit of a moat, temporarily. And so, and I think in certain businesses, it's more than others.

In Payments, we're so big, globally, Corporate Bank. But if we don't build the new set of things, like even with stablecoins, or JPMorgan deposit coin, that could be a challenge too. So we are hyper focused on all these forms of competition and constantly investing to compete in that world.

Ken Usdin

Analyst, Autonomous Research

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Yeah. And you mentioned AI, it's touching every part of the banking business already as it continues to evolve. Coding, ops, risk, marketing, advice. From your seat, what do you – what are the most tangible benefits that JPMorgan's already seeing as you embed it within the technology ecosystem? And how do you think AI is going to change the overall economics of banking as we look longer-term?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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Yeah, so we – when we do, we look at AI like any other technology. We talk about it all the time. It's on every business review. What are you deploying? I've forgot – I think there are 1,000 use cases today, but maybe there are 50 or 60, which I would put in a significant category. Some of them we do NPVs on.

We know exactly what it is. We did this, we're going to save this money, overhead, error rates, better prospecting, better marketing, and the NPVs are real. We're saving real money and we see real changes taking place. But think of it as every job, every app, every application, everything and certain things won't change. Like, I tell people, you have to move money, raise money, send money, manage money, raise capital for people. But everything else can change. How that gets done, how the blockchain gets used, and all these other things.

So AI is an enormously dramatic thing. It also creates a risk, you all know about Mythos and all that. Some AI we do not do NPVs on. So we talk about our LLMs, so if you're at JPMorgan, you got all these products, internal products with LLMs or something like that. And everyone in the room, we have 150,000 people using it a week, every week. That's pretty powerful.

And they would tell you if you surveyed them, we're saving 4 hours a day (sic) [week]. We don't NPV that, because we don't see the productivity. That's – it's just you telling us that it makes you more productive than so far. But I do think it will drive huge amounts of change in productivity. And in my view, it will create things we are better at, and we can win at. It will also probably create things that we're going to lose at.

Because competitors will find ways to, bite off something or do something like that. So we just have to be really, really good at it. I also don't agree with this notion that people say that, well, if JPMorgan does it first and we're going to create higher margins and that lasts forever. It lasts temporarily.

What happens in a competitive world is if I do something better, well, so is everyone else eventually. And that gets competed away or it's being given to the client. So I think you can create temporary margin, but not permanent margin. I think it's a mistake to think that somehow it'll all accrue to you. That might be true in certain tech worlds. You and I can argue and debate all day long how many winners there could be in LLMs. But for banks, I think it will be competed away. And then, of course, what's also going to happen is that, Fiserv and FIS will offer these same services to smaller banks, right, and they should.

Ken Usdin

Analyst, Autonomous Research

Yeah.

Q

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

So it isn't like, they're going to have – we're going to have it and they won't. Everyone's going to have it over time and find ways to usually do a better job for their clients.

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Ken Usdin

Analyst, Autonomous Research

Yeah. And speaking of margins and returns, JPMorgan's had a longstanding 17% ROTCE target, and you've been above it for the last eight years. Can you talk about the balance and the decision tree as you think about growth versus return, given the fact that you've been above it at 20% or so, and how you balance the what type of growth at what type of return is the right...

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Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

So this is an important thing about, first of all, 17% is pretty good. And if any of you can do the calculation, if you can compound at 17% for 40 years, you're probably going to be worth 100% of the stock exchange. Okay. So the notion that somehow we should do better than an excessive return in the marketplace, I think is a little bit – and also, we did a chart this year, as Jeremy Barnum showed you all, that said how many banks have achieved over 17% of our 12 competitors over the last 10 years? I think it happened eight times or nine and we were six or seven of them.

A

Ken Usdin

Analyst, Autonomous Research

Yeah.

Q

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

Capital One did it a couple of times, Goldman did it a couple of times. So the notion is somehow, I personally think that right now we're overearning. And I know that's a hard concept, but I think credit losses, they're kind of normalizing, but they still may be a little low.

A

Volumes are very high. So remember when you have high volumes, and low credit losses, and certain markets like we have today, we're probably overearning. But our competition is also very good. And everyone's good now. I mean, it isn't like anyone is really lagging behind in competition. That wasn't true years ago. So eventually this will sort out. So after a dividend, our preference is always to reinvest the money if we think we can get a good return, I think we can. So we're going to end up with \$40 billion or \$50 billion of excess capital depending on how it all sorts out, which is more than everybody, by the way, we'll still have a higher CET1 ratio, but I think we can.

I think the reason for that, which I wasn't so sure a couple of years ago, is because the world is so big, it is so complex. The need, you see these needs of the hyperscalers, of countries, of global capital markets, of deficits around the world. You're going to need some very large financial institutions to handle it. And I think we got capital that could be deployed in very good ways over time.

I also pointed out, which is important, that sometimes our capital is deployed by expenses. It's not deployed by capital. But to me, it's almost exactly the same thing. If I can put money in the ground in branches or bankers or something like that, and I know I'm going to get a return on the ultimate return of 17% and the capital is deployed, including the expense, I'm going to do more of that. And I really don't care that the expense ends up in year one.

And so we've always constantly invested and looking ahead, that these are good investments. But this year might – the expense might outweigh everything else. So think of a branch – that's what a branch is. It loses money in the first couple of years.

Ken Usdin

Analyst, Autonomous Research

Q

Yeah. So you mentioned CET1 capital, and we recently got the reproposal of the Basel III and the GSIB rules. And you've been vocal about the continuing overlaps and complication that still exists in the framework. Where and how do you see this impacting JPM and the industry from both the competitiveness perspective and the economy from a growth perspective if the rules go through as proposed?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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Yeah. So the big picture, you can't really look at some of the stuff that we've done and think it's semi-rational, not at JPMorgan. CCAR, resolution and recovery, it'll never happen. Unbelievable amount of work. And it's one scenario. And I actually think it's a mistake to say, oh, I can handle that one scenario, whereas JPMorgan's got to handle hundreds of scenarios. And so – and we really do do that.

So to me, the CCAR's a test, and it's not a perfect test. In fact, it's completely flawed. And resolution and recovery, in my opinion, will never be used that way. And you saw Silicon Valley Bank and First Republic. And I mean, let's just, let's see things for what they are, call them what they are. And banks will not – didn't have too little capital. And like even operational risk, it's in CCAR and it's in G-SIFI, and it's in some other measurement. Market risk is in this one, that one, that one. So our market risk capital today is like \$80 billion.

We make \$150 million to \$200 million a day. In the last 10 years, we've lost money on 30 days. So the business, the worst, and I've told this to regulators, the worst quarter we ever had, ever, we lost \$1.7 billion in trading. And we have \$80 billion. And it bounces around, of course, because there's risk you take there. But is that – have we lost a plot in this thing at one point? So I believe in being totally, properly capitalized. I think liquidity is much more of an issue for banks.

How you have liquidity? How you use the discount window? Do you have concentrated deposits, all that kind of stuff. And so I think the regulators have a chance to really look at this and fix it all. And so and the last thing I'll say about G-SIFI. G-SIFI is definitely anti-JPMorgan. And in my view, quite deliberately so and I really don't like it. How they look at short-term wholesale funding, which is flawed in the start of it. So look, it'll, whatever it is, we'll make our points to regulators. They'll decide. You're going to see the capital come – you guys have done the studies, the capital's going to come down for most of our competitors, maybe a little bit for us. Net-net-net, we'll still do very well. And I'm not even sure it's really good for our competitors, for us to be up here, and them to be here, in capital.

I think that creates a distortion in your view and how people look at the safety and soundness of my bank. It'll be a positive, particularly in a crisis. And so, I think people should be really thoughtful why they do it. And the G-SIFI, that calculation, is probably the dumbest calculation I've ever seen, like, bar none. Look at the calculation, tell me that makes any sense.

I understand the point that a bigger bank may create more risk for the system. In operational risk capital, they create assets, they make up assets. As opposed to saying, you're setting aside, \$20 billion for operational risk. They make up assets. They're artificial on the face of it. And so one in a thousand year loss. Like, who the hell came up with that? And even if you close down the business that had the loss, you still have the capital. And I, so I can go on and on and on about these things that're irrational, but whatever it is, we'll compete. We'll deal with it. After I complain, we'll suck it up and move on.

Ken Usdin

Analyst, Autonomous Research

Q

Well, we'll go one step further then on liquidity. So to that point you mentioned about changing liquidity rules. How would you address that while both protecting the regulatory environment and protecting the ability for banks to do that?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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I think we can make banks safer. I want to get rid of this concept, when Silicon Valley bank failed, that everyone goes into kerfuffle, all the markets are moving, everyone's looking for the next dead one. I think we can fix that. And I think it's much more on the liquidity side. And I actually recommended in my Chairman's Letter, like you could have, if you could use the discount window, so JPMorgan has – I've forgot the exact numbers, \$1.5 billion (sic) [trillion] of marketable cash and marketable securities and something like \$1.4 billion of uninsured deposits.

Ken Usdin

Analyst, Autonomous Research

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Oh right T (sic) [trillion].

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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Right. It can be fully backed up and then leave the FDIC with other stuff, the insured deposits, a lot of other assets we have, things like that. So I just, I think if you set it up right, you can almost make banks fail-safe. So you don't have to worry about it anymore. And if a bank fails, it just goes the regular way.

And remember, when a bank fails, the other flaw is that people say, taxpayer. The taxpayers never paid a penny for bank failures. We pay. There's huge moral hazard. They screwed up how they dealt with Silicon Valley bank, and we paid. I'd literally like to run the FDIC. I think it's a mutual insurance company, and the people who we do a better job being responsible of that, because I would be much tougher on other banks on their interest rate exposure and their liquid exposure.

Ken Usdin

Analyst, Autonomous Research

Q

So Jamie, you mentioned earlier that you prefer after the dividend to put money into organic growth and always build the balance sheet. And then there's buybacks, and then there's acquisitions. On the last one, how do you think about inorganic growth opportunities, and where might acquisitions be a better use of capital rather than building or growing it internally?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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So the good news is, I believe we can grow every business internally, organically. I think that's good that we have those opportunities. We can do it in Payments, we can do it in Banking. We can do it in Innovative (sic) [Innovation] Economy. We can do it in Global Investment Banking around the world. We can do it in Asset Management. We can do it in ETFs. We can do it in consumer, Credit Card, Travel, Connected Commerce, every one of them.

I think we can deploy capital and grow. Organic growth is hard. So if you sit around in a lot of management meetings, the first thing they do when they're not doing well on organic growth is they start to bullshit about M&A. So like in my management meetings, I don't want to hear about M&A. That's a separate conversation. What are you doing to grow your business? Sales, branches, tech, profits, products, services, all that competition I mentioned.

A lot of those things we can be building ourselves, and we don't. Or we can partner with somebody else. But yes, looking at acquisitions is important. It keeps you quite smart. And I do think there might be opportunities. And so we are on the lookout, but it's got to make sense. It can't be just a pie in the sky type of thing. It's got to make sense organically – that we can integrate it, the culture to get it the right way, that it enhances our business. And it's not like some separate standalone thing that I have to pray we don't screw up. So because we have great businesses, and we want to continue to build them. But I do think there might be, in the next couple of years, a chance to put \$10 billion or \$20 billion to work buying something. And when we do that, we'll explain to you why we think it's a great purchase. And...

Ken Usdin

Analyst, Autonomous Research

Q

And...

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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But also, I think just if you hear me, I think asset prices are high, including JPMorgan stock. So, I'm not that fond of buying stock at these prices or companies. And we're quite patient with capital. I mean, it's not burning a hole in our pocket at all. If it sits there for a while. No problem.

Ken Usdin

Analyst, Autonomous Research

Q

Yeah. Speaking about high stock prices and you mentioned earlier good volumes, maybe a couple of questions on the environment. Capital markets backdrop has been really strong through the first quarter and still been active across both the Markets business and Investment Banking. Can you give us an update on how the second quarter is progressing?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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Can I get this done with right away? Markets, you guys, I think your analyst estimates are up 11%. You're approximately right, might be a little better. Investment Banking, you have it up 10%. You're approximately right. Could be a little better depending how the rest of the quarter turns out because you know a lot of big deals are being spoken about there. NII (sic) [NII ex. Markets] is the same we gave you last time, \$95 billion. Expense, we gave you \$105 billion. We think it'll be closer to \$106 billion, mostly driven by better performance. So it's a good extra billion.

Ken Usdin

Analyst, Autonomous Research

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Fees driving the incentives to pay more.

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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Fees, trading, it's more than we expected. Yes.

Ken Usdin

Analyst, Autonomous Research

Q

Yeah. And...

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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And we budget that stuff conservatively, by the way. That we don't budget pie in the sky stuff, so.

Ken Usdin

Analyst, Autonomous Research

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Yeah. And on the environment, just the uncertainty that we've been moving through, what do you sense when you talk to clients in both the Markets business, Investment Banking, Commercial Banking about willingness to transact, sponsors, corporates, et cetera? Is it a – this is the new normal we go forward? Is there any hesitation, any change in the environment?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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I mean, it's gung-ho, folks. I mean, there are exceptions to that. But people are doing – M&A is like the best year we've had. I've forgotten in how many years. ECM is going to be huge this year. But remember, ECM is like an accordion. It opens and closes. It can close tomorrow. But ECM, DCM, a lot of DCM is repeat. You know what's going to be there. But then the M&A related, obviously, that's different. And so – but I think sponsors are busy, companies are busy. There's a lot of exuberance out there. So, yeah, right now, it's good. But it was in 1972, 1986, 2000, 2007. That doesn't give me comfort. I look at it, yeah, it's exuberance, I mean. And of course, it feels good. It feels good for all of us. But there is a huge amount of stimulus. I should have mentioned, our deficits are so big, I don't know when that's going to come to bite. But the thing I remind people about the deficit, it also fuels all the other stuff we just spoke about.

The government borrows money and gives it to people and that money gets spent. It also fuels corporate profits. So when we all look back over the \$10 trillion or \$12 trillion we've borrowed and spent in the last six or seven years, we're all going to realize that drove corporate profits, too. Corporations, it's just not all automatically, they're all geniuses all of a sudden. And the other thing I remember about corporate

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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profits is at the margin, \$1 trillion will drive \$300 billion of profit or whatever the number is, because everyone's making money at the margin, not the average. And that's why you have huge corporate profit results this year. And so we'll see.

Ken Usdin

Analyst, Autonomous Research

Q

So in terms of the other side of the environment, when you think about JPMorgan, the balance sheet, you've got the strong reserves, the strong capital level you mentioned before. We talked through the potential risks to the economy, to the environment. What are you looking at in terms of the most substantial credit risks as you think about the portfolio and the overall environment?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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Yeah. First of all, the way we look at credit risk is always through the cycle. So we don't look at it like what's it going to do today or tomorrow or something like that. It's through the cycle at a very detailed level. So credit cards, subprime is different than credit card, and business card is different than auto, and auto leasing is different than all these things. We're going to have a credit cycle one day, and I don't know when that's going to happen. I think when it happens, it will be worse than people expect. So if unemployment goes to 6%, people will expect credit loss to be here, I think they'll be higher. I think they'll be higher in some banks, in some private credit, and stuff that may surprise you, stuff that other people are doing.

Just because I look – when I look at standards and it's been so long since we had a real credit cycle, because COVID lasted three months. When you look at standards, there's been a stretch. There's a stretch in EBITDAs, add-backs. I mean, how many people are doing stress test assumptions on credit? I think there's been a stretch on diversification, like too little sometimes, and you saw a little bit in software, because you're always surprised a little bit what industry gets hurt. I think covenants have gotten a little bit weaker. I think there's a stretch on refi risk. So you have a lot of people who've got refi risk. And if things stay where they are, that's fine. But if rates go up or credit spreads go up, that creates a lot more risk for leveraged companies. And I'm not sure all the marks – you're going to see marks change. So you're soon going to hear about the marks on private credit and private equity relating to March 31.

So, obviously, if software comes down 25%, what are they going to mark those down and what does that mean? And of course – and I'm not saying they're bad. And of course, some people do a very good job at this. And the problem with credit is some people aren't going to do a good job. And it's the ones who don't do a good job who cause all the problems.

If you go back to the mortgage crisis, the banks in subprime and near-prime mortgages massively out – they just did badly, but their credit losses, if I remember correctly, were 25% of the credit losses of the mortgage brokers, 25%. Still three times worse than they should have been. And so, you're going to see some kind of cycle and it'll work its way through. I think we'll be fine. We have – and obviously, CECL. I remind people, during COVID, I think we added \$15 billion of reserves in two quarters, and then we reduced \$15 billion of reserves over the next three quarters. So, you will have, because of CECL, which is also upfront all your losses of lifetime, you'll have some dramatic swings in certain institutions that takes place.

So I think it'll be okay. I don't think it's systemic. If you look at, like, the big picture, corporations in general, their leverage is not that different than in the past. The total debt burdens, I think if you look at consumers' debt service ratios, they're getting a little bit worse. They will be stretched, if rates go up. So you'll see that in the subprime areas more than most, and you haven't seen that. Again, when I see people doing their reports, I don't see anyone looking at maybe interest rates will be 300 basis points higher and maybe credit spreads will be 300 basis points worse. And so you can have real stress in an environment. And I just think when that happens, it'll be kind of worse than we expect, but not systemic.

Ken Usdin

Analyst, Autonomous Research

Q

On the topic of private markets and private capital, a lot of banks, including JPMorgan, talked in the April earnings about the relative confidence in the portfolios and the quality of the books and the underlying characteristics, and made the market feel directionally better. For JPMorgan, how do you see that as a potential opportunity going forward? How do you look at private credit, whether it's direct lending or lending to the funds? And how do you see that interplay with private markets evolving over time?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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So, lending to the funds is two things, okay? It's arbitrage, and we do arbitrage, too. I'm not generally in favor of it, but that's what we do. That's what the rules are, the regulators, all that capital crap we have to deal with. So we have no problem doing that. And they're clients. So we get other business. When we look at those loans, we look at the client in total, and we think they're rational. We think it adds leverage. If those assets fall 20%, the net asset values fall 40%. And so it does create some things. I think if you have a downturn, people are going to get a little concerned with some of that stuff, but we think that it's generally okay.

And then, we look – for us, loans are an outcome. They're not an objective. And listen really close to me, they're an outcome. We do not make loans to make loans. And this is very important to me. If I can go in the marketplace and buy a loan at par, I haven't created value by making a loan at par. My grandmother could do that. That's not value to us. So we look at the relationship in total, and we know that people need credit and we provide credit in multiple different ways globally to clients. But it's also the whole relationship that makes sense to us. And so I do think if you have a downturn, it will create a little bit of a competitive advantage for the healthy banks.

And by the healthy private credit funds, too, because some of them will have a lot of cash to do stuff with at that time because they've raised money. And so – but that's always been true in downturns, healthy companies have opportunities. We also look at direct lending and there are benefits to doing a direct loan. It's faster, small covenants, one person to negotiate with generally. It's more expensive. So we want to do it. If you're a client, we want to offer you the full range of products and you get to decide. We'll tell you the pros and cons of bank syndicated lending, of direct loan.

I think we've done, I forgot the number, \$20 billion of direct loans ourselves. Maybe we still have \$14 billion on the books because they, obviously, recirculate a little bit. And remember, middle market lending was always direct lending, and there's always a leverage component of that. So it's not new to us at all. It's just these folks built very successful businesses generating leveraged loans and excess returns. We don't know what's going to happen to those spreads over time.

And I do think, and you've heard this from not just me, but you've heard it from a lot of people in private credit and other investment banks, they're going to converge at one point. As these loans get bigger and bigger and some are investment grade, you're going to have more people making markets and things like that, so.

Ken Usdin

Analyst, Autonomous Research

Q

Yeah. So you mentioned stability of net interest income growing even with rates starting to decline. A very resilient revenue base for JPMorgan. But with all these new digital capabilities that are coming about, whether it's tokenization, stablecoins, agent, could you talk about the deposit business in general and how do you think all these new tools will or will not change the nature of deposit taking and how you approach it and costs, et cetera?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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Yeah. My bottom-line assumption is it will make it more competitive. You have to pay more for money over time. But you got to really divide it into component pieces. People are going to keep money in checking accounts for transactions. Well, I saw Schwab recently that said only 4% of the money in all their accounts is transaction money and it gets moved a lot. And then the same for corporate money. They're already being paid good rates.

So if you were to take all these things, the whole spectrum, there are portions which I think are attackable by disruptors and it will be around some of that. And we're going to – we already talked about having a Smart Cash account. It's kind of – it's nascent. So I wouldn't call it like an earth-shattering thing about how we can do a better job for you.

So if I asked you all if you have a brokerage account with us and a checking account with us, we help you manage between the two and give you closer to money market rates and some of the stuff, you might find it very attractive. And that's what we want to do. We're going to serve the client. That may cost us some money. But at the end of the day, if banks have to compete for that money, they'll compete.

Stablecoins, I'm not sure they're going to change – I mean, I don't know why if you're in the wholesale business, you're going to want a stablecoin, okay? Because if I send you a stablecoin – there are benefits, it's like real time, 24/7, and you can eliminate some FX risk on a Saturday, Sunday, that may make sense. We can do that today. So a JPMorgan deposit coin pays you interest, while you wait to do with it. But remember, a stablecoin, you got to buy the stablecoin. You got to own stablecoin, and you got to sell the stablecoin, and there are transaction costs on both sides. And then, you're going to say to me, if you're wholesale, I don't want your stablecoin, just send me my money,

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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and we'll send you your money, and then you can earn interest or you could put it in whatever you want or keep a JPMorgan deposit coin or invest in a JPMorgan money market fund, or something like that.

So I do think on the consumer side, internationally, there will be some use for stablecoins, more for payments than as a transaction vehicle. But we'll compete with that. We already have the JPMorgan Coin. We already have intraday repo. We already have a blockchain. We already have Kinexys. We may do a stablecoin or some group may do a stablecoin and we'll participate in over time. So I'm not afraid of that. I don't see it's going to fundamentally change the nature of money, to tell you the truth.

But I do think when they criticize today's infrastructure, not because the banks are stupid. We have 24/7. Fed payments is not 24/7. SWIFT is not 24/7. We have 24/7 real-time payments. So it's just how the system over time adjusts to that. And so I do look at it when you hear some of the stablecoin people criticize it, they're right, but not right because we're dumb. They're right because this whole ecosystem that's built up isn't yet ready to assimilate some of that. And we want them to. I would love to have the Fedwire 23/6 or something like that, because I think it'd be good for the system.

Ken Usdin

Analyst, Autonomous Research

Q

So, on the other side of the revenue ledger, fee income is a big driver of JPM. We talked about a couple of the businesses already. Whether it's Investment Banking, Markets, Asset Management, the Payments business, as you look further out, what do you think are going to be the drivers of growth for JPMorgan among the fee side businesses?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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Well, I mean, the way I look at it, look at the big picture. So I think all stocks and bonds in the world are worth \$350 trillion, something like that, okay? In 10 years, it'll probably be \$700 trillion, and that's the public stuff. There's a lot of private stuff, which is worth hundreds of trillions. And so the actual underlying business, the fuel is going up. Now, it goes, the values go like this, but we're paid to custody that, we're paid to move it, we're paid to buy and sell it at very competitive prices. I mean, when you do something with us, it's very cheap to move this and do things and you do it securely with all built-in fraud protections. And so I think all that will grow. It just doesn't grow in a straight line. It doesn't make it a bad business.

So I think Markets can grow. There'll be more products in Markets. I think the private and public come together, that'll probably create some opportunity. Wealth Management, we still have about 1% share in this huge segment from \$100,000 to \$10 million, 1%. So you've got to imagine, why not 10%? We have 10% in most of the businesses. So, yeah, we've opened up branches in rural areas. I think that could be a successful strategy and help the rest of America. I think the Strategic Resiliency Initiative (sic) [Security and Resiliency Initiative] is going to be bigger than we thought, helping a lot of these companies that are, for security and resiliency purposes, grow and expand. And so I think we'll have a little bit of growth everywhere and some would be fee based. Some are not. They're NII based. But even that is a little bit of a subscription business.

I remind people in the Consumer Banking business, when I used to get to the banks say, you have cheap deposits. You do not have cheap deposits. People have to stop saying that. To have a checking account costs us \$250 a year, mostly fixed. For that, you get a wide range of services. The revenues come from NII. So the cost is the \$250. Having ATMs, wealth management planning, fraud protection, all these things you built in and products and services and special segments. And so, yeah, we will compete in that. I think in that, but there are also opportunities that – we always have a bunch of skunkworks going on. So I think there's a bunch of stuff in my mind that actually could be good new opportunities for us. When I say opportunities, I'm talking about maybe could be worth \$100 billion in 10 years, not \$1 billion, maybe, I don't know if that's true, but you can imagine we think about that.

And Chase UK, we're not doing that to have a checking account in the UK, right? Okay. Like, there's Revolut. I mean, I'm jealous. Damn it. Like, why not Chase UK being as good as Revolut? And we have some competitive advantages, and they're very smart. I mean, you watch these people, they move – we've learned a lot by watching some of these folks. And we've got to get faster and better sometimes. And if you look at my letter, I criticize us a little bit for being a little too slow in some of these stuff like that. So, yeah, we have opportunities that you don't know about yet.

Ken Usdin

Analyst, Autonomous Research

Q

Yeah. You've just recently opened also in Germany, the direct bank, too...

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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Right. And that gives us a pan-European license and a platform you can use across Europe and more simple regulations. One regulator. Oh, this doesn't usually ring. One of my Directors.

Ken Usdin

Analyst, Autonomous Research

Q

How are we doing?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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I'm doing fine.

Ken Usdin

Analyst, Autonomous Research

Q

You mentioned some of the capital you use is actually going through the income statement and the expenses that you use to build the bank over time. And over the course of time, that expense growth has been higher than peers. And you've been very consistent. It helps the flywheel generate revenue. So walk us through the benefits of, well, first of all, how do you continue to find all those new things to continue to spend incrementally on, but the benefits also within that of self-funding and how you kind of balance between revenue growth – expense growth for revenues, but also expense growth that actually creates efficiencies?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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Well, we do both. I mean, when people talk about margin improvement, continuous margin – that's not – we're in a capitalist world, folks. It's an irrational concept that somehow we create more and more margin and somehow people – I believe what Jeff Bezos says, your margin is my opportunity.

And so – we look at them separately and we disclose some of this, not all of it. There is no expense that we make that we think is an investment that we don't do the same analysis on that you would expect us to do. Okay? And sometimes in-house may be wrong, but it's pretty thorough about we think we can get a return on that. If we didn't think we get a return, we simply wouldn't do it.

On technology and some of these other things, it's the same thing for the most part, because there are certain things, I say, that's just – you got to keep your operations good. You got to keep your – we didn't do an NPV on creating digital account opening 10 years ago. It's a waste of time, it's table stakes. So, when you're the client and you have to get that service, for me to try to NPV it and then not have it, is a bad idea.

And then when you look at the NPV, you know what people do and this is what happens in big bureaucracies, of course, finance and risk, and everyone's going to look at it and they have to estimate how many people use – how many will use it. Are they better accounts or worse accounts? Do they use a branch at all? If they use a branch, do we charge them for the branch?

Is it marginal here? Are they going to use a debit card? And you build this big model and its totally full of shit. You want digital account opening. And I just – people will waste a tremendous amount of time. So – but a lot of tech, yeah, we do it, but I can't do it on old tech, so we don't try. We need to have the best operating systems, but other things, yeah, we know when we build an AI system for fraud, we kind of know what the return is and we can back test it, and a bunch of things we do.

And we try to be pretty rigorous in that. The tech budgets are always the hardest because some of it is just qualitative. And if you leave a company where its securities, operations and back-office stuff isn't very good, that is a bad idea. And so you're constantly upgrading that kind of stuff and it's just in your expense base, it's not – you can call it an investment, but I just look at it as normal, regular operating behavior.

Ken Usdin

Analyst, Autonomous Research

And as you think about...

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Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

But if you were at the company, here's what I say to people. When you have a business review with us, I want you to lay on the table everything you think you should be doing. I don't want you to say to me, it wasn't in my budget. I want to keep the number to 5%. I want you to say to me, this is what I would do if I owned the company today, all of it, back office, front office, tech, AI. So, we have a real conversation about how we're investing in the business and then make a deliberate decision, we're going to do X and not Y. But for the most part, the good investments, we're doing to do them.

Take marketing, we spend a lot of money in marketing. If you walked into my office today, which could happen, and Marianne Lake or Allison Beer can walk in my office and say, we found a way we could deploy another \$500 million in marketing today, can we do it? And we go through the numbers, and my answer is, if it has a very good ROI, of course. And then I have to tell you that our expense budget might be higher by \$500 million this year, but I would do it in a second. I wouldn't hesitate, I would do it if it's \$4 billion because we know it's going to have a return. And that's a big part of why you see our – we continue to grow the franchise because we're making investments that drive the future, and not protecting the past, so.

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Ken Usdin

Analyst, Autonomous Research

And to that point, you are very consistent about just pushing that agenda and moving forward. But even in softer environments, how do you make that decision tree of what should stick on the page, what could be deferred, or is it always we are building for the future?

Q

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

It's almost always we're building for the future. And we price stuff through the cycle. We make mistakes, so we trim our sales. It's not like we don't say, sometimes it didn't work. We have failures out there. We're pretty blunt about that internal. So, every now and then, we waste some money and sometimes we have, I'd call, hobbies, like every year I think look at all your hobbies. I start a lot of them, if you ask management, they say, well, those are your hobbies, you started those ideas and they're not working. And sometimes you got to try them a second time and a third time and a fourth time. Other times, you just kill them. It was a good idea, it didn't work, move on, close it down. So, we do a little bit of both, but we try to be very disciplined in that. But some of the things that we have today started as hobbies that it took the third or fourth time before we got it right, like self-directed investing, for example, and...

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Ken Usdin

Analyst, Autonomous Research

One of the questions...

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Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

...and Chase Wealth Management in general.

A

Ken Usdin

Analyst, Autonomous Research

One of the question that's come in is related to tech and investments, but how do you – can you talk a little bit about JPMorgan and broader system readiness for cyberattacks in the world of LLMs and the developments we've seen there?

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Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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I wrote in my Chairman's Letter, cyber is our biggest risk. And it's not just ours, I think it's for the system at large, for banks, but it's also true, you could say – and you go by industry – telecom, water, utilities, you can go on and on, government services, and then I said it'll be made worse by AI. And I think I wrote that a couple of weeks before Mythos came out. And Mythos, it just amplifies it dramatically.

And I think they did the right – I think Anthropic did the right thing to tell the government and then start this Glasswing effort. The Glasswing effort is not meant to disadvantage anybody. It's meant to give people a chance to figure out what we need to do to fix this on your own applications, open source code, how patching needs to take place. We're probably going to build some utilities. You could do open source so it's for everybody. If we fix the open source thing – as long as you have the up-to-date version, it's fixed for any company you do business with.

I do think we got to get it to other banks. And the other thing you have to be very careful when you roll it out because you don't want to give it to people who don't know what to do with it. It is dangerous. It's a nuclear weapon in the hand of someone. And so, even if you give that to a company, you want to make sure they know how to handle it and they're going to have restricted access and they know how to test it and all that kind of stuff.

So, this has to be done properly. I think the government is doing the right thing to slow it down. I think you saw that President Trump spoke to President Xi about it, because we have a common interest in this one. This is not our cyber or their cyber. DeepSeek will eventually have it, yeah DeepSeek. But this could be used by insider threats. It could be used by various things.

And you have a lot of government – a lot of hardware may be compromised because it's got embedded software that cannot be patched. And so we have to figure it out and we're doing it. All the big banks are working together now. We're trying to inform other banks where we are. The government is going to have to decide with Anthropic how and when it's given to other people. But we're doing it for the system. This is not done to benefit large banks versus small banks or anything like that.

Ken Usdin

Analyst, Autonomous Research

Q

Another question that's come in is, can you talk about the incoming Fed Chair and the outlook for both the ability to lower mortgage rates, but also the debate on Fed balance sheet size, and if you think that there's a right path forward for that?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

A

Yeah. I think – first of all, I know Kevin Warsh. I have enormous respect for him. And I think he's generally right about, the Fed went off and did a lot of stuff. It started with Janet Yellen basically, I'm going to call it DEI and climate and regulations became, I mean, literally like smokescreens for punishing banks and things were overdone and supervision. I wouldn't even go through it all, by the way, and they're right to clean it up a little bit.

Take a step back, all these years, look at what they're doing, right, so I think he's right. And the Fed is and was the adult in the town, they're looking across the system. They don't have to duplicate everything the OCC does, which is what they were doing, or the FDIC, which is what they were doing. And that's kind of regulatory policy.

Remember, they're not independent regulatory policy. This also opens them up to a lot of criticism about thinking they're independent on regulatory policy. When that regulatory policy follows the same rules as all other things, cost benefits studies, public notice, and a lot of that just didn't take place at all. I mean, zero. In some cases, no one forethought about the consequences of some of the things they did, like private credit, like stuff going to insurance companies, which is what they should have done because it's in all of our benefit that this system stays safe.

And so I think they're right to look at that. I think they will. Remember, Kevin is going to walk in a room with 12 governors and he knows them all and he probably knows them all. And they're smart people, they're going to have to be convinced, so it's not going to be like immediate. That's number one. I think he's right about the size of the Fed balance sheet. I think that we had too much government stimulus and too much monetary stimulus over the years. And I think it was required during the great financial crisis. I think it got overdone in COVID. And I think there are reasons to reduce it.

But, and this is a big but, to reduce the Fed balance sheet, you must change liquidity rules and regulations. It cannot be done without changing them, and that's going to take time. I think they all know that. And it's going to take study. They're smart people. They want to, okay, good

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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point, Mr. Warsh, let's take the time to study the impact of how we use the discount window and how many buffers banks have and how they do stress test in liquidity, and we don't want to make them less safe. We want to keep them safe.

So, it'll take time. But I think if they do that, they can reduce the Fed balance sheet and then go back to kind of old-fashion monetary, focus of monetary policy and then focus on also across the system. And so we'll see how that takes place, it's just going to take time. It can't happen overnight. And the other thing is, they don't control the 10-year rates. You do.

The notion – they can do Operation Twist, they can do all that kind of stuff, but they do not control it, they influence it. And even the short rate, I remind people because we all say they control the short rate, they do, but not really because when inflation goes up, they have to follow. They're always trying to look forward to all the data, labor, weaknesses, and anticipate things. But the end of the day, if inflation goes up, which it might, I'm on the side that I think you might have a little more inflation than people expect. They can't do what they want.

And so it isn't complete independence like they're independent of facts. They're not. And so now you can mitigate mortgage rates more. Fannie and Freddie are buying mortgages, that'll have a little effect, but at the margin, these things aren't going to change mortgage rates a lot. I think what would change it, by the way, is changing some of the rules and regulations. And we estimated and I've told them this, that securitization requirements, excessive requirements, excessive servicing requirements and excessive origination requirements add 50 basis points to the average mortgage. They could be fixed with no additional risk. And I've been talking about that for 10 years. That's what they should be doing. All the other stuff won't matter.

Ken Usdin

Analyst, Autonomous Research

Q

Another question from the crowd, can you talk just a little bit about the leadership bench and the leadership squad that you can see, as you look forward, see leading JPMorgan someday?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

A

Look, you know, you guys know a lot of the leadership people. I won't go through them all. I think they're high quality, very smart. I think there are potential successors inside the company. That's, of course, up to the Board. There are people you don't know or you may have met a little bit, who are potential successors down the road from here. So, we feel good about it.

But succession is always going to be hard and so we're quite conscious about. It is the most important thing like next. That is – we understand that and my Board understands that, and I understand that. And I do think I wrote about this year about culture, too. I think culture gets misused. I always didn't want to use it, but I think culture is critical, not being arrogant, knowing your facts, dividing into segments, getting detailed, understanding it, open, like literally speak up, everyone has got to speak up. Everyone's got to have a point of view.

All information, like my management team sees everything, like my operating committee, there's nothing we don't talk about, and we tell the Board the same stuff, by the way. So, it's completely open. And you should – this should also give you comfort. And I think this is great – you talk about all these governance rules that regulators put in place, hey, a lot of it is just waste of time. There's one that matters, which they didn't do, by the way, only one that really, really matters about Chairman, CEO and proper board governance.

My board meets every time without me, every time, and they've been doing that since I was at Bank One, so you're talking about 26 years and it's good for me, because I leave – I tell them what I think, I leave the room and the Lead Director calls me back, sometimes to give me a little coaching, sometimes they tell me, we think you're wrong about that or can you give us more detail?

But I'm only trying to do the best job I can, but it allows them to have a complete open conversation without feeling they're like insulting me. Because you're in a room, even asking a question can sound like an insult sometimes. So that is really important. And it's important for succession, too. And they know all the senior people and there's no guidelines. They could play golf with them, they take them to lunch. They have their own opinions about that. And I believe that's a very good way for them to participate in that decision.

Ken Usdin

Analyst, Autonomous Research

Q

Great. So, last one. One of the most interesting things I've seen out of the company over the last year are these new business initiatives, Security & Resiliency, these Special Advisory Services, American Dream Initiative. Tell us about how that's different – of a different thought process at JPM and how that's also going to encourage growth, while also helping customers.

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

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And so they're all a little different. Security & Resiliency, I was just asking my – we write about policy and sometimes we complain about it. But I like to ask, I always ask management, if you're in the room with me, okay, you're a king for a day, what would you do? And so I ask – we ask the question, okay, we know this is a big issue and you know it folks, it's rare earths, active pharmaceutical ingredients, production capability, ships, it's everything, missile production.

And we assess what can we do to help? We're just going to help, and we've been asked to help by certain military officers and to get involved. And that's what we did, and we did the analysis, we broke it into 29 sub-segments –drones, space, intelligence, API, pharmaceuticals, LNG to Europe is security, LNG in America is not security. So, we're trying to be – Boeing military stuff is security. Boeing aircraft is not security. And so we try to figure it and then we simply said, we're going to add 50% to what we're already doing, that's the \$1.5 trillion.

Todd Combs has been a great add to the company because he's just a brilliant thinker about industries and he helps us across a broad spectrum of stuff, he's on my floor and I love talking to him. He's doing the \$10 billion, which might be more, in investing in some of these companies where we think would help security resiliency in a variety of different ways, including AI, by the way. So, that's what we're doing and we think it's commercial. There may be a philanthropic component. Think of welders, we are going to be short 2 million welders, electricians in the next five years.

We need welder and electrician schools in the right place, okay, and that might require some philanthropy, which we're fine with. So, it was a very thoughtful process. Doug and Troy are running it. There's a whole group of people. Jay Horine is – I mean, he's in Australia today. He's been around the world for us and we're beefing up research. So, if you look at it, I love research. You know how much I think research adds to the world, educates about industries and countries.

But we've done research on the ship ecosystem, the API ecosystem, the rare earth ecosystem, so that we're getting smarter about the whole ecosystem so we can decide and then we're going to advise on policy because we do think policy makes a big difference. The American Dream, we already did. We just named it, and we're going to double down on it. Small business, mortgages, affordable housing, we're going to do it local. So, we're going to Alabama this summer. We're doing a whole bunch of stuff that is just more and we think we'll do that again commercial, there may be some philanthropic related to it.

So, Special Advisory Services is different. This is – think of me doing a hobby. CEOs call me up, they say, Jamie, can we get advice on government affairs or crisis management or board management or lessons on CEO or cyber, AI or – and we did it ad hoc. And so I simply asked the people, it shouldn't be ad hoc. These are real services we provide to people, directors, and we just formalized it. Liz Myers is running it and how can we provide it?

It costs money. So, we have to beef up some of these areas, because we're getting a lot of requests. And this is kind of meant for clients, not meant as a free service to anyone who wants it. It's meant – you're a client of this company, we want to provide you, then you can make your company better. It's good for us. It's good for the country. It's good for you. And so far, it's been quite successful.

So SRI has been – we're doing it in the UK – I'm going to UK next week and we're rolling out a whole thing there in the UK, with the Chancellor and we're doing it in Japan, Korea, Australia, where Jay is today. So – and it's been fun. People, a lot of patriotism has come out of that about how we can help secure the free and safe world, which I do think is the most important thing facing us, by the way, not the economy.

Ken Usdin

Analyst, Autonomous Research

Right. What better way to end than a plug for research in there? So, we're out of time. Thank you. Please join me in thanking Jamie Dimon for joining us.

Jamie Dimon

Chairman & Chief Executive Officer, JPMorganChase

Thank you.

Ken Usdin

Analyst, Autonomous Research

Thank you so much.

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