JPM AT THE BARCLAYS GLOBAL FINANCIAL SERVICES CONFERENCE

TRANSCRIPT

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JPMorgan Chase & Co.

MANAGEMENT DISCUSSION SECTION

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Yeah. Why don't we – we got a minute before we start. But why don't we put up the first audience response question to get things going? And so similar to all the other presentations that we've asked, how are you positioned in JPMorgan stock.

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

I'm a little overweight.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

And while you're answering, I'd like to welcome Jamie Dimon here. This is the 17th Annual Global Financial Services Conference we've done. JPMorgan has been a big supporter of this event. Over that timeframe, Jamie is on a very nice track of coming every other year to this event and doing a keynote lunch. So it's great to have him back.

We'll see what the response is to this question. Then we'll get going.

So 41% overweight. I would say that's down a little bit. It was 46% last year and 51% the year before that, although as you've got to look at that relative to the other banks that have presented, I would say the 34% with no position is probably at the lower end of what we've seen.

So, Jamie, welcome.

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

Anyone who's short, you got to be a little crazy. Happy to be here, Jason. You always do a great job.

QUESTION AND ANSWER SECTION

Jason M. Goldberg **Q**
Analyst, Barclays Capital, Inc.

Appreciate that. Maybe the best place to start is, obviously, you have a lot of interactions with both consumer, institutional, corporate customers. You see tons of data. Obviously, a lot of evolving situations out there, whether it's Brexit, China, the evolving interest rate backdrop, softening economic data in some parts of the world.

What are you hearing, seeing? And what's your view of the world?

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

So welcome. Happy to be here.

So very consistent with – we've heard from other banks, which is the U.S. consumer is chugging along. 50-year unemployment low, unemployment claims, wages going up 3%, the third year in a row and quite a bit more in the lower quartiles, et cetera.

Confidence is high in consumers. Kind of high in small businesses. And the U.S. consumer is 70% of the market, they don't necessarily react very much to geopolitics at all.

But you do have this mounting stuff of what I call complex geopolitics. We'll remind you, it rarely is that geopolitics that affects the economy in the short run. And almost no examples of that true. And the real example was true was in 1972, when oil prices went up from $2 to $12 [per barrel]. But you do have Argentina, Mexico, Brexit, China trade, which I'll go back in second, Hong Kong, India/Pakistan.

And these are a mounting series of stuff that are on corporate CEOs' minds. But I think the most significant is trade.

And it looks to us like trade has reduced capital expenditures, business confidence by multiple measures. It isn't below the 50th percentile. But it's gone from the best ever to close to the 50th percentile. And that may very well – and we don't think it's going to go away.

And again, I'm not a betting man. It looks like it's a slowdown. And you've seen the slowdown in Germany, Japan, et cetera, but not on the path down. So it's possible that you're just going to have a slower economy.

Our economists have emerging markets growing 4% and up till about next year, China at 5.5% to 6%, America at 2%. So it's possible you're just going to be okay. You have a deep breath. Bond rates are going to go up. Stock markets will be fine.

And the others, huge incongruity between the bond markets and stock market. And reflecting fears and hopes.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

I guess with that response, maybe we'll go to the next ARS question. What are currently the biggest areas of concern to you as a bank stock investor?

Almost a majority, prolonged period of low absolute levels of rates, including the risk of negative rates.

And, Jamie, maybe we'll start there. But I mean, our economists were thinking the Fed hikes 100 basis points this year. And now it's going to cut 100 [basis points] according to them. 10 year [Treasury rates] at 1.5%, 1.6%, so clearly a different interest rate environment that we started out the year.

You had to tweak lower your NII guide last quarter. Just how do you kind of manage the balance sheet against this uncertain environment? What do you do to kind of protect the balance sheet in a period of absolute low rates?

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

A

Right. Well, it's hard. So what you have is – so when interest rates – obviously, NII is the thing you all look at – our NII will be a little bit lower than what we told you last time. I think we told you $57.5 billion, probably even closer to $57 billion at this point for this year, so you're only talking about two quarters.

And obviously you got to worry about the long run effect of those interest rates, but it's hard. So there are businesses it doesn't affect at all. And maybe we have to do a better job describing this to you. And there are businesses where it just sucks into your margin. There's very little you can do about it.

I don't think we'll have zero rates in the United States, but we're thinking about how to be prepared for it, just as a normal course of risk management.

Jason M. Goldberg
Analyst, Barclays Capital, Inc. **Q**

What sort of actions could a bank take in that backdrop?

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

Well, I look at the obvious ones like you can cut costs, so you can do things like that. You can charge – I mean I don't think we're going to – it just seems very hard to me to charge consumers below zero. You can charge them account fees. There are other ways to manage the process.

So we just started thinking about it. So I honestly didn't expect it to happen, and I still don't expect it to happen. I certainly didn't expect it a year ago. About a year ago, I thought rates would be heading up, not down.

Jason M. Goldberg
Analyst, Barclays Capital, Inc. **Q**

One of the, I guess, questions coming out of this conference is some banks seem to have the ability to reduce deposit costs and others not so much. I know mix plays a role. But it seems like it's not even mix driven. It's just more about maybe strategic choices the banks are making.

Maybe talk to in terms of what you're seeing within your deposit base on the retail side, the wholesale side, in terms of just deposit balances and overall kind of rate paid?

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

Okay. Well, I say – look, you really got to do it by product. So on the consumer side, not the hot money consumer side, but basic deposit, checking account, stuff like that. There is not much you can do. You could play the other side of the balance sheet. And you can look for certainly more spread. You can do a bunch of stuff like that. But in terms of beta, you're already paying like very little. And I said, I don't think you go below zero.

If you have hot money, LIBOR based, something like that, of course it's going to reprice. And so you're going to have some of these people who are going to have a benefit from that. That is slightly different.

And then on the wholesale side, it's much more dynamic, what gets priced in the marketplace and how it gets priced in and where it shows up.

So again, I just – I don't worry as much about it. I worry about building the business. I want more deposit accounts, more deposits. I wouldn't not grow deposits, because growing deposits shrinks my margin a little bit. And my absolute dollars will go up.

So whatever happens to NII, we do have the other side to actually make the business better. And I look at some of these opportunities maybe as a chance to gain business. And try to think creatively about what you can do to do better, not to cut back.
And the other major thing, because you didn't ask, but I'll just answer it. So if you go to our 10-K, it shows you a number that if the yield curve dropped by 100 basis points, what – immediately what happens in the next 12 months. And that's kind of what you had from when we last disclosed this stuff. And I think that number is $2.7 billion.

So put that in the back of your mind as a 2020 kind of full-on effect, because you're talking about almost 100 basis points on one end, and the 10-year started last year quite a bit high, as it is today.

But the far more important effect is the why. If that's because you're going to a recession, you're going to be hurt far worse than that. If that's because you have low rates but you have a healthy economy and it worked, you'll have other offsets. And so you got to look at both sides and kind of manage to both and run the business so your client is happy.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

I guess when you talk about the health of the economy – and maybe the other part of NII is the loan outlook. So maybe just talk to in terms of your kind of expectations for loan growth. You've been kind of outpacing peers on that front. But kind of where you're taking share? Where you see areas of strength go forward?

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

A

Yeah. I don't think we're outpacing anymore. So the way we look at loan growth is the CIB, the investment bank, it's kind of episodic. It kind of goes up and down. It's not a loan growth issue at all. So we don't look at it that way.

In Commercial Banking, I think we are – we have very low growth in C&I and CRE, I think probably less than some of the banks today. But we're just being cautious on that side. That's a decision we make.

In Asset & Wealth Management, it's growing. It's mostly good secured loans or housing loans or other good secured loans. That's just part of building your client franchise. And I think it's been up like 6% or 7%.

And then on the consumer side, there are different pieces. So credit card is – the loan book is growing, I'd say 6% or 7% or something like that.

Mortgage, what ends up on the balance sheet is up to us. We make that decision. So right now, a bunch of the mortgage stuff that's on the balance sheet, we're moving from the balance sheet. So you see the balance sheet number going down. The origination number, as you know, is quite healthy. So those are decisions we make.

Auto, I'm going to say kind of flat; again, deliberate.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Helpful. Maybe we'll go to the next ARS question. What is your top reason to own JPMorgan stock?

Basically, ability to leverage scale and diversified revenue streams. And I think, Jamie, this kind of gets back to what you had mentioned earlier in terms of trying to build businesses. Could you maybe just talk to kind of areas that you are kind of leveraging your scale over the last several years?

You've kind of introduced new products, whether it's the Sapphire Card, which kind of, taking some share in kind of the higher net worth – or upper end kind of card spectrum. You thought you've kind of made a big splash in the asset servicing segment with the BlackRock win. Haven't really heard any big announcements since then.

You started making a push maybe into the online trading area. Just talk to kind of maybe how some of these initiatives have been? And kind of where areas you're kind of beginning to sort of step up?

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

A

And so when we meet as a management team, we look at all those areas of growth. I mean, we hope to gain share everywhere. We fight to gain share everywhere. We build products and service to gain share everywhere.

Some of that's technology. So I mean, you could look at each piece. So CIB, it's hard. I mean, obviously, there's – The other thing is, all the areas are fully competitive today. And that wasn't totally true in the last decade. And so even around the world, even when you say, okay, there are some people struggling, they're still pretty competitive in those markets.

So CIB, it's – you're in the trenches. It's country by country, industry group by industry group. On the trading side, client by client, and delivering on more electronic capability there.

And so we're hoping to hold share in fixed income, gain share in equity, gain share in certain countries, net-net in Investment Banking, et cetera.

Commercial Banking, we're opening – I think in the last six years, we've opened in like 30 or 40 additional markets. So we're now in the top 75 markets. And those ramp up over time. You have to add bankers and build clients. And we tell them to do it wisely and intelligently. But that's driving good growth in Commercial Banking.

We also have some new products coming out of Commercial Banking. Think of product simplification, how you sign up for things and digital account opening and data. And even when we do cyber for us, we're protecting you. Cyber is a plus that we can make sure – we can sell people that we do a good job.

Asset & Wealth Management is just gaining share. And I think we can gain share in high net worth, ultra-high net worth. And then the basic branch business, et cetera, that's adding products, services.

You Invest is doing fine. And we're trying to figure out exactly how to grow that over time. We just open Portfolios, how we're going to offer that to our clients.

So some of these things are kind of new and we're not exactly sure. And they're doing fine, quite happy. The new branches, 40 new branches – I forgot how many new states – like 12 new states or something. It's early. By the end of this year, we'll have 100 open.

And they're ramping up a little bit better than we thought. But it's early, so where you're thinking – but we go into these towns. And obviously the – Philadelphia, Boston, Washington D.C., they're all in the top 10 markets, and we weren't there. And so where we test the new branch designs, et cetera.

And obviously, a lot of stuff there is digital. We have a lot of things coming in credit card, how you control your credit card, the credit score, Credit Journey, and a bunch of other stuff that I won't disclose here, which we think clients are going to love, the package of products we offer them.

And so I look at each one as we can grow – cash management grow, custody. In custody and cash management, a little bit is delivering APIs to clients. It's not doing the basic business, like giving your – even you all when you want to access data, get access to data the way you want it on the screen you want. So you can use an API to access JPMorgan systems.

So we have a whole list of things we're building, a couple I'm not going to tell you about.

Jason M. Goldberg
Analyst, Barclays Capital, Inc. **Q**

In your response you mentioned the new branch buildout going a little bit better than expected. Why don't you elaborate in terms of where is better than expected? Where taking share from? Is it the community banks, is it the regional banks, or is it the other money center banks? And you're going to have, what, 90% of the U.S. covered in the not so distant future. Where do you think you could take that U.S. deposit market share to?

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

Yeah. Deposit market share is – it's a slog. So it isn't like you're going to change deposit share tomorrow. We're like close to 10% in the United States. But remember, we're not in all the markets.

So my view is, we can gain share in the markets we're in. And we can gain share in the markets we're not in. And we're going to slog it out. We have competitive advantage. So we're still analyze – so I call up all the time and ask them, how did that branch do? And where did the traffic come from?

And we're analyzing the distance it came from. It's a wider net, which may mean, by the way, that we're just sucking business from the next Chase branch that is going to open up. Some of it is because like we have – they have a credit card or an auto loan. Some of it's because they like our digital products or a bunch is digital account opening.

So it's across the spectrum. But Chase, we have a lot we offer clients. And that brings in traffic, product, services, customer sat [satisfaction] scores are very high. The digital products are rated very high. So I'm quite happy about that.

If you ask about share, I mean I think that – my own view is that share in the United States is still fragmented. And that someone is going to have 20% one day. And it's all economies of scale and it's going to take a long time.

But the notion that somehow you're not going to have consolidated banks over time – this is one of the least consolidated banking systems in the world. The only one that's equivalent is Germany.

But you go to Japan, France, UK, Canada, Brazil, China, they are much more consolidated. And so my view is, we could – we're finding that territory. And we have some big competitors in that territory.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

You also mentioned things you're doing in the corporate investment banking side, kind of taking that globally on both the kind of larger scale side as well the middle market side. So maybe just talk maybe opportunities around the world? China comes up a lot. And what you're seeing there?

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

A

Yeah. In China or the world?

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Both, well, you're doing maybe...

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

A

So we analyze it by country by country. And we want our country officers to say, I can cover more clients in this area. So it's literally industry by industry, country by country, kind of product by product, because some are aimed at the CEO and some are aimed at the treasurer, whether it's cash management or FX or debt or M&A or advice, or something like that. And we try to add where we need people and hire some very good people, et cetera.

China, obviously, I think the way we look at China is that China – the long term view is that China – it today houses 20% of the Fortune 500. That number will be 40% in 15 to 30 years. I think that's still a likely outcome for the Chinese – we look at the Chinese market, I'm talking about Shanghai not Hong Kong. Those markets are maybe 30% the size of ours or less, 25%. In 15 to 30 years, about the same size as the American market.

And remember, when you talk about China, you're talking about three types of business. You talk about Chinese companies in China, financing in Shanghai, the same way big American companies do here, equity, debt, bond issuance, research, and all that kind of stuff. And we now have the – we've just gained the license to do that, which we did not have to do that in Shanghai. We could've done that in Hong Kong.

The second one is taking Chinese companies outside of China, which we've done quite a bit of. Chinese companies are acquiring in Brazil and UK. They have their own ambition and stuff like that.

And the third one is taking multinationals into China. Those multinationals could be from Brazil, the United States, and the UK. And so – we're building for that.

Obviously, because of trade and Hong Kong, there's a higher level of risk involved in this. And I think it changes – the possibility of a bad outcome went up. I don't – I wouldn't call it 50%. I think it went up from 2% to 5%.

But just so you know how we run the company is, if that happens, we'll still be fine. I'm hoping every – I think we need a peaceful resolution in Hong Kong. I think Hong Kong is a flash point.

And trade – my view is that both sides want to do something. They've kind of got themselves wrapped up in complex negotiations. They are very complex. And whether they can get done in the next year and a half, I don't know.

But taking the trade war off the table is a good thing, just having mature negotiators try to get it done. I think [Steven] Mnuchin and [Robert] Lighthizer are very bright. I think they've been through excruciating detail.

I think the Chinese are aware that some of the complaints from America are accurate. Meanwhile they have their own. So hopefully, that will turn out okay.

But it's not really changing our plan. I'm just acknowledging the chance of it not going according to plan is much higher.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Well, you also mentioned technology and the importance of that. JPM is slated to spend, it's like I think $11.5 billion this year. And it's an awfully big number.

Maybe talk to kind of how you think about that? Does that number continue to grow? You've had some things like Finn and Chase Pay, OnDeck, that maybe haven't gone according to plan. Kind of what have you learned? And how do you assess that going forward?

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

A

Yeah. And so look, of course, Finn, you started and you stopped, and the press makes a big deal. I don't care.

I want our people to try new things, do something different, try something that doesn't – that may not work. We always tell you Chase Pay is a little iffy. We thought it would enhance Chase Merchant Processing and the credit cards and stuff like that. And it did that a little bit. But we just couldn't get the real estate we needed on Chase Pay unfortunately. And we were probably a day late and a dollar short.

Finn, well, we got a lot. We got a lot of learnings, a lot of stuff, a lot of data on digital. I mean we learned a lot of things starting a digital only bank that you wouldn't do if you were a digital bank. But it also became obvious that it has to be fully integrated in everything you do. So now, today, a big chunk of our accounts are digital account openings only. And so I don't think we would've ever been good at that without having done Finn in the first place.

So you're always going to have in technology stuff that just doesn't work. But we have a list by business of 50 big projects like that that we're doing and funding. And I have no problem if someone walks in today and says, we've got this idea. The competitors are doing it. We need to do it. It's not in the budget, but I want to do it. No problem. Zero problem. I don't give a damn about the budget. And I mean that. And I – people think I'm kidding. I'm really not kidding.

Now on the other hand, Gordon Smith and Daniel [Pinto], technology reports to them, I go through it all the time. They think there are a lot of efficiencies that we're getting to, and we do.

So if you actually look at technology, the cost per unit is coming down like this, whatever that unit is, cost per equity trade, the cost for data storage, the cost for processing, the cost for AI, the cost – it's coming down like this. Our volumes are going up like this on almost everything.

And so we're building a ton of stuff which you all need, you all want. If we don't build, we lose.

And so right now, I guess in the short run, we think that the cost of stuff that's coming down will pay for the new stuff. That may not always be true. And it may be true that one day it's actually bigger than the new stuff.

But I ask the management team, and you all have been in these meetings and stuff like that, to say, are we building everything we need to build to win in the marketplace, not just next year, but five years from now? And you can't say, well, we can't afford it in the budget. I think that's a huge management error, that somehow you're not even making the decision, because people are looking at a budget number.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.
Q

I guess as you get further along and these investments come to fruition, I guess, do you get more and kind of I guess...

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

I feel the same way about research, too, by the way – research analysts, I mean.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.
Q

Yeah. Jes was here yesterday and said nice things about me. And...

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

No. I'm not saying that. We invest in research to cover more companies around the world with quality research to educate investors. And we don't look at that as like, my God, you have a recession. You've got to, like, wipe some of that out.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.
Q

Oh, I thought you just want to bring the unit cost down.

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

Well, you could do that a little bit, too, actually. But yeah.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.
Q

I guess – where was I going next? But I guess as you make all this progress in terms of becoming more technology advanced. I guess do you worry less or more about some of these non-tech – or non-financials or these fintech companies encroaching on what you do?

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

Yeah, well, look, you have to worry about them, otherwise you'd be a fool. I think some of them are very smart. There's a lot of money going to it. And that's a global statement.

So I know you're going to have panels. I don't if you have any global folks coming up here. But obviously people are trying – that's called capitalism. They're trying to disrupt and find ways to build a business better, faster, quicker. And some have. There have been some considerable successes out there. And I'd say Square and PayPal. There have been a lot of others which, it remains to be seen.

But on the other hand, they do great stuff and that we need to do the same thing for clients. So it puts a huge pressure on us to say, wait a second, that's a better opening, they do it faster, they do it in milliseconds, they use data, they use data better than we do. And there's nothing that generally they do that we can't.

We do have legacy systems, doesn't make you bad. And sometimes it makes it harder to quickly innovate. But we have a lot of ways to do that now anyway, as we modularize all these systems. So we have tons of SWAT teams, scrum teams, whatever you call them, that do stuff. They make changes every two weeks, every week, every day on that product. Like the credit journey thing we do and stuff like that.

So yeah, you have to be. I'm not afraid of it. But you have to look at your competition, not necessarily to always imitate them or emulate them, but to look at them. Some of them are quite bright. And like I said, the competition is everywhere.

But so far you haven't seen them eating our lunch - in anything, not even one thing. And so – but I don't say that in arrogance. I think what I said to my own people, well, that's true. They're going to somewhere.

We could have been Square. I mean the way you should look at it is the opportunity cost. We could have done that ourselves, and we did not. We could have done something like You Invest years ago, and we did not.

And so I look at our flaws to make sure we're being very critical of the things we do, to make sure we're doing the best we can.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Maybe we'll go to the next ARS question. Over time, how do you think JPM should manage its investment spend? Jamie told you his view.

Continue to invest regardless. You got the green light. So expenses will be over $66 billion now.

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

A

I remember about 10 years ago, 15 years ago when the other large banks were saying that they were going to improve their efficiency ratio. They already had one of the best in the country. They said they were going to improve it and they were going to do it more and improve it even more.

Like, folks, in a capitalist society that isn't possible at some point. And I think people have to be very careful. They think, oh, you can keep on increasing your margins. That means it's coming out your pocket. You better look at it the other way around. Give the customer more, better, faster, quicker so that you can maintain your profits.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

One of the areas that has not really come up at this conference is being just credit quality, just given how benign it's been for so long. Obviously, you're always concerned about something. But as you look out, what are you most focused on?

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

A

Yeah. So my view is the next cycle will be a traditional cycle. Most of the credit being done – and I'm talking about one or two exceptions, has been pristine.

So think of mortgage. Getting worse, you saw these charts by Fannie Mae and Freddie Mac. They're still very small compared to 2008 and 2009. So when we have the cycle, you'll have a traditional loss increase.

Same with credit card. A lot of stuff is good. Or same with auto, same with middle market. But traditional means they'll still go much higher. I mean that is life. You're going to have that credit cycle. So it won't be completely outsized. Like credit card losses in the last recession hit 9% – I think 10%. Prime mortgages hit numbers in a year, a quarter, that were 10 times what you would have called normal for a recession, 10 times. I don't expect that to happen. So we expect a normal credit cycle.

There are pockets you should be looking at that may be a little different. And I'm not saying with us. I think there's certain subprime things that people are doing, certain mortgage things people are doing. And at a certain leverage length, that certain people doing. It's mostly not in the banking system.

And so there may be a slightly different outcome for some of those. But they obviously don't affect us very much.

I also don't think they're big enough to be systemic. So you analyze all these things.

No, they're there, but they're also being done by very smart people who've got much more permanent capital and credit, who have thought about they can survive a cycle in the way that some of these other people couldn't last time.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

I guess in the last few weeks there's been I guess news around changes to Volcker, the stress capital buffer, GSE reform. So obviously unique – pretty unique things.

But maybe you can address kind of your thoughts on each of them in terms of – I guess maybe we'll start with Volcker. I guess how do those changes impact what you do? Do they help expenses? Do they help potentially revenue? Do you think they help improve market liquidity?

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

A

I think first of all we – there were 1,000 rules put in place. There was legislation that was thousands of pages long. Instructions given to agencies who wrote thousands of rules around it.

And the notion that somehow – and none of the big banks have asked for Dodd-Frank to be thrown out, none of them, which is what you read about all the time.

They're talking about – and there – and among all those rules, there's huge amount of overlapping, duplicative, inconsistent, excessive reporting that doesn't do anything. And some of it just tortures customers so you – your operations people are tortured over certain KYC rules, AML rules, sometimes Volcker rules, et cetera.

So Volcker is a – these are now calibrations about a slightly better way to do it. And it could be better for the system too, by the way. So I think that the Volcker rules, it'll modestly reduce our expenses, it will not change our strategy. And the expense reduction is mostly around certain reporting. And we're not going to be taking a lot more risk.

But it will lead to a little more liquidity. Because at the margin, you're going to have people who feel a little more able to trade. And you want active trading markets. And by the way, you want active trading markets in eggs, lumber, cotton, corn, sugar, steel, and financial instruments.

The notion that you don't – and of course, you look at financial instruments, the bid/ask spreads are very narrow, you want liquidity, you want to – one day you're going want to be able to move to big positions, not little ones. And so you want liquidity. And so I do think some of those things hurt liquidity a bit.

I think the far more important impact on liquidity was LCR and how G-SIFI looks at repo. And those things will hurt the system in a downturn. It will be much harder for banks to intermediate in a downturn. That's a slightly different issue.

The capital buffers, I think it's a better way to do it, having a stress capital buffer. I think if you're going to put in G-SIFI – I don't know if you all study G-SIFI. I still think it's one of the stupidest calculations I've ever seen in my whole life. And it causes all these distortions, which are unnecessary and probably damage certain types of the economy.

Not JPMorgan. So some of these things damage mortgages, or they damage trade finance, or they damage very low risk business that facilitates liquidity, like repo or something like that. So now hopefully one day, they'll look at that.

And I don't think those things and – but there's a lot of changes coming. So, in total, we're not changing our view about capital. We have some pluses, some minuses, final details, and we'll see it. I don't think it's going to change our strategy very much.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Any thoughts on GSE?

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

A

And the other thing that I think the regulators eventually have to do is look at how America gold plated everything. LCR, G-SIFI, a bunch of other rules, and that's kind of fine in the short run. It's a bad long term position to be in.

So eventually, you need some kind of international harmony, harmonization. Doesn't have to be exactly the same. It may very well be logical to mortgages in your country, because of laws or collateral, all that's safe in the mortgages here. And therefore have a different capital requirement. That is possible.

But doubling some of the G-SIFI charges, that is not sustainable in the long run as you have banks – these Chinese banks are big. And there could be – eventually, you're going to see mergers of banks, including international banks and stuff like that. And we have to compete with that. So I do think there is serious and longer term competitive issue, but not in the short run.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

I guess with the changes within the administration over the – so you have new heads of everything on the last couple years. I guess any...

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

A

And I just want to mention. One way to look at the LCR thing and this, I'm talking about monetary transmission policy, you see recently China changed the reserve requirement. And when they do that, it frees up $100 billion of lending. You can't do that here because of LCR. Because – it's got nothing to do with monetary policies, it's a conflicting regulatory policy.

And LCR also means that I can't finance a corporate bond and include it in liquidity anywhere. So when you all – if you all are selling corporate bonds one day, and you want JPMorgan to take on – finance $1 billion, I can't, because it'll just immediately affect these ratios.

So we've taken liquidity out of certain products. And it won't hurt you very much in good times. Watch out when times get bad and people are getting stressed a little bit.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

I guess when you explain these issues to D.C., any increased acceptance to address them?

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

A

I think some of the folks there are very smart. I think they're just – it's so political and there's so much going on. And that is – I don't think – my own view is they're not going to be addressed. Just get prepared for it.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Okay. I guess one of the other areas you've talked about is the mortgage market and fixes that need to be done there. We've got I guess some sort of proposal around GSE reform.
Just I guess your thoughts on that market in general?

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

A

Yeah. So mortgage market in general if you look at it, because of capital requirements, liquidity requirements, reporting requirements, so if you originate and service a mortgage, you're talking about 3,000 different reporting requirements.

If any of you have taken out a mortgage recently, you probably signed 21 documents. The complexity is enormous. The legal risk is high. Servicing is cheaper to do outside because of capital and liquidity. So you've seen half of servicing and half of origination leave the banks. And the banks generally don't do any FHA because of the legal risk. Okay?

Now that's not good for America, what I just said. Forget – it'll never affect JPMorgan. But if I was a regulator – I do think probably this one they got. They fully understand that we really hampered the mortgage markets in terms of providing credit – good credit. I'm not talking about bad credit. But to self-employed or younger people or prior defaults or immigrants or something like that.

And I think the GSE reform is very good, what they said, which is basically, these things should be public, they should pay the government, the taxpayer will never pay. They should have a refined mandate. And they now there should be at – so much big a loan, and so much part of the market. They should sell the risk into the marketplace. So any one of you could see what the risks are. Or you could buy or sell the actual credit risk on this type of loan and that type of loan and that type of loan. So when they have to pay the insurance, you can all see it and have an active securitization market.

And the regulators are working now to try to make it more active. We don't have a good securitization market. And reducing the cost of securitization by 10 basis points or cost of services by 10 basis points and the cost of origination by 10 basis points would be really good for the housing market. And no really additional risk.

In fact, it's the other way around. If you did some of these things and created a more healthy economy, that's healthier for the financial institutions too. And so I think they're kind of going in the right direction in the GSEs. And the detail – a lot of the details to come.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

You mentioned earlier that net interest income for the full year will be closer maybe to $57 billion than $57.5 billion. I guess any other comments you want to make in terms of the outlook into the third quarter?

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

A

Well, we did NII. I think expenses, we told you $66 billion, probably be a little bit under that. It's full-year numbers, obviously, there's the last two quarters, $66 billion.

Trading, up 10% plus, a little bit from last year. It was not a particularly good year last year, so we're not jumping for joy in that one. Down a little bit from – down about 10% from last quarter. And obviously there's a mix change, who's doing well and who's not doing well, but we don't – I don't think we need to go through that.

And fee – IB fees about flat from prior quarter and [prior] last year. But the business is still doing fine. I mean there's a nice pipeline, a lot of activity and talk in M&A. And trading markets have their – and you guys can see it all the time. They have their good weeks and bad weeks. And obviously there's quite a bit to go in this month.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Right. And I guess within trading, it feels like equities outpacing FICC for the quarter?

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

A

Yeah. Yeah (sic) [no] (34:31).

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

I guess – and maybe going to go to the next ARS question on that.

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

A

On what question?

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

I expect your answer too. Which direction do you expect FICC and equities trading related revenues (34:43) to be in 2020 relative to 2019?

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

A

This should be evenly spread. Yeah, I would agree with that. None of us know.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

I guess – but I guess one of the – if you look at the U.S. banks or the five large U.S. banks. And you can kind of add up their FICC revenues, it's gone from $95 billion or so 10 years ago to $45 billion last year. And it'll probably be around that range this year, give or take.

Obviously, there's secular forces at work. And obviously some cyclical things at play. How do you think about that business? Obviously, a big business for JPMorgan. And you've picked up share, but the pool has obviously shrunk. Do you think we're kind of done with the pool shrinking in the next couple years? And how do you think you're positioned against that?

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

A

So can I give you a long term point of view in this? So you're probably done with the biggest secular change, but you can't be sure. Remember, you had a whole different round of CLOs and SIVs and leverage and subprime mortgages and just more profitable credit products. A whole bunch of different stuff. And that's all gone.

And now it's more of what I call corporate. You have more basic business taking place. You all have to buy and sell stocks and bonds. And in the long run, that number is going to go up. The amount of stuff you need to buy and sell. It's not going to go down.

But you also have the other thing, which we've had in this business my whole life, which our margins are coming down, for good reason. Electronification reduces capital requirements. You get to do things in a different way on phones and tablets and using AI and stuff like that.

So the battle is more in the technology world at this point than in just having brilliant traders and stuff, which we – I think we have.

But so I think over time, it will grow, but some of the margin will come down. And how that offsets each other, I just don't know.

I think that's true in Asset Management by the way. You have to get prepared for a world – and this has been going on for a long time, where your margins have come down. And you got to find ways to serve your clients more effectively and more economies of scale.

It's still – FICC and equities are an economies of scale business. They're the – are high tech business, they're a high touch business in terms of ideas and dealing with clients and things like that.

So we're going to fight to keep our share, hopefully maybe grow a little bit of our share. And give you guys better ways to access data, information, results, post-trade, pre-trade. So you want to do business with us.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.
Q

Why don't I pull up there, and we can see if there's questions from the audience?

Unidentified participant
Q

So you talked about being concerned about credit in the leverage space potentially, but that being more out of the banking system than in the banking system. How do you see that bleeding through to the banking system, if that's where credit breakdown starts in the next credit cycle?

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

Yeah. So just to give you some big numbers, and I think these are fairly accurate. You can't get them exactly right. $800 billion is on the banks, mostly Term A. And it's good. You can look at all these leverage ratios, it's good. And there's more BBs than there used to be and stuff like that. But it's rather good.

There's about $800 billion which is in non-banks, mostly Term B. So think of insurance companies, pension plans, things like that. There are – the legitimate investors who are looking at the risk/reward criteria and what they want to do.

There's about $500 billion direct. Okay? So the direct piece – and the direct piece also has some very – so the Term B piece also has long term investors, who are quite bright. They're investing for duration. And they're willing to take and able to take, in my view, credit spread.

And even the $500 million (sic) [$500 billion] (39:01) which is direct, a lot of that's people, names you know, like Oak [Oaktree], Ares, BlackRock, Blackstone, and these are pretty smart people too with real funds.

So one of the risks last time was the fund dries up when times get bad. And a lot of these people take the whole stack, so they're actually not cheaper than a bank. They just say, we'll lend you the $500 million or $100 million, 8%. You don't have to worry about anything else. They may sell it. They may keep it. They may bifurcate it.

I think it has taken some business away from banks. I don't think it's a systemic issue. I do think when the crisis happens, some of those people will regret having gone to some of those shadow bank lenders, because the shadow bank lenders, some of them will have a hard time rolling those over in tough times.

Again, I don't put it in the systemic category. For us, it's probably opportunity. And we're not really competing with some of those things, where – the more leverage loans in the middle market space and stuff like that. So we'll see.

I think – remember the risk – one of the risks in the market is always not just the market going up or down. Is the provider of liquidity or credit going to be there when spreads are at a thousand over [LIBOR]. And I can guarantee you, there are whole chunks of them who won't be. Some who can't be, because the company can't afford to pay the price. It would bankrupt them. And they can't afford to do it at a rate a bank might do it, because that's I think a huge immediate mark-to-market.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Right behind you.

Unidentified participant

Q

Sorry. You've spoken about, yeah, the tightness of the G-SIB buffer and LCR, which is true for you and for the other big dealers, basically, because I know the two also have come to the top of the band. Do you think the Fed acknowledges the tightness on the front part of the market? And if we're going to have more treasury supply? I mean do they worry about it, that you're doing the right thing, but you're capped basically on the balance sheet?

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

A

I think they are aware of it. They may – I know they're aware of it, because they've seen the charts and the graphs and stuff like that. I think they think it's true. And they probably think it's fixable. It just isn't something they're worried about immediately.

And I also put that – falls in the category of QE. We all don't really know the full effect of QE and what it did to long term saving. I mean we obviously know it pushed down longer term rates. But a little bit was like pushing on a string.

Not quite sure what it did to certain liquidity and treasury collateral. And we know some of these measures like G-SIB, what they cause at quarter ends, it's not a crisis thing.

But – and that some of those things, they could fix easily if they wanted to. They're not really in the political domain. Some of those calculations are truly regulatory rules. And they could change it easily. And I think, by the way, if you ever had a real crisis, they would be pretty responsive. That's my personal view.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Another question. You could just can yell. We'll repeat it.

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

A

Yeah. So first of all, I've never known any president who wanted higher rates. So for everyone to be surprised, I'm surprised.

Number two, it's obvious that to justify that position, that when we're at 1.5% and some of these other people are at 0%, well, yeah, that is.

But there's no reason that currencies and countries have to move together. None. They have different economic situations that's reflected differently in their economic curves and there are all the things like that.

And, no, but I do understand the sentiment. I think that rates are low – are plenty low. I mean we already have inflation at 1.5%, however you want to debate inflation. And so it's rare to have rates this low when you have 1% inflation. We've been growing at 2% for more than 10 years.

So I don't think rates is the issue that's holding back America. And I've written about this in my chairman's letter. I think its infrastructure. It was corporate taxation. It's inner city school education. It's the cost of healthcare. It's our own bureaucracy that cripples infrastructure and small business formation. It's some regulations, not just banking, that we're probably ill-advised in terms of whether they're good enough for the economy. I'm not talking about getting rid of good regulation. But it makes sense to every now and then to look these things. Is this what we wanted?

I think the mortgage stuff, I mean, our economists estimate that had the mortgage industry been properly designed, you would have had possibly $1 trillion more in mortgages or more. That's 10% more. Most of that would have been for new homes.

So why are we surprised that new homebuilding is so low when a lot of these people who would be getting $300,000 mortgages can't get them? If you look at the size of the average mortgage, it's growing like this, whereas the size of the average American has been like much more normal. And so I mean I can go on and on and on about these things. But that's the state of affairs in America.

We do not analyze problems in detail. We start fighting about Democrat or Republican policies before we understand what the problem is. And we understand the problem in detail. And they're pretty good – easy things you could fix sometimes. They're not Democratic or Republican solutions.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Maybe have time for one more question. I guess, Jamie, you're on a nice streak of every other year at this conference. So we assume we'll have you back in 2021. Will we have you back at 2023 as CEO of JPMorgan?

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

A

As usual, it's not up to me, but possibly, yeah.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Well...

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

A

I love what I do. It isn't like I want to go. And I just took off my two weeks and I was raring to go back after that.

But of course, it's up to the board. I'm going to do the right thing for the company. And succession is an issue we talk about all the time. And there are no hard and fast things about it. It's just we're going to get it right.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

On that note, please join me in thanking Jamie for his time today.

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

Thank you very much.