2Q26 FINANCIAL RESULTS

EARNINGS CALL TRANSCRIPT

July 14, 2026

JPMorganChase

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. Welcome to JPMorganChase's Second Quarter 2026 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. Information concerning forward-looking statements and non-GAAP financial measures included in this presentation can be found in JPMorganChase's earnings press release and investor presentation posted on the Investor Relations website. Please stand by.

At this time, I would like to turn the call over to JPMorganChase's Chairman and CEO, Jamie Dimon, and Chief Financial Officer, Jeremy Barnum. Mr. Barnum, please go ahead.

Jeremy Barnum

Chief Financial Officer, JPMorganChase

Thanks, Amanda, and good morning, everyone. Including (sic) [Excluding] the significant items noted on the page, the Firm delivered net income of $16.9 billion, EPS of $6.14 and an ROTCE of 23%. Excluding the significant items, revenue was up 15% year-on-year, predominantly driven by Markets revenue, higher asset management fees in AWM and CCB, higher Investment Banking revenue, and higher deposit and loan balances, partially offset by the impact of lower rates.

Expenses of $27.3 billion were up 15% year-on-year, largely driven by volume and revenue-related expense, as well as growth in front office hiring and labor inflation. And credit costs were $2.5 billion, with net charge-offs of $2.4 billion and a net reserve build of $149 million. And in terms of the balance sheet, we ended the quarter with a standardized CET1 ratio of 14.1%, down 20 basis points versus the prior quarter, as net income was more than offset by higher RWA and capital distributions.

This quarter's standardized RWA increase of approximately $103 billion is largely driven by increases in financing across our Markets business, as well as growth in traditional lending. As you saw in our CCAR press release in June, the Board intends to increase the quarterly dividend to $1.65 per share effective in the third quarter.

Now, moving to our businesses. CCB reported net income of $5.3 billion. Revenue of $20.3 billion was up 8% year-on-year, predominantly driven by higher Card NII, largely on higher revolving balances, as well as higher operating lease income in Auto and asset management fees in Wealth Management. A few points to highlight. Consumers and small businesses continue to show resilience despite elevated gas prices and inflation, with higher tax refunds and a solid labor market contributing to strong spend growth.

In Banking & Wealth Management, average deposits were up 3% year-on-year and 2% quarter-on-quarter, driven by strong net new checking account growth of over 500,000 accounts this quarter. Client investment assets were up 21% year-on-year, driven by market performance, along with strong flows. In Card Services, we refreshed the Sapphire Preferred Card in June, following the successful refresh of several other products over the last 12 months.

Next, the CIB reported net income of $9.7 billion. Revenue of $24.9 billion was up 27% year-on-year, driven by strong performance across the businesses. IB fees were up 30% year-on-year, reflecting double-digit growth across all products, with particularly strong performance in equity underwriting. While this quarter's performance was supported by both some large ECM deals and the acceleration of the closure of some M&A transactions, the pipeline remains quite robust and the current activity levels seem to be encouraging more activity. As a result, while conversion will obviously be dependent on market conditions, we expect activity levels to remain healthy.

In Markets, Fixed Income was up 6% year-on-year, with solid performance in Credit, Currencies and Emerging Markets, and Rates, partially offset by lower revenue in Commodities. The equities business delivered an exceptionally strong quarter, with revenue up 86% year-on-year, reflecting the highly dynamic market conditions. We saw strength across products and regions. Flows were strong, and trading was favorable in both Derivatives and Cash, and Prime benefited from higher client activity and balances.

Turning to Asset & Wealth Management, AWM reported net income of $2 billion, with pre-tax margin of 38%. Revenue of $6.9 billion was up 19% year-on-year, driven by growth in management fees on higher average market levels and strong net inflows, as well as investment valuation gains, higher loan balances and higher brokerage activity. Long-term net inflows were $50 billion, with continued strength across Fixed Income and Equity.

AUM of $5.1 trillion was up 18% year-on-year and client assets of $7.7 trillion were up 19% year-on-year, driven by higher market levels and continued net inflows. And before turning to the outlook, Corporate reported net income of $4.2 billion on revenue of $6 billion, which includes the significant items noted in the presentation.

In terms of the full year 2026 outlook, we now expect NII ex. Markets to be about $96.5 billion and total NII to be approximately $105.5 billion as a function of Markets NII increasing to about $9 billion. And the new adjusted expense outlook is about $107.5 billion, with the increase

Jeremy Barnum
Chief Financial Officer, JPMorganChase

primarily due to higher volume- and revenue-related expenses, driven by the activity levels and associated revenue outperformance. Finally, we now expect Card net charge-off rate to be approximately 3.2%, reflecting better-than-expected consumer credit performance.

With that, we're now happy to take your questions. So, let's open the line for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. For participants dialed in on the analyst side of today's conference call, if you would like to ask a question, please press *1 to be entered into the queue. We kindly request that you ask one question and only one related follow-up. If you would like to ask an additional question, please press *1 to be re-entered into the queue. For our first question, we will go to the line of Ken Usdin with Autonomous Research. Your line is open.

Ken Usdin Q
Analyst, Autonomous Research

Thanks. Hi. Good morning. Jamie, I was just wondering if you could start by just evaluating on the recent management changes and elevation of Doug and Troy to Co-Presidents, and just anything we should be thinking about in terms of the ongoing development of the leadership team and anything it may mean in terms of your tenure as CEO from the Board's perspective. Thanks.

Jamie Dimon A
Chairman & Chief Executive Officer, JPMorganChase

No. It's exactly – I think we tried to be totally clear in the press release, which is, look, Marianne is an exceptional individual as a human being, as a leader, and as obviously an executive. But the Board made a decision to go ahead with making two Co-Presidents, which will be preparing them to do far more at the company and be prepared, hasn't changed the timetable or anything, and obviously, wish Marianne the best. As a result, she decided, when she knew about the plan, that she'd rather retire than stay here. So, that's it. No mystery.

Ken Usdin Q
Analyst, Autonomous Research

Okay. Very good. And then, Jeremy, on your follow-up to the strength that you're seeing across Investment Banking and Markets, I know it depends on conversion opportunities and just the environment. But this is a clearly far higher level of activity than anyone would have expected. How do you judge the sustainability and how do you judge just how risk-on are we across the various businesses? Thanks.

Jeremy Barnum A
Chief Financial Officer, JPMorganChase

Yeah. Good question, Ken. So, I would actually bifurcate that a little bit between Investment Banking and Markets in the sense that by historical standards, investment banking fees were fine, but they weren't at sort of super peak levels. So, they had some room to come up a little bit. And one of the things we looked at is like, okay, how much like cannibalization of the future pipeline might have happened through the acceleration this quarter and- or to what extent were this quarter's results like particularly elevated as a result of some of the large high-profile IPOs and other capital raisings in particular.

And I think clearly, there was some pull forward, and clearly, the large deals contributed meaningfully to this quarter's results. But at the same time, the pipeline is actually quite robust, and to some degree, it feels a little bit – I mean, we're guessing here obviously. But it feels a little bit as if the high-profile nature of the activity this quarter and just the generally robust environment is itself begetting more activity. So, I obviously don't want to get into like guiding you, and in any case, we're just guessing. But that's maybe just a little bit of context about how we're thinking about the trade-off between the robustness of the pipeline and the fact that there was some pull forward and some kind of exceptional events this quarter.

On the Markets side, I would probably separate between Fixed Income and Equities. I mean, all the normal caveats like we don't know, anything can happen, and clearly, Markets revenues in general have been quite elevated and strong for some time, although as we pointed out, that also is associated with much more financial resource deployment in support of our clients. But I think the particular set of things that happened in Equities this quarter, it's a little bit hard to imagine that being repeated, but the background environment is quite supportive.

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

So, we'll see what happens. But in the end, we're just trying to serve the clients and manage the risk and get our fair share of the business, and overall, obviously, the environment feels pretty good. I guess you did say something about risk-on and you said, how risk-on are we. And not to be pedantic, but I think the question – the we matters, right. So, the market is clearly extremely risk-on, and we're kind of takers of that. And we're trying to strike the right balance between supporting all our clients and being appropriately cautious in an environment that has some complicated dynamics in it, so.

Operator: Does that conclude your question?

Ken Usdin
Analyst, Autonomous Research

Q

All set. Thank you.

Operator: Thank you. Our next question comes from Chris McGratty with KBW. Your line is open.

Christopher McGratty
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Good morning. Thanks for the question. On deposits, what stuck out was slide 4 to me, the growth in CCB in the quarter. Interested in kind of the progression towards that 15% retail market share that you've talked about in the past and really how higher-for-longer may impact the pace of market share gains over time. Thanks.

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

Sure. So, let me just do near-term deposits for the company quickly, and let me actually start with Wholesale. So, Wholesale deposit growth was quite strong this quarter actually and has been for the first half of the year. If you recall, last year was particularly strong. I think this year, we were expecting it to be sort of fine, but slightly less strong. And so far, the first half of the year has outperformed our expectations.

Obviously, a lot of that is the strength of the franchise and winning deals and taking share, but some of it is also the kind of lending environment, particularly the sort of NBFI space and a lot of the data center stuff. Like however you look at it, you have a little bit of the dynamic of loans creating deposits, and that's going to disproportionately show up in Wholesale. So, that's probably a little bit of a tailwind for Wholesale.

On Consumer, we talked about expecting low (sic) [low-to-mid-] single digit growth this year, and that expectation is still in effect, it's unchanged, which is good, because I think there were some different moving pieces there and they could have played out differently in some sense. But if you look at what those pieces were, it was fundamentally the balance between ongoing, very robust net new checking account growth and the question of yield-seeking flows and the impact that that was having or not having on average balances per account. And you saw obviously very strong net new checking account this quarter.

And in light of the fact that the rate environment is a little bit more hawkish, yield-seeking flows are still a factor and probably a little bit of a risk. But on balance, the picture is in line with our expectations for this year, which is good. And so, then the question is how does that all feed into the 15%? And what I would say about that is, we feel great about the franchise and we feel great about how everything is going, and there's no change to that sort of hope or aspiration. But I would think about that as a kind of natural long-term consequence of executing the strategy that we believe in across all the various components of it, from focus on primary bank relationships, branch expansion, deepening, product value proposition, et cetera. And so, the view is that the 15% will be an outcome of that, and we still feel good about it.

Christopher McGratty
Analyst, Keefe, Bruyette & Woods, Inc.

Q

That's great. And for my follow-up, bigger picture question on the expenses. Really, the returns that you're getting from the branch build-out, the AI investments, the hire of the bankers. Ultimately, I guess the question is where are we in the investment cycle and really how does it play into the operating leverage outlook over the medium-term? Thanks.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

I would just say it's a complete continuation of what we've been doing for years. So, you shouldn't really expect any change.

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

Yeah. I mean, that's what I was going to say too. I mean, obviously, there are other expense dynamics this quarter, which maybe I'll save for another question. But in the end, we're investing, we're always going to invest. It's been working. And obviously, the returns so far speak for themselves. And I think the thing that we've been saying for a long time is that the power of this franchise is such that we are able to aggressively invest for the future for the sake of generating future returns and to solidify the competitive position of the franchise, while still delivering exceptional current returns. And I think that would be true if we were delivering 15%, 16%, 17% returns. Obviously, when we're delivering these types of returns, it really is firing on all cylinders.

Christopher McGratty
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks so much.

Operator: Thank you. Our next question comes from John McDonald with Truist Securities. Your line is open.

John McDonald
Analyst, Truist Securities, Inc.

Q

Thank you. Good morning. Jeremy, I was wondering if you could talk a little bit about the drivers of the upward revision to the ex. Markets NII, perhaps the cadence too in third quarter, fourth quarter as we think about the exit rate heading into next year.

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

Yeah. Sure, John. So, yeah, revising up from $95 billion to $96.5 billion for the full year, and you see our first half actual, so you can infer the second half. And as Jamie always likes to say, what matters is the run rates and the exit. And if you sort of do that math, it does suggest a higher exit run rate, which in the central case, assuming the yield curve plays out as the forwards currently forecast and the deposit and other drivers are in line with our current expectations, that's what we would expect.

Just mechanically in terms of the drivers of the upward revision, the biggest single factor is deposit balances, I would say, across both Wholesale and Consumer, both sort of the overall quantum of it, but also like mix shift inside of that in favor of slightly higher margin overall. And then, rates are like a little bit higher than when we previously guided both in the short-end and in the back-end. And as you know, we've got sensitivity to both. And probably our actual sensitivity is a little bit more than the EaR suggests right now because of the outperformance of the consumer betas relative to the model, and that difference is probably disproportionately in the front-end. So, when you assemble that together, you have a little bit of the increase as a function of higher rates, but most of it is balances overall.

John McDonald
Analyst, Truist Securities, Inc.

Q

Okay. And then, just to finish up on the NII, the Markets NII is guided a bit higher, even though the outlook for rates is also a little bit higher. So, I guess, what are some of the drivers there? Is it balance sheet mix and some other factors?

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

Yeah. It's a great question, John. So, yeah, you correctly allude to the fact that we've said previously that the Markets NII number is actually liability-sensitive, all else equal. Also, obviously, in the context of what we always say, which is that in general, changes in the Markets NII, especially when they are driven by rates, are almost always fully offset in the bottom line through NIR. And so, yeah, you're right. This quarter, all else equal, based on higher rates, you would have expected Markets NII to be down, and instead, the forecast is up. And the difference is changes in balance sheet composition, essentially expecting lower amounts of financed non-interest bearing assets on the balance sheet in

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

the second half of the year. And at this level of rates, one balance sheet unit of that stuff drives the number quite a bit if you think about it and can overwhelm, sort of, the rate effects. So, that's what's going on there.

To just indulge myself for 30 seconds, there's also another interesting nuance, which is you will have noted that we actually increased the equity allocation to the CIB this quarter for reasons that I think are pretty obvious in light of the amount of growth of supporting clients that we've done and the way that's playing through RWA. And the consequence of that is to move some equity essentially out of Corporate into the CIB, and a lot of that is Markets. That obviously comes with a little bit of NII. And so, that NII is moving out of NII ex. into Markets NII. And so, it's sort of a rare exception to the rule that changes in Markets NII are offset in the bottom line. This piece, which to be fair is quite small, it's probably like $150 million, is a part of the increase that we would not expect to be offset in the bottom line, all else equal. And so, obviously, it's left pocket, right pocket at the level of the company.

John McDonald
Analyst, Truist Securities, Inc.

Q

Okay. That's helpful. Thank you.

Operator: Thank you. Our next question comes from Erika Najarian with UBS. Your line is open.

Erika Najarian
Analyst, UBS Securities LLC

Q

Hi. Good morning. I just had one question. I do want to revisit the succession line of questioning, because it is so critical for a lot of your current investor base. And so, Jamie, I guess maybe re-asking the question a different way. What characteristics are you and the Board looking for in terms of the new leader of JPMorgan? What do you think makes an exceptional CEO in the future as you pass the baton on? And additionally, I think that some of your investors may have read the announcement, particularly Marianne's departure as sort of an extension of your tenure. And I'm wondering if we should think about your remaining tenure as more fixed or if investors are still thinking about a more rolling type of retirement date and a longer stay as Executive Chair?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

And so, the question to that is though the timing is essentially the same. Obviously, completely up to the Board, but it hasn't changed. This is just a natural change that we have to go to, about how we go about this. But look, that question is obviously critical. But I've always said, you want to be good at management, you want to be good at people, you want to be analytical, you want to be detailed, you want to be a culture carrier, you want to be curious, you want to have heart, you want to have grit, you want to have soul, you want to have work ethic, you want to be able to travel, you want to be able to walk in operating centers and deal with CEOs and prime ministers. It's all of that. I mean, I could give you a long list of stuff, but it's all of that.

At the end of the day, we're blessed with a lot of people who are great culture carriers across a broad spectrum. No one has all those things in the perfect way, and some of the things you learn and some of those things you get better at. But you know when you see it. We have two exceptional Co-Presidents, and we have other people in the company who are great culture carriers. But that's what you want, and you want it across the whole company, not wedded to Investment Banking or Trading or just big CEOs, but also wedded to the fact that we've got 300,000 employees around the world, and in our branch, we have 50,000 top-notch people. In our operating centers and our call centers, we have 150,000 people.

And you have to be flexible of mind to deal with this new, growing, complex world. And we have teams of people. And as you know, I think it's important, we pointed out that we're blessed to have Jenn Piepszak as the Chief Operating Officer and Mary Erdoes continuing to run Asset & Wealth Management. So, it's a great team of people, which I am fully confident, if I was hit by a truck, which is not my preference, we would be fine.

Erika Najarian
Analyst, UBS Securities LLC

Q

And just wanted to unpack. Sorry. I am going to ask a follow-up question. What do you mean by no change in timing?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

Exactly what we said last time. Whatever I said last time, the timetable is essentially the same.

Erika Najarian
Analyst, UBS Securities LLC

Q

Okay.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

Several years. You can use a few years. You can use plus or minus. Obviously, it's totally up to the Board, not up to me.

Erika Najarian
Analyst, UBS Securities LLC

Q

Okay. Thank you.

Operator: Thank you. Our next question comes from Jim Mitchell with Seaport Global Securities. Your line is open.

Jim Mitchell
Analyst, Seaport Global Securities LLC

Q

Okay. Good morning. Just, Jeremy, maybe a follow-up on the expense question and operating leverage question earlier. Understand completely longer term, no bank can generate perpetual operating leverage. But if we look at year-to-date results, it's been a strong revenue environment, but I think operating leverage on an adjusted basis was negative. You alluded to some expense one-offs potentially. No question, you're investing heavily and should be. So, I get all that. But just when I think about the benefits of AI and technology generally, is there a time over the intermediate term where you think expense growth could slow a little and operating leverage kind of becomes more likely in a period of time over the next few years?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

I'm just going to answer that by saying, when you have great returns and very good margins, which actually went up this quarter, not down, the notion that somehow you can forever increase your operating leverage is a crazy notion. We don't have that. I think it's part of the reason why banks failed if you go back 20 years ago. We're never going to have that point of view. And AI will have its gives and takes. So, we can't project.

I do think you might actually see a slowdown in growth, maybe a slowdown in 2027 or 2028. But the teams are looking at all of our opportunities. And we pointed out over and over again, when we have an opportunity to spend more money in marketing with a positive ROI, we're going to do it. We're not going to have false gods where we have to pray that we can do something really smart. I've also pointed out over and continuously that some expenses, if you accounted for them as investments, that they have very good returns, but they're expenses in the short-run.

And AI still remains to be seen, because the other thing I think about AI, which is a little bit different than everybody else, is you don't uniquely benefit from AI. The ultimate beneficiary of AI will be our customers. And in a competitive capitalist world, we all will use AI to do a better job for the customers, and we can't just say, oh, it's going to increase our margins and we're going to keep that. If that were true, our margins would be 80% today because of computerization over the last 20 years.

Jim Mitchell
Analyst, Seaport Global Securities LLC

Q

Yeah. All fair. Appreciate it. And then, just maybe a quick one on regulation. Is there any update on the thoughts on potential for adjustments to the regulatory proposals, since I know you and your peers have been particularly vocal around the GSIB surcharge and some elements of Basel III? Just curious if there's been any developments there.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

There are four obvious changes they should make. And I think it's unfair when I hear them say – they should do the numbers the right way, and you guys should demand it. Do the numbers the right way, and if they think they want to be more conservative, they should add conservatism. They should not do the numbers in a false way to make the number higher. I just think that's intellectual clarity and honesty and stuff like that. They should get rid of the double count in operating risk capital. They should get rid of the double count in market risk capital.

We have $80 billion or more now of market risk capital, and the biggest quarterly loss we ever had was $1.4 billion. Even the CCAR market loss, I think, is like $14 billion or $15 billion. And so, they should adjust the GSIB the way they were supposed to going back to 2015, and they should change the way they're doing short-term wholesale funding to be fair to everybody. Those are the things they should do. The number should be the number. If they think we should hold more capital, they should ask us to hold 10% more, and I'd be happy to do that. But I'm not happy to have these numbers falsely done.

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

Yeah. And I'd just briefly add on short-term wholesale funding, I think there's an important point there in terms of the competitive dynamics that we were really quite explicit about in our comment letter, which I would encourage everyone to read, because it's a nuanced thing, but I think if you go through it, it makes the point very clearly. And what they've wound up doing with this change in the short-term wholesale funding is essentially increase the burden on banks like us and Bank of America that have both markets and banking businesses, as well as traditional consumer businesses disproportionately relative to our former investment bank competitors who have different business mix.

And I guess, conceivably, someone could want that as a policy outcome. I don't understand why you would want that as a policy outcome, because it is disproportionately damaging the ability of banks to serve Main Street. But if that's what someone wants, they should say it. And if that's not what they want, then they shouldn't let it happen by accident as a result of like a seemingly very technical thing, like removing RWA from the denominator of the short-term wholesale funding contribution to the GSIB score. I mean, this is a little bit of what Jamie talks about when he's saying like, do the numbers right and just be clear about your policy objectives.

Jim Mitchell
Analyst, Seaport Global Securities LLC

Q

Yeah. Absolutely. I appreciate the thoughts.

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

Thanks.

Operator: Thank you. Our next question comes from Matt O'Connor with Deutsche Bank. Your line is open.

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

Q

Good morning. It seems like everything is firing on most or all cylinders, trading, investment banking, lending, credit. Is this as good as it gets or – and I know you've kind of flagged some of the risks out there. But is there also an argument to be made that we're earlier cycle, given AI and what seems likely to be a big increase in global defense spending, global supply chains management? As we put all that together, what are your thoughts?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

It's getting close to as good as it gets. We just don't know how long it's going to last.

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

Q

Okay. And then, the rate expectations continue to move all over the place out there. And you show that you're kind of well-positioned for higher rates, meaning make more money. But is there a tipping point where the deposit behavior changes both from a volume perspective and then betas, which you alluded to earlier have been better than expected so far, but if we go up a certain amount, do you think there could be a meaningful change in that?

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

Yeah. That's a good question actually, Matt. And I think the short answer is like we don't really know. And if you'd asked me that question a couple of years ago, I would have said that – you're essentially asking a question about the convexity of the rate paid dynamic, especially for consumer deposits, negative convexity to be specific. And if you'd asked me that at the beginning of this rate cycle, I would have said that we would be experiencing that effect right now. And we're not.

But just from a common sense perspective, like you have to believe that, at some point, that kicks in. So, when we do our stress testing and when we think about not just like slightly more elevated inflation environment and a slightly more aggressive response from the Fed, but something that's like meaningfully different, that's a true stress test with an actual change in regime, one of the things that we look at and stress is like, okay, at what point do you have that kind of like acceleration in rate paid as a result of that type of environment.

And that's one of the reasons why it's important not to be naïve about higher rates. Because if you simply take our current EaR, even recognizing that locally, the empirical EaR is probably higher than our reported EaR, and you ignore the convexity dynamics, you could convince yourself that a 7% rate environment is great. And obviously, that wouldn't be true if you had to do a massive reprice of the deposit franchise in order to protect it essentially.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

So, we do assume some of that.

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

It's something that we think about. It's in the models. It's very much like part of the discipline. But the question is when, and obviously, there's the larger question of the competitive dynamics and the whole value proposition of the deposit franchise, especially in Consumer.

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

Q

Okay. That's helpful. Thank you.

Operator: Thank you. Our next question comes from Mike Mayo with Wells Fargo. Your line is open.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

Hi. In response to the earlier question, you were asked about operating negative as negative, and you gave the reasons for that. But is operating negative the way you look at things? I mean, when you grow revenues 15% core year-over-year, percentage-wise, it's negative. But dollar-wise, I think it's positive when I look at slide 2. And I don't know why...

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

It's definitely positive.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

I'm not going to create the narrative for you. But even if you take out those numbers, if you – go ahead.

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

Yeah I hear you, Mike.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

Yeah. No, it definitely was positive.

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

Let me...

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

But can I just point out another thing? It was positive. But when revenues go up 10% – like if your margin overall is 25%, when revenues go up 10%, the marginal return on that, since you're not adding all the overhead, is going to be a lot more than 25%. And people kind of forget that.

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

Yeah, exactly. Exactly.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

Because obviously, a rapid increase in revenue drives a big increase in operating leverage.

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

Yeah. So, I agree with what Jamie just said. And maybe just since we've had a couple of questions about this, and obviously, we did revise up this year's expense guidance by $2.5 billion, which is not a trivial number. So, maybe I can piece all this together to add a little bit of clarity here. So, first of all, if you remember the guidance that we gave in fourth quarter last year for the full year for the company and if you made some kind of like reasonable assumptions about what type of Markets environment and NIR ex. Markets for the rest of the company at the time, and you built out your models or whatever – I don't remember exactly what you had, Mike – but I'm sure that the consensus was for meaningful negative operating leverage in this year's numbers, however defined.

And that's why, at Company Update, I gave the long speech about sort of what Jamie always says about why operating leverage in the long-term through the cycle is not a thing, now for a company like us anyway, producing the types of returns that we're producing. And the root cause of that was essentially that the – as Jamie just said, like there's a fixed expense base and there's a variable expense base. The variable expense base is disproportionately associated with the kind of capital markets complex, broadly defined. And we were in a moment where coming out of the back of the rate hiking cycle and relatively modest deposit growth, et cetera, the NII was still working its way out of the headwinds. And so, when you – in the meantime, we had inflation and investments and the usual stuff driving the expense base. So, that sort of was the operating leverage picture for the year.

To Jamie's point, since then, in the first half of this year, the capital markets complex has outperformed our then expectations by $6.5 billion, and we have booked in the first half of the year $1.5 billion of additional expenses associated with that. So, that says a lot about that kind of

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

like marginal operating leverage point. So, therefore, of the $2.5 billion that we increased guidance, $1.5 billion is essentially already booked and a direct sort of happy consequence of the exceptionally strong performance.

And then, yeah, we've implicitly added $1 billion for the second half of the year, and there are some nuances. I wouldn't draw too many conclusions from that in terms of our expectations about the revenue environment, because there are some other factors and there's some timing or whatever. But at a high level, that gives you the picture of the second half of the year will be what it'll be. And I think when you look at returns, overhead ratio, any metric that your updated models are going to show for this year, it's obviously exceptional performance, principally through the lens of like returns, which is what actually matters.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

Alright.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

There's a little bit of that in Asset & Wealth Management, a little bit of that in credit card spend, a little bit of that in other parts of the business.

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

Yeah. And that's why I say the capital markets complex, it's really the whole company.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

I'm saying the same thing.

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

Well, yeah, exactly.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

So, your marginal margin based on the number you just gave is 77% on that. And so, why is that as good as it gets? Are you referring to the revenue environment maybe as good as it gets, Jamie, or are you just being conservative or what?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

No. No, I just think we're in a very healthy, active, exuberant market with very high prices and very high volumes, and we benefit from that. We just don't know how long it will continue. Could it get a lot better than this? It can get better. But how much better? I don't know.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

And then, the second question does relate to the management changes and Troy taking over the Consumer Bank. And we don't know Troy as well as we did Marianne, and you have a lot more information internally. But to oversimplify and exaggerate, we have a FX trader now selling mortgage, credit cards and deposits. And I'm being simplistic for a reason. But what gives you confidence that Troy is the right person to run the Consumer business when he doesn't have that experience in the past?

Jamie Dimon **A**
Chairman & Chief Executive Officer, JPMorganChase

Yeah. Mike, it's a great question. First of all, like I've mentioned, how you evaluate people is their analytics, it's their brain power, it's their EQ, it's their heart, their soul, the culture carrier, can they walk into operating centers. He's exhibited that in Markets, in Investment Banking. Remember, even the IB is an extensive operations function and back-office function, technology function, where he's exhibited great expertise. So, we're completely comfortable with that.

I do think it's very important that people have experience across the company. And when I've seen investment banks, big banks taken over by someone only from the investment bank who only cares about the investment bank, believe me, the rest of the franchise can suffer. You need respect for the rest of the franchise. So, I think it's great for him. It's great for the company. He's already excited. He's already been to branches and out and about, and he'll take it hopefully onward and upward.

Jeremy Barnum **A**
Chief Financial Officer, JPMorganChase

And Mike, just a minor correction. Troy – with no offense intended to my old good friends who are foreign exchange spot traders, but Troy was actually an options trader, which is also where I started. So, I think he would want me to correct the record on that one.

Mike Mayo **Q**
Analyst, Wells Fargo Securities LLC

All right. Thank you.

Operator: Thank you. Our next question comes from Saul Martinez with HSBC. Your line is open.

Saul Martinez **Q**
Analyst, HSBC Securities (USA), Inc.

Hi. Good morning. Thanks for taking my question. I have a broader question on AI, and it is, is there an argument that we're vastly underestimating the potential benefits to efficiency and the impacts on how companies can run their businesses? I know Block is a really different animal than you are on a lot of levels. But they argued, when they cut 40% of their workforce, that given the advancement in AI tools, if they look at their organizational structure with a blank sheet of paper, they could be much leaner and not sacrifice on product velocity and commercial outcomes. And I guess I'm asking if you think there could be a parallel with banks, where you can operate with a different structure, be much more agile, be more efficient over time. I know it's a sensitive topic, but curious how you think about these questions and how you're positioning yourself for this world.

Jamie Dimon **A**
Chairman & Chief Executive Officer, JPMorganChase

Yeah. So, it's not a sensitive topic at all. We are going to use AI to do a better job for clients. That's our job. We fully expect it'll have huge efficiency in certain parts of the company. And we analyze it all the time. I think we've mentioned in the past, we spend quite a bit of money on it. We have a lot of NPVs that we know we have. The whole company is working this at this point. And I think there's almost 1,000 use cases today, though I would say that the really important ones are 50 – probably 50 across risk, fraud, marketing, hedging, prospecting, note-taking, idea generation, document reading. And it's kind of just starting. So, we do expect that.

I think you have to put in the back of your mind that there are areas where we may just accelerate what we do that we want to get done anyway. Think of certain applications and customer-facing things and stuff like that. We are preparing to make sure we can retrain our people, and we have had discrete areas where we did reduce jobs by 30% or 40%. And most of those people were offered jobs elsewhere. So, we do expect that. I also think that over time, remember, this will be offered to smaller competitors too through Fiserv and FIS and other fintech-kind companies.

And over time, we've been doing this nonstop for 25 years, but just large computers and mainframes and APIs, and various tools and tricks we use, we have always been trying to create more efficient stuff like this. This will be faster. This will be dramatic. The whole company is involved in it. We have our offsite in July. You can imagine this is a big topic everywhere from front office to mid-office, to back office, to marketing, to risk, you name the subject, and more to come. But we're kind of in the midst of this mini-revolution, and we'll report to you.

Jamie Dimon **A**
Chairman & Chief Executive Officer, JPMorganChase

But I do also want to point out, maybe you could be ahead of other people kind of, but what always happens is the benefit accrues to the customer, not to the – the JPMorgan in this case, because other people are doing the same thing and presumably it leads to lower cost and lower error rates and a bunch of things. You can't just say, well, your ROE's going to go to 50% and stay there. If we had a 50% ROE and growing at 10% a year, you'd probably have – in 50 to 60 years, you'd probably be 100% of the GDP of the United States of America.

Saul Martinez **Q**
Analyst, HSBC Securities (USA), Inc.

Yeah. Yeah. Okay. Thank you for that. A follow-up on Equities, and I think, Jeremy, you said, if I recall correctly, that the particular set of things that happened this quarter are difficult to see repeated. Can you just maybe elaborate on what was most exceptional this quarter? I think some of your peers have talked about Asia, prime brokerage there. And I think you mentioned derivatives and cash being strong. But is there any areas or products or geographies that were particularly noteworthy in terms of the strength this quarter that may be difficult to sustain going forward?

Jeremy Barnum **A**
Chief Financial Officer, JPMorganChase

Yeah, I mean, there's really not a lot behind my comment. It's essentially what you would get from asking any of the commercial AI models this question and the two stages old version of the model. In other words, it's all the obvious stuff that's been heavily reported, like we had some major IPOs. We had some major index rebalancing. We had some very complicated dynamics in the Korean equity market. There's been a lot of activity in Asia. The overall environment has been dynamic and interesting across a whole variety of dimensions. The clients have been extremely active. So, it's like all – it's all the headlines basically that have driven the market. And of course, that could obviously repeat. But I just think like statistically, it seems improbable that that particular combination of effects could repeat itself. But it obviously could.

Jamie Dimon **A**
Chairman & Chief Executive Officer, JPMorganChase

And you guys, those who pay attention, you can see most of this on a daily basis through volumes in the New York Stock Exchange, the CME, volumes through hedge funds, volumes through – it's not a secret. Margin loans. You could see a lot of this taking place during the course of the quarter.

Saul Martinez **Q**
Analyst, HSBC Securities (USA), Inc.

Got it. Thank you.

Jeremy Barnum **A**
Chief Financial Officer, JPMorganChase

Thanks, Saul.

Operator: Thank you. Our next question comes from Ebrahim Poonawala with Bank of America. Your line is open.

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

Hey. Good morning. I guess maybe – a lot of discussion on the strong Wall Street backdrop. Maybe, Jeremy, just talk about the Main Street part of the U.S. economy. There is a sense that there's a fragility when you look at housing, real estate. Rates potentially could go higher. Give us a sense around what you're seeing from – on the consumer side, the ability to sort of pull forward and resiliency if rates go up. And are you seeing any broadening in CapEx beyond AI or is it very AI-centric in terms of what you're seeing on even commercial lending activity? Thanks.

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

Okay. Let me do these in reverse order actually, because I'll just address your AI CapEx question quickly. We do see some decent kind of CapEx and associated loan growth across the franchise, and at least on the surface, some of that does not appear to be AI-related. However, I would be a little reluctant to draw that conclusion too strongly just because the AI theme has started to proliferate in so many different parts of the economy, right. It's like the comments about data centers wind up creating a lot of demand for like plumbers and electricians, right. So, you wind up seeing it in sort of slightly non-obvious places. And so, any given bit of loan growth or CapEx that you see that doesn't superficially look like it's AI-related, might still be. But on the other hand, it might not.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

To give you the big numbers, I think CapEx is about $4 trillion a year, and AI went from $400 billion last year to $700 billion this year. People project, so do our people, it'll be like a little over $1 trillion next year, and maybe a little reduction in the non-AI CapEx. But that's hard to figure out, because it's the same people – some of the same people doing the same.

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

Yeah. And I was talking to our economist the other day about like the CapEx impact of CHIPS Act and some of that's kind of rolled off and it's getting replaced by more direct AI stuff. So, it's a little bit hard to untangle the whole thing. Going to the consumer for a second. So, few things, I guess I've kind of already covered. So, number one, spend is kind of fine, robust and across income segments. Seems like a bit of a tailwind there from tax refunds.

Delinquencies are a little lower than we expected, and again, that's a better performance you see pretty much across the board by kind of FICO score. There's some of that economic heterogeneity data came out from the Fed recently, which also I think doesn't give a lot of support to the K-shaped narrative essentially. So, again, we think about this, we worry about this, we look at it. But from our perspective, through all the various dimensions, there's not like that much there in terms to support the K-shaped narrative.

Now, to your point about fragility in rates and housing and stuff like that, it is of course – we are in a slightly higher than normal inflationary environment. I think Marianne had made some comments at some point about a cohort of consumers who are experiencing negative real wage growth and that potentially creating some distress for those folks. Now, some of that statistically is kind of always going to be true in any moment in time in any cohort. But that's probably a watch area.

And I think generally, obviously, it's been a long expansion that's gone on for a long time. I think the economy has surprised on the upside, Consumer strength has surprised on the upside, and that inevitably makes everyone worry about fragility and about the thing that could change it. But as I always say, when it comes to Consumer credit performance, it's just about the labor market. And so, you're not going to hear anything from me that's new or differentiated about the labor market. Like we all see the same numbers, and it's been surprisingly resilient. So, for now, that's the narrative.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Got it. And I guess just a follow-up. On the capital front, you have excess capital, strong ROEs. But I guess the question would be, why buy back stock here at 3 times tangible book when things are so good, bad things could happen? Why not just have some even more excess capital for a rainy day if things go south? Just talk to us in terms of how you're thinking about buybacks at these levels? And I know Jamie's talked about potential M&A at some point, maybe asset management, fintechs. But yeah, would love to revisit that. Thanks.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

Yeah. So, before I answer that, I want to tell you I always enjoy reading your weekend notes. They're insightful and sometimes quite funny. So, thank you for that.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Thank you.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

Look, you're absolutely correct. I mean, we've always said we want to buy back less stock as the price goes up and more stock as the price goes down. We had a lot of excess capital. And so, we were struggling with that if you're talking about two years ago. We still think the number – use just approximately $40 billion, and I think we now think we could actually deploy that over time. The world's gotten bigger. It's gotten more complex. I just got back from a tour of Europe, our Security and Resiliency Initiative, the hyperscalers, the needs are just big.

And it's not just AI. You're talking about global infrastructure, the remilitarization of the world, the restructuring of trade is taking place, the enormous need of our governments. You have – global deficits are almost 4.5% or 5%, which is a very big number competing for the same capital. So, we do think we'll deploy it, and that has consequences. And we're not going to tell the market what we're going to do. But we agree with you generally. And if we think we can deploy, it's very different than buying back stock.

I've also never thought that buying – I actually want to get rid of that number, money returned to shareholders. I just don't even like seeing it, because buying back stock is not returning money to shareholders. You're making an investment decision. You're not making a return money to shareholders decision. I actually do want that out of all our reports. And so, you can see changes taking place. We're just not going to tell you what they are. And I made a mistake last time mentioning $20 billion. We could obviously do far more than that or nothing at all. What I was trying to point out is we have huge opportunities for organic growth in every single business we're in.

Organic growth is hard. It's technology. It's people. It's systems. It's branches. It's bankers. It's hiring. It's training and recruiting. But I was surprised to find out in parts of Europe that while we've doubled our share in certain areas, they think that we could do a lot more there and country-by-country, including countries that we say aren't doing particularly well. And I think that's true here. We have our branch in the United States. We've got our credit card business. We've got the Apple business at one point, which we have pretty high hopes for, if we come up with better products and better services.

And yeah, so the goal is to deploy our capital at a 17% return. That is the goal, which we think we can do over time. We should always be looking at inorganic. What we don't want to do is look at inorganic as a sign of weakness of organic, which I think companies do sometimes. They bullshit about M&A when they should be focusing on why they're not doing particularly well in an area or something like that. And we have a lot of competition, by the way. We had pointed out before, very good competition, not just not just Goldman Sachs, who's doing a great job, if you didn't read their numbers this morning, because I did. But you got Stripe and PayPal and Cash and Block and Chime and SoFi and Revolut, and they're good.

And we have to make certain investments to keep up with them or to hopefully do a better job than some of them. And so, we're doing all of that. But you should always be looking at things that could be good for your company inorganically. And we've done a bunch of deals this year, as you know. Most were good. A couple weren't particularly good. And we're going to be looking, and we're open-minded. It wasn't any particular thing or any particular place. It might be adjacencies. It might be data-related. It might be a whole bunch of areas. We have a bunch of skunkworks going on. We hope Chase UK – that we can continue to build that in a way that becomes a great European digital bank over time. It's going to take a lot of time and effort to do that. But you raise a good point.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Thank you and glad to hear you're reading. My parents will be proud. Thanks, Jamie.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

Say hi to them for us.

Operator: Thank you. Our next question comes from Glenn Schorr with Evercore. Your line is open.

Glenn Schorr
Analyst, Evercore ISI

Q

Hello. Thank you. Just two quick follow-ups. One, and last couple of times you talked publicly, you had a couple of comments on the Smart Cash tool that you're working on. I know you said it's nascent and early, but sometimes technology moves fast. So, curious, status of the tool, when you might roll it out and to who, and maybe a little more on your comments on you're going to have to pay more for money over time, just curious.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

Yeah. So, it kind of relates to the thing that Jeremy was talking before about the velocity of money and how it's going to move in a new world. So, we are kind of prepared for that. So, this is still a test case. Banks – people are in different position. And if you actually look at accounts, these don't relate to every account. They relate to a narrow segment of accounts and where you're competing for their investment business and their deposit business. So, what you're going to see is certain tests coming out, and then you'll find out about what we can do or we can't do. And we're going to learn a lot by doing some of that. And we think it could be good for customers and good for us. We're not just finding ways to waste money.

Glenn Schorr
Analyst, Evercore ISI

Q

Okay. So, still a this year thing, I take it?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

Yes. You'll see something this year.

Glenn Schorr
Analyst, Evercore ISI

Q

Okay, cool. One other follow-up on – you just touched briefly on it. I'm just curious of how you'd state your European consumer banking aspirations. You mentioned opportunities – you do plenty of business there. But you mentioned opportunities in each country by country. But maybe you could just sum it up in aggregate of what are you trying to be as a consumer bank across the major markets in Europe.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

Yeah. When we were talking about just bricks and mortar, we weren't going to try to compete because we couldn't have with local banks, their brands, their capabilities. And unlike the United States, over there, we'd have to add all the overhead in different languages, in different regulatory regimes, et cetera, and we have no real reason to. And digital may have changed that. So, we started Chase UK, I forgot, like four or five years ago. It was a complete start-up, and we made a little bit of fits and starts.

But we have, I think, almost 3 million or 2.5 million customers in the UK. We've opened up in Berlin. We've actually done much better in Germany than we thought we were going to do, though it's not quite profitable yet. So, what you got to look at there is you have a platform, the platform costs money. And as you can distribute across more and more clients and more and more countries, you can get to the point where you're breakeven and then hopefully profitable.

And so, we've added the investment products in the UK. You can assume we're going to try to add them elsewhere and probably credit card. And hopefully, the dream would be that it'd be a pan-European successful digital bank, building off of JPMorganChase's strengths. We are a Private Bank. We do have an upscaled – a huge business here. We've got a lot of clients that go cross-border. We've got a lot of trading capability and underwriting capability and research capability.

But it's still adjusting over time. We've always called this like this is – it's not a brand-new thing, but it's developing over time and have high hopes for it. And the management team is doing great. We tell them, constantly come in and tell us what you want to do, what you want to do differently, what we've learned, and we're kind of patient, kind of.

Glenn Schorr
Analyst, Evercore ISI

Q

Us too. All right. Thanks, Jamie.

Operator: Thank you. Our next question comes from Gerard Cassidy with RBC. Your line is open.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Thank you. Jamie and Jeremy, you guys have talked about you seeing some excesses in underwriting and credit late last year. I think it was Jamie. Jeremy, you talked about risk-on in the capital markets. What are you guys seeing in credit underwriting from your competitors? Is it getting crazier or no, it's still pretty good? And what's the outlook there, please?

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

I mean, crazy is a strong word. But I spent some time looking into this issue like a week ago, and we did hear some example – I mean, I don't know. For whatever reason, I think the data center underwriting space is one that resonates with me as a kind of bellwether for what people are doing. And we passed on some deals that – obviously, because when you look at the data center stuff, the key question is like what happens with power supply, what happens with tenants, what happens with – it's a well-discussed thing.

And we have a pretty precise framework to govern what we're willing to do and what we're not willing to do in that space across those types of risks. And we saw some deals come through, where we were just like, yeah, we're not doing that. So, it's normal, I guess. It's competitive and people are eager to be involved. And in some cases, there's ironically some element of like relationship lending that's happening through the data center space when it's kind of a start-up entity that's building the data center. So, that's part of the story a little bit too.

But I don't think we're screaming from the rooftops that underwriting is going to collapse. But I think you see normal pressures, and we're navigating those in the way that we do, which is we do flex in some moments for particularly important clients in situations where we feel like it's the right thing to do. But in general, we try to be the one that holds the line and make sure that we're guided by our own risk appetite and a kind of appropriately skeptical view of the environment.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

Yeah. We didn't talk about a huge deterioration in credit underwriting standards. I think we talked about it as a very mild one, but it's across several spectrum, which is people – assumptions on revenue growth or add-back of expenses, more PIK, some weaker – and this is not across the board, by the way. It's more some players than others. Some weaker covenants. Some people taking more rollover risk. And by that, I mean, if rates go up, how much interest rate exposure you're taking as opposed to underwriting exposure, and it's just things like that. But it is across that spectrum, you've seen a little bit of weakness. And the only point we're always trying to make is when there's a credit cycle, and there will be a credit cycle, how will everybody perform. And I don't think it's going to be like a bell curve of performance. I think there'll be some outliers out there, just like there were, by the way, in the Great Financial Crisis.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

I totally agree with you, Jamie, on that. I don't want to sound pollyannaish. But on a question regarding the regulatory outlook, obviously, we've got Basel III Endgame. Hopefully, it'll be codified maybe by the end of the year. I know you guys have put out your remarks on it. And next year, hopefully, we get tailoring. Could you envision a period where – and again, I don't want to sound pollyannaish, but a period where the regulators are just set where you go, because the last 20 years, there has been constant change with the regulators affecting the banking industry. Could we enter a period where we have a stability in the regulatory environment, which could enhance valuations possibly for bank stocks?

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

Well – go on.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

Go ahead.

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

I would break the question down into two parts, like could we envision stability and impact on valuations? On the question of stability, I mean, I don't think it's pollyannaish to say that regulatory stability is a desirable thing. And I actually think it's a relatively nonpartisan idea.

Like I think it's understandable and correct that there would have been a big reaction to the crisis and then maybe a reaction to the reaction, and that the sort of amplitude of those oscillations might be decreasing and we get into a place where we've got it about right, and frankly, we get to a point where banks are primarily focused not on complying with regulatory constraints of various types, which should probably in general operate as backstops, but rather thinking about what their own standards are and what their own risk appetite is and have that be kind of the true north of any given set of decisions.

And I think we're getting closer to that state, which will be good. Whether achieving that state would be particularly supportive of bank stock valuations, I'll leave that question to you. But at least I think for banks like us, I'm not convinced that's a major drag right now, to be honest, or that it has been in the recent past.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

Yeah. And I would just add there's one Supreme Court decision that makes it less likely that we would have flip-flopping, which is a President can remove a lot of people more easily. But I'm hoping, I mean, what really should happen now is when they write legislation, they could be more clear about their intent and what they want, because they could have written it and said, we want this independent or you can only replace so many or we don't want flip-flopping regulations.

But I really like the fact that Miki Bowman and Kevin Warsh are taking a step back and looking at the broad range of changes, which have been extensive over 20 years and never-ending, and often with no ultimate intent or intended consequence, whether they want in a system or outside a system that makes it safer. But I actually believe you can make the system much safer, much safer, and that should be the real goal, not just adding layer upon layer of bureaucratic reporting. Some of the regulators said that from now on, they're going to focus on safety and soundness. Well, if they do that, we would have no MRAs, because none of them related to our safety and soundness. They related to other issues.

And I think have you related to safety and soundness, Silicon Valley Bank and First Republic wouldn't have happened simply upon they were taking too much interest rate risk, which was disclosed. That one thing. And so, I just think the goal should be to take a step back, look at these things in the open light, be very honest about what worked and what didn't work, like resolution did not work. Resolution and recovery does not work. People should look at the discount window differently. And anyway, if those things are done, I think we'll have a safer banking system where we don't have to be breathless every time a bank fails.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Thank you. My thoughts exactly. Thank you, Jamie. Yeah, go ahead.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

You guys are the guys who know so much about this, that should be making some of these recommendations to the regulators. It's in all of our interest the system can be better. Not any one of us. All of us.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Agreed. Thank you, Jamie, and thank you, Jeremy.

Jeremy Barnum **A**
Chief Financial Officer, JPMorganChase

Thanks, Gerard.

Operator: Thank you. For our final question, we will go to the line of Manan Gosalia from Morgan Stanley. Your line is open.

Manan Gosalia **Q**
Analyst, Morgan Stanley & Co. LLC

Hey. Good morning. Jeremy, as we think about the various expense buckets you called out at the start of the year, the volume-related expenses, bankers, tech, marketing, I know majority of the increase in the expense guide is coming in the revenue-related line. But are you also bringing up some of the other categories, maybe pulling forward any tech or marketing spend, given the environment?

Jeremy Barnum **A**
Chief Financial Officer, JPMorganChase

Yeah. There's some of that stuff going on. So, I'm trying to sort of keep it simple and disproportionately focus on the big driver, which is obviously volume and revenue-related expense. But as is always the case, there are some ups and downs, which – some of which relates to things like our marketing strategy, which I probably don't particularly want to disclose. But I think one topic, which is not financially meaningful this year, but which I think is interesting and maybe come in the future, is the question of token expense, because that is something that we're spending a bunch of time on, as probably pretty much everyone in corporate America is.

So, just for the avoidance of doubt, it is a trivial number for the first half of the year. We are forecasting some meaningful acceleration in that number for the second half of the year. But still nonetheless, the full year contribution of that is still trivial, and obviously, we had budgeted some of that. So, it's not in any way a meaningful driver of the current outlook or to the revision in the outlook. But obviously, when you listen to the frontier labs talk, they talk about the exponential and the acceleration of usage, which is obviously driving their revenues. And someone's paying those bills.

And we're in a sense like a representation of the economy as a whole that we're probably lagging a little bit some of the cutting-edge adoption and usage as we should, given who we are as a company. But it is an important question for us as we go into next year and the subsequent years. And I think the good news is that we've done a lot of really high-quality thinking on this, and a lot of the infrastructure that we've built over the last couple of years is going to position us to be quite sophisticated about using the right models for the right purpose.

I mean, just to use one sort of topical example, no offense intended to those of you who tend to write slightly long reports, but as you can imagine, sometimes people like to summarize those reports using AI tools. And as you know, the tools are quite good at doing that. And you really don't need the latest cutting-edge, incredibly expensive model to summarize an analyst report. So, the idea is use the right model for the right purpose, be smart about open source where appropriate, and ensure that you're getting value out of it ultimately in the end. Either we're going to have a lot more capacity or we're going to have a lot more efficiency or both, or we're going to have better revenue outcomes or we're going to compete more effectively, and we just need to be disciplined about how we handle that. So, that's a body of work that's happening right now.

Manan Gosalia **Q**
Analyst, Morgan Stanley & Co. LLC

Got it. Very helpful. And then, maybe just on CIB and the increased capital allocation there, I guess how nimble do you expect to be there? Do you think we're at peak allocation here? Are there any internal limits that you might be rubbing up against? Or is there room to keep allocating more balance sheet to the business if the environment remains where it is?

Jeremy Barnum **A**
Chief Financial Officer, JPMorganChase

I mean, I'm definitely not going to get into discussions with you about like internal limit management. I guess it was on the press call. So, maybe you didn't hear this. But I did get a question about this. And I think the right – and I think you said this correctly, but I just want to err on the side of being precise here. Sometimes people think about capital allocation almost as if it's a hedge fund where you're like giving a pot of people some capital and telling them to go use it. That's not the way it works. It's the opposite of that.

Jeremy Barnum
Chief Financial Officer, JPMorganChase

A

In other words, we have demand from clients to support them in various ways. And to be clear, we also have some – what you might describe as passive effects, like obviously when volatility is higher, market risk capital goes up passively and simply the appreciation of global equity markets increases the RWA associated with things like the prime business. So, you've got active and passive effects, but the active effects are us responding to client needs. And obviously, we've got a ton of excess as a company, and as Jamie said, our primary goal is to deploy that organically.

So, when our CIB clients want us to serve them and we can do that in ways that make sense for us from a risk appetite and from a returns perspective, we've got plenty of capital to do that. And so, we do that. Sometimes, there are other financial resource constraints, and that's part of what we do for a living is try to manage that stuff. And I talked a little bit at Company Update, if you recall, about the system and the fact that the system is currently quite flush with capital, but at the margin, less flush with liquidity. And that's obviously an area of advocacy, especially in light of the stated goal to reduce the size of the Fed balance sheet. You really need to reduce bank demand for reserves to get that done. And so, that in turn probably requires some adjustment to liquidity regulation. So, that's the next thing on the agenda.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

A

Right. But our risk standards haven't changed. So, it's possible some of these things change because people self-select and pick somebody else, and that would be fine with us.

Manan Gosalia
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thank you.

Jeremy Barnum
Chief Financial Officer, JPMorganChase

Thank you very much.

Operator: Thank you. We have no...

Jamie Dimon
Chairman & Chief Executive Officer, JPMorganChase

Thank you.

Operator: Thank you. We have no further – thank you all for participating in today's conference. You may disconnect at this time and have a great rest of your day.
