3Q22 FINANCIAL RESULTS

EARNINGS CALL TRANSCRIPT

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JPMORGAN CHASE & CO.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Third Quarter 2022 Earnings Call. This call is being recorded. Your line will be muted for the duration of the call. We will now go live to the presentation. Please stand by.

At this time, I would like to turn the call over to JPMorgan Chase's Chairman and CEO, Jamie Dimon, and Chief Financial Officer, Jeremy Barnum.

Mr. Barnum, please go ahead.

Jeremy Barnum

Chief Financial Officer, JPMorgan Chase & Co.

Thank you very much. Good morning, everyone. As always, the presentation is available on our website, and please refer to the disclaimer in the back.

Starting on page 1, the firm reported net income of $9.7 billion, EPS of $3.12 on revenue of $33.5 billion, and delivered an ROTCE of 18%. The only significant item this quarter was discretionary net investment securities losses in Corporate of $959 million as a result of repositioning the portfolio by selling US Treasuries and mortgages.

Our strong results this quarter reflect the resilience of the franchise in a dynamic environment. Touching on a few highlights, we had record third quarter revenue in Markets of $6.8 billion. We ranked number 1 in retail deposit share based on FDIC data, and credit is still healthy with net charge-offs remaining low.

On page 2, we have more detail. Revenue of $33.5 billion was up $3.1 billion or 10% year-on-year. Excluding the net investment securities losses, it was up 13%. NII ex Markets was up $5.7 billion or 51%, driven by higher rates. NIR ex Markets was down $3.2 billion or 24%, largely driven by lower IB fees and the securities losses. And Markets revenue was up $502 million or 8% year-on-year.

Expenses of $19.2 billion were up $2.1 billion or 12% year-on-year, driven by higher structural costs and investments. And credit costs of $1.5 billion included net charge-offs of $727 million. The net reserve build of $808 million included a $937 million build in Wholesale, reflecting loan growth and updates to the firm's macroeconomic scenarios, partially offset by $150 million release in Home Lending.

On to balance sheet and capital on page 3. We ended the quarter with a CET1 ratio of 12.5%, up 30 basis points versus the prior quarter, which was primarily driven by the benefit of net income less distributions, partially offset by the impact of AOCI. RWA was down approximately $23 billion quarter-on-quarter with growth in lending more than offset by continued active balance sheet management and lower market risk RWA.

Given our results this quarter, we are well positioned to meet our CET1 targets of 12.5% in the fourth quarter and 13% in the first quarter of 2023. These current targets include a 50 basis point buffer over the growing regulatory requirements, which provides flexibility over the coming quarters.

To conclude on capital, with the future increases in our risk-based requirements, SLR will no longer be our binding capital constraint. So, we announced the call of $5.4 billion in preferreds this quarter and issued $3.5 billion in sub debt to rebalance our capital stack.

Now, let's go to our businesses starting on page 4. Before I review CCB's performance, let me provide you with an update on the health of US consumers and small businesses based on our data. Nominal spend is still strong across both discretionary and non-discretionary categories, with combined debit and credit spend up 13% year-on-year.

Cash buffers remain elevated across all income segments. However, with spending growing faster than income, we are seeing a continued decrease in median deposits year-on-year, particularly in the lower income segments. And not surprisingly, small business owners are increasingly focused on the risks in the economic outlook.

Now, moving to financial results. This quarter, CCB reported net income of $4.3 billion on revenue of $14.3 billion, which was up 14% year-on-year. In Consumer & Business Banking, revenue was up 30% year-on-year, driven by higher NII on higher rates. Deposits were up 10% year-on-year and down 1% quarter-on-quarter.

We ranked number 1 in retail deposit share based on FDIC data, up 60 basis points year-on-year, making us the fastest-growing among the top 20 banks. And we are now number 1 in LA in addition to New York and Chicago, making us top-ranked in the three largest markets. Client

investment assets were down 10% year-on-year, driven by market performance, partially offset by flows. Home Lending revenue was down 34% year-on-year, on lower production margins and volume.

Moving to Card & Auto, revenue was up 9% year-on-year driven by higher Card NII, partially offset by lower auto lease income. Card outstandings were up 18%, and while revolving balances were up 15%, driven by strong net new account originations and growth in revolving balances per account, they still remain slightly below pre-pandemic levels. And in Auto, originations were $7.5 billion, down 35% due to the lack of vehicle supply and rising rates.

Expenses of $8 billion were up 11% year-on-year, driven by the investments we're making in technology, travel, marketing and branches. In terms of actual credit performance this quarter, credit costs were $529 million, reflecting net charge-offs of $679 million, which were up $188 million year-on-year, largely driven by loan growth in Card, as well as a reserve release of $150 million in Home Lending. Card delinquencies remain well below pre-pandemic levels, though we continue to see gradual normalization.

Next, the CIB on page 5. CIB reported net income of $3.5 billion on revenue of $11.9 billion. Investment Banking revenue of $1.7 billion was down 43% year-on-year. IB fees were down 47% versus a strong third quarter last year. We maintained our number 1 rank with a year-to-date wallet share of 8.1%. In Advisory, fees were down 31%, reflecting lower announced activity this year. Underwriting businesses continued to be affected by market volatility, resulting in fees down 40% for debt and down 72% for equity.

In terms of the fourth quarter outlook, we expect to be down versus a very strong prior year. And while our existing pipeline is healthy, conversion will, of course, depend on market conditions. Lending revenue of $323 million was up 32% versus the prior year, driven by higher NII on loan growth.

Moving to Markets, revenue was $6.8 billion, up 8% year-on-year. Fixed Income was up 22%, as elevated volatility drove strong client activity in the macro franchise, partially offset by a less favorable environment in securitized products. Equity Markets were down 11% against a record third quarter last year. This quarter saw relative strength in derivatives, lower balances in prime, and lower cash revenues on lower block activity.

Payments revenue was $2 billion, up 22% year-on-year. Excluding the net impact of equity investments, it was up 41% and the year-on-year growth was driven by higher rates and growth in fees. Securities Services revenue of $1.1 billion was relatively flat year-on-year. Expenses of $6.6 billion were up 13% year-on-year, largely driven by compensation. Credit costs were $513 million, driven by a net reserve build of $486 million.

Moving to Commercial Banking on page 6. Commercial Banking reported net income of $946 million. Record revenue of $3 billion was up 21% year-on-year, driven by higher deposit margins, partially offset by lower Investment Banking revenue. Gross Investment Banking revenue of $761 million was down 43% year-on-year, driven by reduced capital markets activity. Expenses of $1.2 billion were up 14% year-on-year. Deposits were down 6% year-on-year and quarter-on-quarter, primarily driven by attrition of non-operating balances, while our core operating balances have shown stability as payment volumes continue to be robust.

Loans were up 13% year-on-year and 4% sequentially. C&I loans were up 7% sequentially, reflecting continued strength in originations and revolver utilization. CRE loans were up 2% sequentially, driven by lower prepayment activity in Commercial Term Lending and Real Estate Banking. Finally, credit costs were $618 million, predominantly driven by a net reserve build of $587 million, while net charge-offs remained low.

And then to complete our lines of business, AWM on page 7. Asset & Wealth Management reported net income of $1.2 billion with pre-tax margin of 36%. For the quarter, revenue of $4.5 billion was up 6% year-on-year, predominantly driven by deposits and loans on higher margins and balances, largely offset by reductions in management fees linked to this year's market declines.

Expenses of $3 billion were up 10% year-on-year, driven by compensation including investments in our Private Banking advisor teams, technology, and asset management initiatives. For the quarter, net long-term inflows were $12 billion across Fixed income, Equities and Alternatives. AUM of $2.6 trillion and overall client assets of $3.8 trillion were down 13% and 7% year-on-year, respectively, driven by lower market levels, partially offset by continued net inflows. And finally, loans were flat quarter-on-quarter, while deposits were down 6% sequentially, driven by migration to investments, partially offset by client flows.

Turning to Corporate on page 8. Corporate reported a net loss of $294 million. Revenue was a net loss of $302 million compared to a net loss of $1.3 billion last year. NII was $792 million, up $1.8 billion year-on-year, driven by the impact of higher rates. NIR was a loss of $1.1 billion, down $852 million, primarily due to the securities losses I mentioned up front. And expenses of $305 million were higher by $145 million year-on-year.

Next, the outlook on page 9. Going forward, we will also provide guidance for total firmwide NII. For the fourth quarter, we expect it to be approximately $19 billion, implying full-year 2022 NII of approximately $66 billion. And we expect NII ex Markets for the fourth quarter to also be about $19 billion, implying that we expect Markets NII to be around zero, which brings the full year to about $61.5 billion.

While we're not giving 2023 NII guidance today, you will recall that at Investor Day, we talked about a fourth quarter 2022 NII ex Markets run rate of $66 billion with potential upside for the full-year 2023. Today's guidance for the fourth quarter of this year implies an approximate run rate of $76 billion, and from this much higher level, we would now expect some modest decline for the full-year 2023.

In addition, there's quite a bit of uncertainty surrounding the trajectory of key drivers, including rates, deposit reprice, and loan growth. So, keep both of those things in mind as you update the 2023 estimates in your models.

Moving to expenses, our outlook remains unchanged. And as it relates to the Card net charge-off rate, we now expect the full-year rate to be approximately 1.5%, below our previous expectations. So, to wrap up, we are happy with the strong diversified performance of the quarter, as we continue to navigate an environment of elevated uncertainty.

With that, I will turn it over to Jamie for some additional remarks.

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

Yeah, Jeremy, thank you very much. Hello, everybody. Yeah, I just want to give you a little more insight into how we're looking at capital, interest rates a little bit. So, capital planning, we're very comfortable with the earnings power of this company, which you could see is enormous and the margins and the returns. And more importantly than that is that we're growing franchise value, I think, all around the firm. And in most areas, we're up in market share; in a few areas we're not, and of course, that disappoints us.

But the earnings power gives us lot of confidence that we'll get over that 13% in the first quarter, but we always have to keep in mind the volatility and a bunch of other things. So, we know we have to deal with Basel IV. We don't know when and how this is going to be and any change in G-SIB. Such is an uncertainty in the back of our mind.

AOCI; AOCI was traditionally countercyclical, but in this kind of environment is more pro-cyclical. So think of if rates go up another 100 basis points, that's $4 billion. Easily can handle it, just in the back of our mind.

CECL; CECL already incorporates a percent of what we think the adverse consequences might be. But obviously, if the environment gets worse, we'll have to add to reserves, and/or if we change our outlook, meaning that we think the chance of adverse events are higher, we'll change our reserves. Put in the back of your mind that if unemployment goes to 5% or 6%, you're probably talking about $5 billion or $6 billion over the course of a couple of quarters. Again, easy to handle, not a big deal. It just does affect capital a little bit.

And then RWA management. I mean, I think we're showing that we can easily manage RWA and drive it down in some areas and up in other areas and stuff like that with what I would say a very limited financial effect. And the way you should look at this is that we don't tell the commercial bank or investment bank don't get new business, don't serve your clients. So we're serving clients the way we always do, and you see the loan book growing in a lot of areas.

But there are some discretionary things which barely affect us. So we're not putting conforming mortgage on the balance sheet, whether we originate them or whether correspondents originate them, for the most part, because it makes very low sense to do that on the balance sheet, and we make other choices. And so, there are a lot of tools to manage it. Obviously, with the capital requirements going up, we're going to find ways to reduce RWA, and I'm talking about over the years strategically, I think without affecting our basic franchises.

Interest rates; I think the way to look at it is, we're fairly neutral at this point to interest rates going up or down. Jeremy said the $19 billion, please do not annualize that. There are a lot of uncertainties today, and I'm just going to mention a few. We're not worried about them. It's not going to change things dramatically, but it does change things. What's going to be QT's effect on deposits? How much deposit migration you're going to have in this new technological environment? And there are pluses and minuses in that. And, of course, there are lags, there are lags in consumer, there's going to be some lags in Treasury Services, there's going to be some lags in Commercial Banking. So, it's just in the back of our mind, and we're going to kind of actively manage that.

And the other thing I want to point out is that taking investment securities losses, for the most part, is because we want to sell rich securities and replace them with cheap securities. We don't want to be locked into something we think will get worse and not take a chance to buy something that we think will get better. So, you might expect to see that taking place now, that maybe some securities losses in the future. We can do that.

We're not doing – we can do this to manage interest rate exposure, but for the most part, we can do that with swaps too or other things. We just do it the most efficient and effective way. And I want the people managing these portfolios to know that we can sell things we don't want to own and buy things that we do want to own. And other than that, we think it was a very good, strong quarter across the board.

And I guess we'll open for questions now.

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

Yeah. Thanks, Jamie. Let's go ahead and open up for questions.

QUESTION AND ANSWER SECTION

Operator: Please stand by. And the first question is coming from the line of Ken Usdin from Jefferies.

Ken Usdin Q
Analyst, Jefferies LLC

Hi. Thanks a lot. Good morning. I just wanted to follow up on the NII and the deposit side to Jamie's comments there. Obviously, one of the toughest uncertainties is to understand how we think about flows and mix and beta, so just starting to see it, it looks like, in terms of deposit costs starting to increase. So, how do you think about it now in this new environment where we might go to 4.5%, maybe higher, in terms of how betas might act over the course of this cycle as compared to any prior cycles and previous thoughts? Thanks.

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

Yeah, thanks, Ken. Good morning. Okay. So, at Investor Day, you'll recall that Jenn said that we expected betas to be low this cycle as they were in the prior cycle, which was a low beta cycle by historical standards. And what we're now seeing as we see the rate hikes come through and we see the deposit rate paid develop, is that we're seeing realized betas being even lower than the prior cycle just through the actuals. And the question is why is that? And it's, of course, we don't really know, but plausible theories include the speed of the hikes, which probably means that some of this is lag, but also the fact that the system is better positioned from a liquidity perspective than in prior cycles.

So, as we look forward, we know that lags are significant right now. We know that at some point they will start to come out, obviously in wholesale, they come out much faster. That's probably starting to happen now. But the exact timing of how that develops is going to be very much a function of the competitive environment in the marketplace for deposits, and we'll see how that plays out.

Ken Usdin Q
Analyst, Jefferies LLC

Got it. Okay. And then just the second follow-up on Jamie's points about, like, okay, if things do look worse ahead, looking ahead you might have to build a little bit more, understandable, over the next couple of years. Can you just help us understand just where you are in your scenario now as scenarios build? And just today still looks great, tomorrow there's some more uncertainty. So, how do we just get to start to understand how quickly and how you get your handle on that magnitude of ACL delta, and how do you think about it versus either, I don't know, pandemic peak or day one CECL? It's very hard for all of us to see this, of course.

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

Yeah. As you know, I think CECL is an enormously bad accounting policy. Honestly, I wouldn't spend too much time on it because it's not a real number. It's a hypothetical, probability-based number. I'm trying to make it very simple for you. So, if you look at the pandemic, we put up $15 billion over two quarters, and then we took it down over three or four after that. And all it did was swing all these numbers, and it didn't change that much.

Yeah, I'm trying to give you a number, but obviously this number would be plus or minus several billion. But if unemployment goes to 6% and that becomes the central kind of case and then you have the possibility it gets better and possibility it gets worse, we would probably have to add something like $5 billion or $6 billion. That probably would happen over two or three quarters.

Ken Usdin Q
Analyst, Jefferies LLC

Yeah.

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

I mean that's as simple as I can make it.

Ken Usdin **Q**
Analyst, Jefferies LLC

Yeah. Okay.

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

Right now, what we have – right, we already have a percent in the adverse and severe adverse cases. If we change that next quarter, that will be part of that $6 billion I'm talking about.

Ken Usdin **Q**
Analyst, Jefferies LLC

Yes. Okay. Understood. Thank you.

Operator: The next question is coming from the line of Ebrahim Poonawala from Bank of America Merrill Lynch. You may proceed.

Ebrahim H. Poonawala **Q**
Analyst, Bank of America Merrill Lynch

Good morning. I guess just following up, Jamie, so appreciate CECL and the model-based approach. I think you were quoted in the press talking about the potential for a recession in the next six to nine months. Would appreciate any perspective in terms of, are you beginning to see cracks, either in commercial real estate, consumer where it feels like the economic pain from inflation, higher rates is beginning to filter through to your clients. Would appreciate any insights there.

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

Yeah, I'll take that, Ebrahim. Thanks. The short answer to that question is just no. We just don't see anything that you could realistically describe as a crack in our actual credit performance. I made some comments about this in the prepared remarks on the consumer side, but we've done some fairly detailed analysis about different cohorts and early delinquency bucket entry rates and stuff like that. And we do see, in some cases, some tiny increases. But generally in almost all cases, we think that's normalization, and it's even slower than we expect.

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

Yeah. I think I'd say – we're in an environment where it's kind of odd, which is very strong consumer spend. You see it in our numbers. You see it in other people's numbers, up 10% prior to last year, up 35% to pre-COVID. Balance sheets are very good for consumers. Credit card borrowing is normalizing, not getting worse. You might see – and that's really good, so you can go into a recession, you've got a very strong consumer.

However, it's rather predictable if you look at how they're spending and inflation, so inflation if it's 10% – 10% reduces that by 10%. And that extra money they have in their checking accounts will deplete probably by sometime mid-year next year. And then, of course, you have inflation, higher rates, higher mortgage rates, oil, volatility, war. So, those things are out there and that – it's not a crack in current numbers. It's quite predictable it will strain future numbers.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

And just tied to that, I think the other thing that investors from the outside worry about is interconnectedness of the system, be it the UK gilts market, LBOs. How much are you worried about that part of the business in terms of having a meaningful impact in terms of a capital shock at some point over the next year, just given all the QT happening around the world?

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

A

Well, I mentioned QT as being one of the uncertainties because it's a very large change in the flow of funds around the world. Who are the buyers and sellers of sovereign debt? There's a lot of sovereign debt. But I think if you look at the gilt thing alone, it's a bump. It's not going to change what we do or how we do it, and you're going to see bumps like that, because of all the things I have already mentioned. It's inevitable that you're going to see them. Whether they create systemic risk, I don't know.

I have pointed out it's harder for banks to intermediate in that, and that creates a little bit more fragility in the system. That does not mean that you're going to see a crack of some sort, but again, it's almost impossible not to have real volatility based on the facts we already told you. Those are large uncertainties that we know about today and in the future.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Got it. And great messaging on the call today. Thank you.

Operator: The next question is coming from the line of Jim Mitchell from Seaport Global Securities. You may proceed.

Jim Mitchell
Analyst, Seaport Global Securities

Q

Hey. Good morning. Hey, Jeremy. At the Investor Day, you noted that expense growth in 2023 would slow from this year's level and might be slightly higher than consensus expectations at the time. So, is that – now that you get closer to next year, does that still hold? And if the economy does get worse than expected, is there some levers to pull? Or is it just still investing heavily, regardless?

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. Thanks, Jim. So, broadly, yes, it still holds. No real change on the outlook. Just to remind everyone, at Investor Day, I think the consensus was $79.5 billion for 2023. We said you were a little low. I think it got revised up to sort of the $80.5 billion or something like that, and that's now still roughly in the right ballpark. Obviously, we're going through our budget cycle. We're looking at the opportunity set and the environment set for next year, so it's not set in stone.

But broadly, on the question of investment, and I'm sure Jamie will agree here, that our investment decisions are very much through-the-cycle decisions. And so, we're not going to tend to change those just because of a sort of difference in the short-term economic environment. Of course, the volume and revenue-related expense can fluctuate as a function of the environment, as you would expect.

Jim Mitchell
Analyst, Seaport Global Securities

Q

Right.

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

A

Now, I would just like to add, so obviously – I'd just like to add – obviously, compensation go up or down dramatically, so you'll have different estimates about Investment Banking revenues and Markets revenues, and we can't really adjust for your numbers on that. But I just want to point out the other side of this. We're making heavy investments, and we have among the best margins in the business. I think that's a very good thing.

Jim Mitchell
Analyst, Seaport Global Securities

Q

Right. And maybe on that front, leverage loans write – were there any leverage loan write-downs this quarter? And is that – and how do you – is that market beginning to clear? Or are there still overhangs?

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

A

There were no real leverage loan write-downs this quarter, and that market isn't yet to clear. We own – our share of it is very small, so we're very comfortable.

Jim Mitchell
Analyst, Seaport Global Securities

Q

Okay. Thanks.

Operator: The next question is coming from the line of John McDonald from Autonomous. You may proceed.

John E. McDonald
Analyst, Autonomous Research

Q

Hi. Good morning. Jeremy, wanted to ask about your EaR disclosures, what we call your rate sensitivity disclosures. They look a little different than peers. And when we look at the sensitivity to 100 basis points of higher rates beyond the forward curve, it looks like you're liability sensitive. Can you give us some context of maybe the limitations of that disclosure and how we should put that in context of the assumptions behind it?

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. Thanks, John. And I'd love to have a very long conversation with you about this, but I'm going to keep it short here. It's really all about lags. So, as our disclosure says, we do not include the impact of reprice lags in our EaR calculation. So, as a result of that, the entire calculation is based on modeled rates paid in the terminal state.

As you well know, right now, we're in the middle of some very significant lags, which are affecting the numbers quite a bit and which we expect to persist for some time. So, as a result of that, what I would expect in the near term is something quite similar to what we've experienced this year. As you know, this year, as rates have gone up, we've revised our NII outlook from $50 billion at the beginning of the year to now $61.5 billion. So, as we look forward in the near term from here, I would expect similar type sensitivities to rate fluctuations, given the lag environment that we're in.

John E. McDonald
Analyst, Autonomous Research

Q

And just to follow up on Jamie's comments about not annualizing the fourth quarter, is that where the risks lie to annualizing the fourth quarter? What are some of the puts and takes – you said it might be down a little bit from that fourth quarter annualized.

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

A

Yeah. Look, I've already mentioned you have a rapidly changing yield curve, deposit migration. Everyone does EaR differently. So, one is lag. One is we assume deposit migration; some people don't. Our ECR is included in there; some people don't. And all of that. I just think for your models, because of all that kind of stuff, just use a number less than annualized in the $19 billion. So, instead of $76 billion, use a number like $74 billion. And I just keep it as simple as possible. And we don't know. We hope to beat that, but with all the stuff going on, you just got to be a little cautious and conservative.

John E. McDonald Q
Analyst, Autonomous Research

Okay. Thanks.

Operator: The next question is coming from the line of Erika Najarian from UBS. You may proceed.

Erika Najarian Q
Analyst, UBS Securities LLC

Well, good morning. I agree with Ebrahim that your presentation this morning was quite crisp and impactful. So, I'm going to ask the question that I think has been sort of the key debate to the stock all year. So, at Investor Day in May, you mentioned a ROTCE target of 17% and that was before we found out that the SCB would be higher in June. As we think about your capital build going faster than expected and you think about the revenue power that shows through in this firm, plus or minus what may happen with CECL, do you think you can achieve 17% ROTCE next year?

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

Yeah, this is obviously a good question. The answer is yes. And one of the things we always look at is normalized ROTCE. So, we're very honest. We're not overearning on NII, maybe a little bit because of lags and stuff like that, but not a lot, but we are overearning on credit. Think of credit card, the 1.5%, we've never seen a number that low. We're quite conscious of that. So, we don't brag about the 19% this quarter thinking that's going to continue forever. It's not. And obviously we may adjust that 17% a little bit, but it's not a material adjustment.

We're going to find – we've got a lot of great bright people, and we're going to find a lot of ways to squeeze some of these things down, including like CCAR and SCB and liquidate some assets and change business models just a little bit. If you look at our acquisitions, for example, they were non-G-SIFI acquisitions. Non-capital, non-G-SIFI, all services and service-related.

So, that's what we're going to do over time, and we're pretty comfortable that we'll get very good returns. So, yeah, we're quite – and next year is totally dependent on what happens in the environment. But the other thing I would look at, maybe we'll give you this number another time, is what would we earn in a recession. We would have pretty damn good returns in a recession. I mean, so I feel very good about that.

Erika Najarian Q
Analyst, UBS Securities LLC

Thank you for that, Jamie. And this is a super-micro question as a follow-up for Jeremy. Why would Markets NII be zero next quarter, and should we expect that to be zero next year?

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

Yeah. Thanks, Erika.

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

It's terrifically simple. We're financing the Markets businesses at the yield curve, so you're earning the same thing you're paying to finance the trading book.

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

Yeah, Erika, I mean, basically as rates go up, the funding cost goes up and the offsets on the other side, in many cases, were through derivatives or derivative-like instruments, so it goes through NIR. Fundamentally, we believe the Markets business revenue is rate insensitive. You can see that history through our disclosures this year. So, as you look out to next year with the forward curve implying a much less biased evolution of Fed funds, you shouldn't expect to see as many changes, at least from rates. Of course, we can sometimes see somewhat more unpredictable changes from balances, but that should be unbiased one way or the other.

Erika Najarian
Analyst, UBS Securities LLC

Q

Got it. Thanks.

Operator: The next question is coming from the line of Mike Mayo from Wells Fargo. You may proceed.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

Hi. Jamie, once again, I'm trying to reconcile your actions with your words. You've said publicly, you mentioned the hurricane, you mentioned a recession, you mentioned look out, and there are all sorts of risks. I don't think anyone disagrees with that. On the other hand, your reserves-to-loans are still well below CECL day one, so your actions with the reserving don't seem to reflect your more pessimistic comments about the economy. So, how do I reconcile the two?

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

A

Yeah, so the way to do that is in our reserves today, there is a significant percentage probability that we put on adverse and severe adverse already, so it's in there already. A lot of people work in these CECL reserves, our economists, Jeremy, a lot of other folks. So, it's not set by me because I happen to think that the odds might be different than other people. But I completely understand what you're saying, but the numbers are very good. We have some of that. I'm trying to be very honest about if things get worse, here is what it might mean for reserves. That may be different because, of course, these calculations change all the time...

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

Yeah.

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

A

The other thing, Michael, which is another thing, which in CECL, the timing of when something happens is very important. So, if it happens – if you said a recession is going to happen in the fourth quarter of next year, that would be very different to you say it's going to happen in the first quarter of next year.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

Yeah, I just understood it as the lifetime losses on the loans as opposed to that...

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

A

It is. But some loans – yes, but some loans have a short life and some loans have a long life.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

So, let's just cut to the chase. Where are you versus three months ago? I mean, is it – you certainly got headlines with the hurricane comment and all that. And it's – look, like as you said, you have debt tightening, QT, tighter capital rules for banks, you have like the trifecta of tightening by the Fed, and then you have wars and everything else, so I don't think anyone, and the stock market supports your view about all the risks out there. But are things better, worse, or the same as they were three months ago?

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

A

They're roughly the same. We're just getting closer to what you and I might consider bad events. And my hurricane, I've been very consistent. But looking at probabilities and possibilities, there is still, for example, a possibility of a soft landing. We can debate what we think that percentage is. Yours might be different than mine, but there's a possibility of a mild recession. Consumers are in very good shape, companies are in very good shape, and there's a possibility of something worse, mostly because of the war in Ukraine and oil price and all the things like that. I would not change my possibilities and probabilities this quarter versus last quarter, for me.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

And then lastly...

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

A

On a different point. Yeah.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

Yeah. Last follow-up. I know you invest through cycles. You've always done that, you're consistent, but I mean your headcount increase is probably going to be the highest in the industry. I mean head count from 266,000 to 288,000; your CIB, you're adding headcount. And if you did expect weakness in nine months from now, wouldn't you wait to hire people? Maybe get them a little cheaper?

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

A

No.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

Okay. All right. Thanks a lot.

Operator: Thank you. The next question is coming from the line of Betsy Graseck from Morgan Stanley. You may proceed.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good morning.

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Hey, Betsy.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Hi. A couple of questions. One, just on the investment spend, could you give us a sense as to the areas that you're leaning in the most as we should be thinking about into next year? Because you've obviously done a lot this year with regards to technology advancement, companies that you're buying to enhance your digital capabilities and international expansion, in particular, on the consumer side. So, just thinking through, is this a continuation on those themes or is there something else we should be looking for?

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

A

Betsy, it's exactly what we showed you at Investor Day, almost no change. So, take out that deck, we broke out by business, kind of investment, investment spend, tech spend. It's pretty much on track for that.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

And the inflation that drives some of that cost structure, you can deal with through just efficiencies elsewhere, is that fair?

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

A

Believe it or not, that was in the numbers we gave you in May.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then separately on the bond restructuring that you did this quarter and the comments around, look, we don't need to hold stuff we don't need to hold, we don't want to hold, would that – that kind of suggests to me that there'll be more bond restructuring as we go through the next quarter. Is there any reason why you didn't clean the whole thing up this quarter?

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

A

No, I think I said we sell rich securities and buy cheap. So, you look at – if you look at what happened to mortgage spreads, they gapped out. They gapped in, we bought; they gapped out, we sold, and that kind of stuff, getting 2s, getting 2.5s. You could have different point of views, but – and I do expect future bond losses going forward.

I just don't think that's real earnings. So, I think – but I want our people, our experts in the investment area to know if they really want to sell something, we're going to sell it. We're not going to sit here and lock ourselves into something that's gotten very, very rich because we feel like we can't take a bond loss. And remember it doesn't affect capital. And, in fact, when you reinvest it, which we tend to do, we actually have higher earnings going forward.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thanks.

Operator: The next question is coming from the line of Glenn Schorr from Evercore ISI..

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

A

And let me just add too. Like you saw the CLOs gapped out in Europe. I want our people, when they gap out like 300 or 400 basis points, I want them to be willing to buy. They might sell something to do that, but that is a very smart thing to do.

Glenn Schorr
Analyst, Evercore ISI

Q

Okay. Thank you. This is Glenn. So, look, from time to time, weird things happen in the market. We get these losses like Archegos and now this UK pension LDI issue. So, my question for you is besides that, do you have risk in the derivatives book? And is the done? It's more of when you meet with risk committee, are there pockets of leverage that you're considering on these big market moves, whether it be the dollar or rates where we are not thinking of like a – or do you view the LDI issue as an isolated event?

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

A

Hey. Yeah, hi. I'll mention, and, Jeremy, you might have something to add. So, the LDI thing is a bump in the road, and I think that the Bank of England is also trying to get through this thing without changing all the policy about monetary policy and QT. And I was surprised to see how much leverage there was in some of those pension plans. And my experience in life has been when you have things like what we're going through today, there are going to be other surprises. Someone is going to be offsides.

We don't see anything that looks systemic, but there is leverage in certain credit portfolios. There's leverage in certain companies, there's leverage – so you're probably going to see some of that. I do think you're going to see volatile markets. You already see very low liquidity, so something like the LDI thing could cause more issues down the road, if it happens constantly and stuff like that. But so far, it's a bump in the road. The banking system itself is extraordinarily strong.

Glenn Schorr
Analyst, Evercore ISI

Q

Would the dollar qualify as one of those super-strong moves that could put people offsides? And if so, how do you make sure you protect JPMorgan against that?

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

A

Well, we're not taking them. We generally hedge when it comes to big currencies and stuff like that. But yes, dollar flows, QT, emerging markets, hedge funds, yes, that would be a category that might – something might happen there. It wouldn't be – it shouldn't be something that's going to affect JPMorgan that much. In fact, it usually creates an opportunity for JPMorgan.

Glenn Schorr
Analyst, Evercore ISI

Q

All right. Thanks.

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah, on that point, Glenn, I was going to say the same thing what was traditionally the case that emerging markets struggle, sovereigns struggle with the kind of dollar strength that we're experiencing right now, but our emerging markets franchise folks have been through these cycles before, so we manage through it.

Glenn Schorr
Analyst, Evercore ISI

Q

Thank you both. Appreciate it.

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

A

I mean just to add to the strength of the franchise, I remember looking back at our emerging markets results by quarter over a decade. It was shocking to me how few quarters and how few countries, we ever lost money. We may have had low returns in some quarters, but it was shocking. We made money in Argentina almost every year for the last 20 years, and I think there was one quarter we put up reserves for one of the oil companies and took them down, but it's kind of very – the stability is striking.

Operator: The next question is coming from the line of Gerard Cassidy from RBC Capital Markets.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, Jeremy, and good morning, Jamie. You guys have been talking about the system, the liquidity with – Jamie, you referenced QT, also the fragility of the system. Can you share with us what are the metrics you guys are looking at to see if the system does have a problem on liquidity? Just this week you probably saw that the Swiss National Bank upped its reserve currency swap lines to $6.3 billion. So, what are some of the things you guys focus in on to see if there's going to be maybe more – some liquidity issues that could lead to greater problems?

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. I mean, Gerard, broadly, if you just look at standard regulatory reporting of LCR ratios in the US banking system, everyone just has very significant surpluses. And, of course, we can go into the question of as QT plays through and how that interacts with RRP and loan growth, whether that puts some pressure on banking system deposits, but that's starting from a very, very strong position. So, there's a lot of cushion there for that to come down before you start to have a real challenge from a liquidity perspective.

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

A

Yeah. And we look at everything from the Fed repo to quantitative tightening to net issuance of treasuries, net issuance of mortgages, and treasury volatility and treasury bid/ask spreads and treasury markets and all that, we're looking at all of that. The banking system itself is extremely strong, extremely strong. It is not – what you're going to see will not be in the banking – and there may be a bankers offsides somewhere, but it'll be somewhere else. It'll be somewhere else. It might be in credit, it might be in emerging markets, it might be in FX, but you're likely to have something like that when you have events like the ones we're talking about.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Very good. And then in terms of the Investment Banking and Capital Markets businesses, can you guys give us any color into pipelines? How they stood at the end of the third quarter, and as you're going into the fourth quarter, what you're seeing in terms of those business lines?

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

A

Yeah. And I've always pointed out to you all, the pipelines come and go, okay? You've seen that the size we've never had before. So, pipeline is not necessary to see. I would put in your model, lower IB revenues next quarter than this quarter based on what we see today. Markets, we have no idea. Seasonally, it's generally a low quarter in the fourth quarter, but we don't know this quarter because there's so much activity taking place, and your guess is as good as ours.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Very fair. Thank you.

Operator: The next question is coming from the line of Matt O'Connor from Deutsche Bank. You may proceed.

Matt O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

Can you guys talk about the outlook for loan growth the next few quarters? And besides some of the obvious areas like leverage lending and correspondent mortgage you already talked about, any areas that you're tightening around the edges?

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. Matt, let me take your last question first. So, in general, no, we underwrite through the cycle. We haven't – we didn't really loosen our underwriting standards in the moment where everything looked great. And so, we don't see any need to tighten now. Really, a lot of consistency there. In terms of the actual loan growth outlook, we had said for this year, obviously only one quarter left, that we'd have high-single digits. No meaningful change to that outlook there, probably a little bit of a headwind as a function of rates as you mentioned and some of the RWA optimization in mortgages.

As we go into next year, we remain very positive and optimistic about the Card story across a range of dimensions in terms of both outstandings and revolver normalization. But for the rest of the loan growth environment, it's going to be, I think very dependent, especially in wholesale, on the macro situation. We know that in recessionary environments, we tend to see lower loan demand. At the same time, we've got a lot of great initiatives going and client engagement and new clients, so we'll just have to see how that plays out next year.

Matt O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

And I guess when we read the headlines about home prices going down in some markets and car prices starting to roll, I mean why doesn't that drive some tightening in those businesses?

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

A

Well, it has. I mean, look at, the volumes in mortgage have dropped, and cars quota have dropped and stuff like that. And that's already in our numbers, and we would expect that to continue that way.

Matt O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Thank you.

Operator: The last question is coming from the line of Charles Peabody from Portales Partners. You may proceed.

Charles W. Peabody
Analyst, Portales Partners

Q

Yeah. I'm just curious in your guidance on NII where you kind of implied fourth quarter would be peak run rate. Next year, do you factor in any impact from a possible treasury buyback program which could redirect liquidity out of the money market system into the banking system, and, therefore, keep your deposit betas lower? Do you think about that at all as a possibility?

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

A

Yes. I think I – I don't know if you were listening when I said it before. QT, net issuance of mortgages, net issuance of treasuries globally is going to reduce deposits and create certain forms of volatility, and absolutely we incorporate that on our thinking including lags, the change in the yield curve, change in spreads and all those things in the numbers we gave you. And that's why we're trying to be conservative with NII, that while you can annualize the $19 billion to $76 billion, if you have a model, put in $74 billion, and it incorporates all of that.

Charles W. Peabody
Analyst, Portales Partners

Q

Thank you.

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

A

You're welcome.

Operator: At the moment, there are no further questions on the line.

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Well, thank you very much and we'll talk to you all next quarter.

Jeremy Barnum

Chief Financial Officer, JPMorgan Chase & Co.

A

Thank you.

Operator: Thank you. Everyone, that concludes your conference call for today. You may now disconnect. Thank you all for joining and enjoy the rest of your day.

Disclaimer

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