JPM AT THE DEUTSCHE BANK GLOBAL FINANCIAL SERVICES CONFERENCE

TRANSCRIPT

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JPMorgan Chase & Co.

MANAGEMENT DISCUSSION SECTION

Christian Sewing

Chief Executive Officer, Deutsche Bank AG

To give you an interesting and rewarding conference, we have a packed and a very exciting schedule that starts right now with a keynote address from undoubtedly, one of the most influential people in global finance. As the CEO of JPMorgan since 2004, he steered the largest bank in the U.S. through a period of major turmoil. And, yes, he cemented this place as a global powerhouse. Ladies and gentlemen, I was 34 when Jamie Dimon took head of J.P. Morgan, and, in my view, started a career and a development which is undoubtedly one of the best I have seen. For me, it is a great honor to introduce Jamie Dimon. Jamie, come on stage. Thank you very much for being here.

Matthew Derek O'Connor

Analyst, Deutsche Bank Securities, Inc.

Good morning. Take your seat wherever you want.

Thank you, Christian. Jamie, welcome. Thanks everyone in the audience and on the webcast who for joining. Obviously, it was a holiday weekend, and appreciate your interest and support so early this morning. Jamie, I want to start on the macro. Obviously, the fourth quarter was very challenging, the first quarter started off weak as well, but markets have come back up until some recent volatility. As you look across your broad business base, what are you seeing in terms of market sentiment?

James Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

Yeah. So, first of all, welcome, everybody, thrilled to be here, and – so, look, we had a real slowdown in the fourth quarter, though a massive overreaction in the marketplace, it was a slowdown. Global growth kind of was growing at 3.5%, now, people think it's going be something like 3%. That's not terrible, that's not a recession, that's just slower growth. And then the first quarter was kind of okay, continued at a 2%, 2.5% pace. Our folks think this quarter will be 1%, but mostly due to seasonal – bunch of different factors, and the year might be 2% to 2.5%.

And when you look at the actual data we get, credit card spend – auto sales are down, but it's still 16.7%. Credit card spend is still up. Our consumer confidence is still high. Business confidence is high, capital is being retained in the United States. You have growth or – kind of a little bit of growth around the world. Japan's up 1% surprisingly. Europe is 1.5% this year. Brazil is negative 4% to 0 or 1%. Europe – I mean, China will grow at 6%, India at 6.5% or 7%, it's okay. And, of course, markets fluctuate, markets are always reacting and often overreacting to short-term stimulus, but it's okay.

QUESTION AND ANSWER SECTION

Matthew Derek O'Connor **Q**
Analyst, Deutsche Bank Securities, Inc.

So, in your annual letter, you talked about the volatility in the fourth quarter about being potentially a harbinger of things to come.

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

Right.

Matthew Derek O'Connor **Q**
Analyst, Deutsche Bank Securities, Inc.

Maybe if you could just elaborate on that comment.

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

Yeah. So, in the fourth quarter, you saw a very – the stock market was down 20% and bond spreads gapped out 100 basis points, something like that. And very sharp moves and volatility dramatically went up. And so – and we're just asking the question, well, what was that all about? And so, the fact is – and this is like the fourth time it's happened in the last several years. You have companies, flash credit, stuff like that. And there are a lot of culprits involved in this. First of all, markets overreact, but high frequency trading, we don't think that's the reason. Though I think it adds to volatility or intraday volatility because they start the day at zero, they end the day at zero positions. They create liquidity during the day, but every now and then, they just pull right out. And so, therefore, they create some kind of liquidity, but then maybe more volatility. So, they increase the volatility of volatility, in my opinion.

Dealers have less inventory, regulatory requirements from Volcker to – liquidity and capital probably do a little bit of it. The markets are far bigger. Obviously, you got algorithms and passives and all these various things, but I guess my main point was the fourth quarter, nothing really bad happened and you saw what happened there.

So, I'm just telling people, we should be prepared that we actually have a bad environment, it'll be that and worse. Okay. Now, doesn't mean it's worse for J.P. Morgan, okay. We don't always – it doesn't mean we're going to be worse off. The markets will be worse off, and people – that can cause people to panic a little bit faster than they should because people react to the market, too, sometimes.

Matthew Derek O'Connor **Q**
Analyst, Deutsche Bank Securities, Inc.

So, the consensus view is that we're late cycle or end of cycle, depending on the day and the mood of the market. But when I step back, I see an environment where the central banks have become more accommodative. You've got directionally, deregulation, although I'm sure there's going to be some debate around that. You've got low rates, low inflation, things like fiscal policy globally is more conducive to growth than, say, five years ago. But why can't the cycle keep going, why can't we be surprised and maybe it's like the mid-90s?

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

I think you're exactly right. If you look at the history of recessions, every – it's rarely geopolitics. So, it was in 1972, but very rarely, is it geopolitics. It is often fiscal tightening, which no one sees any of around the world. Monetary tightening, well it certainly doesn't seem like

anyone's doing that. In fact, the Fed kind of reversed their position. I think it was probably the right thing to do in the short run. Huge imbalances in inventory like industrial imbalances, which doesn't seem to be out there. And like you said, I agree with you, confidence is high, people coming back to work, inflation is low, you have accommodative governments around the world, regulatory reform is a plus. It can go on for quite a while. I mean, it can go on for years. I remind people, Australia grew for 28 straight years; China, I think it's 40 straight years. I mean, so it isn't like you have to have a recession. On the other hand, if you look at just some basic numbers, unemployment is down to 3.6%, 3.7%. It might be we're in the last third. That third could be five more years.

So, I think you're right not to overreact to it, and this can continue for a while. But it also might be the next recession would be different. It might be a confluence of factors that, of course, surprise you because most people are always surprised. The surprise here might be rates having to go up, inflation getting worse, too much global growth. Or maybe just – and I think the trade is a real issue. I think trade has gone from being kind of a skirmish to being far more important than that. And if this goes south in a bad way and you have surprises and other surprises, yeah, that could be a part in the changes confidence, changes people willing to invest, you already started to see businesses starting to think about moving the supply lines and stuff like that. And that obviously could slow down business investment and cause uncertainty of all different types.

Matthew Derek O'Connor

Analyst, Deutsche Bank Securities, Inc.

Q

So shifting to regulation, you talked in your shareholder letter about some of the efforts out there and, frankly, the deregulation, it's not just in the banking industry. You're seeing it across a number of sectors. But maybe touch on what you think might get accomplished and what it might mean to the economy, to banks...

James Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

So, I think the regulatory reform – forgetting banks for a second – has been a big plus. And look at regulations as mind-numbing paperwork and bureaucracy which is sucking this country dry. And you see it – I give people the example that it now takes 10 to 12 years to get the permits to build a broken bridge that might fall and kill people. And if you go to those other parts of the world, I think Germany and Switzerland, it takes two years. And so, that compliance, the legal, the litigation, it's a huge wet blanket on top of what is a strong economy. So, I do think it really matters. And it's also true in banking. I mean, look, I'm not against regulations. The banking system – it wasn't the banking system, the financial system had a crisis. And it emanated in mortgages and Fannie and Freddie and banks who did dumb things and investment banks who were massively over-leveraged, massively over-leveraged.

So, capital, liquidity, resolution, those are all good things. But what we ended up with is a balkanized system. We've got seven regulators doing mortgages, five regulators doing this, six regulators doing that, and, therefore, it's hard to resolve all these things. And, of course, they're all being politicized. The agencies were given a huge amount of authority, and they used it and they did a lot of different things. So, for banks, it's also a lot of that. They should, without making the system any less safe, reduce some of the mind-numbing bureaucracy that's been put into the banking system. And it's not only Volcker, it's operational risk capital, it's the overreliance on models, it's – banks are being criticized not for bad credit, not for bad credit models, but not for challenging credit models properly. I mean, that's a legitimate complaint, but it's not a reason to slap a bank around. So, I look at a whole bunch of different things that hopefully will change one day and it'll be a more rational system.

Matthew Derek O'Connor

Analyst, Deutsche Bank Securities, Inc.

Q

What areas specifically do you think could change and mortgage is an area...

James Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Well, in the United States, the G-SIFI charge was doubled for no reason. G-SIFI itself is one of the dumbest calculations I've ever seen. It is not – it doesn't reflect risk. It doesn't reflect diversification. It doesn't reflect earnings. It doesn't reflect capability. It's a non-risk – I don't even know what they were trying to measure in that thing. And then we just doubled it. And now, they're talking about putting it into CCAR. So, I just – the rational – so eventually, when you look at regulations around the world, they don't have to be exactly the same. There may be a reason they have slightly different rules in Germany, than United States or somewhere else, because there are good reasons sometimes. Bankruptcy laws or mortgage laws may make somebody safer in one country than other, but these should be thoughtfully done, somewhat coordinated to

help economies grow. So, the mortgage requirements have to change over time. Everyone understands that. Of course, it's been 10 years and we haven't done it, so I'm not unbelievably hopeful about it.

Operational risk capital, J.P. Morgan has $400 billion of operational risk capital, the biggest chunk emanated from mortgages that were done from Bear Stearns and WaMu that we don't do anymore, and it just sits there. I mean is that – that what it was intended to do? Liquidity in the system is very high. The monetary policy transmission is different than it's been before. So, I think over time, just reduce the paperwork, standardize certain things and make it simple like BSA, KYC, AML. So, what will happen over time is overhead will come down a little bit. Some capital will be freed up, some liquidity will be freed up, and I think it'll help – I think it'll make banks safer because it'll make the economy better, which is also a factor in having a better, safer banking system.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

You mentioned changes to mortgage being needed. Are you hopeful that we could see some changes clearly like the FHA? It's something you and other banks have been vocal about. Essentially, the banks have exited or significantly reduced FHA lending.

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

A

Well, FHA, they – if I were the government, okay, there should be a safe harbor on mortgages that are done that failed because of minor errors, and not just be sued and fined with triple damages. If they do that, some people will go back in. And that's the biggest one. The other FHA/VA things have to be changed, too, but the fact is, what bank wants to do that to be sued by the federal government for making mortgage that they want us to make? And so, they have to – I think they will change it eventually because it's just bad for America.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

When you look at the regulatory...

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

A

And I think even standardized capital, most of the banks are constrained by standardized capital now, and so, therefore, owning a mortgage is no longer a good thing for a bank. So you see banks shedding mortgages. Now, look, is that going to change the future of JPMorgan Chase? Absolutely not. Is that bad for America? Probably. Does that increase the cost of mortgages to consumers? Yes. And do all these other requirements increase the cost of mortgages to lower paid individuals? Absolutely. Again, mind-numbing paperwork, you can't get securitizations done, 3,000 federal and state servicing origination requirements. I mean, is that a rational way to run a system? So, yeah, someone rational will fix this one day. I think, by the way, the regulators today are aware of all these issues and want to do something about it. And they can do it without legislation because you'll never get legislation through congress.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

If you look at the Fed's treatment of Wells Fargo, I'm not going to ask you if you agree or disagree or right or wrong, but it is very unusual. You've got an asset cap in place potentially for two years plus, you've got, openly, pressure on management in the press up until the last CEO retired. Does that impact how you think about risk management, how you think about running J.P. Morgan?

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

A

No, because we – obviously, one of our biggest risks other than cyber and all the normal stuff is reputational risk. And you know reputational risk for all these banks is enormous. And I don't think it's right if one person does something wrong and the company gets treated like that. That's not – that should be an isolated event, but obviously, anything reputational, yeah, you try to set the highest standards. Literally, don't even get close to that line so that you're not – so you don't jeopardize your company. And I don't know what the intent when they did this – I

wouldn't have done an asset cap. I think it's a bad way to manage a bank. I don't know, but maybe they had a purpose or intent that I don't fully understand. And I think Tim Sloan was doing a good job. I think it's not responsible for a company, just my own view, to have a CEO leave with no plan in place. I don't personally understand that. And I'd be surprised if regulators wanted that to happen because it's irresponsible. How can the regulator be pushing something irresponsible? So, I don't know if it was a board level decision, I don't know if they felt pressure from whatever, but it's not the way to run the railroad.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

So, back to J.P. Morgan, as we think about your growth opportunities from here, the bull case would be you've got leadership positions in many, many businesses. The flip side to that is you've got leadership positions, number one in many of them, number two in most the ones that you aren't number one. So, that it might be harder to grow from here, harder to gain further share. Where do you see opportunities to continue to grow and take share?

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

A

Everywhere. I mean, literally, everywhere. And, of course, if you – and I think one of the things as that JPMorgan, if you look at what we do, like I love this chart that Daniel Pinto put up there about we're number one, two or three, and there's 24 kind of subsets of business in Global Investment Banking. And we've gone from being number one in like 4 or 5 or 6 to number one in 16. And only one are we not in the top three, which is trade finance, and I don't know if that's we didn't do a good job or we – some was deliberate, but looking in hindsight, maybe we should have done this slightly differently.

But the more important slide that Daniel puts up, he talks about when you dig a little deeper, do that same thing regionally and deeper by product. All of a sudden, we're number 8 in this and 12 in this and 14 in this, we're doing a terrible job in this country and a terrible job in that country, and we failed to capture this type of flow and customers aren't happy here. And so, building technology, adding bankers, adding clients, we can do everywhere, everywhere. So, in the United States, we have not quite a 10% share in retail deposits. I don't know why you can't go up if we do a really good job with digital and you know we're opening 400 new branches in like many more markets. We have 1% market share in the $3 million to $10 million investment side, high net worth. We have like, I think, 8% or 9% in ultra-high net worth and private banking, okay. Commercial Banking, we are now in all major 50 cities, we're expanding verticals like technology, life sciences, et cetera. And we're growing other businesses. The Commercial Bank has been – now does 25% or 30% of U.S. investment banking business. And merchant processing, we can grow, credit card, we can grow. So, I look at all of these opportunities, and all organic, and organic growth is hard. But think it's products, technology, branches and bankers with all the attention and support you need to get those things done.

So when we look at it, we're always looking for ways we can do a better job. And, of course, I know we have competition. The competition is global, the competition is tough. The competition is sometimes invisible. We don't know who it is yet, but we're always trying to look at that and figure a way to do it. So, we're going to fail in some of these areas, but I don't see any area where we shouldn't be trying. No management team should walk into J.P. Morgan and say, I can't grow anymore. Okay. And now, I think it's going to be hard to grow Fixed Income trading share, but not in parts of Asia. I think it's going to be hard to grow Prime – because companies want to split their business a little bit. So, it's going to be hard to grow certain businesses, but prime broker (sic) [Prime Brokerage in] Asia, we've got plenty of room to grow. Custody, cash management, I think we could grow in those businesses, and they're also what I look at, adjacent businesses, like things you can add that you do – we could do a better job just through data or services or straight through processing. We can have happier clients.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

Are there any areas, whether it's products, segments or the targeted customer, where you don't feel like you're firing in all cylinders? And we touched on mortgage...

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

A

Well, merchant processing overseas, high net worth individuals. I think we can do a better job doing digital – not that we didn't do a good job, but doing digital out of footprint type of stuff in the United States. If you look at CIB, it's basically it's going to be more coverage and eventually more countries. So, you – how ever many clients you cover, you can add another 5% every year or something like that. And then, building the technology to capture all these things. So, I'd say just about everywhere.

And some, you're going to see shrink. So, like loans, are an outcome of a strategy. We don't sit there, management team and say, grow your loan book. So, you're going to see our mortgage loan book go down because we're selling mortgages. CIB, it's more episodic based upon flow of business. And I'll point out right now, in your models, you have the wrong number for investment banking fees. It's going to be closer to $1.7 billion and a lot of you are $200 million higher just for this quarter, just to help you out a little bit.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Well, I guess, while we're...

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

A

Which, by the way, we think is very much tracking the same market share. But obviously, the market's a little bit lower.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

And, I guess, while you brought it up, anything else that you wanted to comment on in terms of the second quarter? I know you don't like to give guidance, but you do the trading environment.

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

A

It's okay. Remember, the second quarter last year was quite good. This is running 4% or 5% less the first two months. Now, the next month could dramatically change that. So that's what it is so far. Ex a gain, we're going to have a gain in Fixed Income, but ex that, regular run rate trading is down a couple of percentage points.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

And any color between FICC and equities, what's doing better?

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

A

Not really.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

And what do you think about the outlook for the rest of the year for Investment Banking, like obviously, the first quarter was impacted by the government shutdown, the volatility. Some could argue that it just kind of pushes back some activity, so maybe 3Q won't be as seasonally slow as it normally is, for example.

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

A

I honestly don't know. I mean, look, Investment Banking, I think, is a great business, but it's got its episodic nature to it. I mean, unlike cash management or Asset Management. So, it's going to fluctuate based upon a million different things over time, and trying to guess quarters is not a good idea. I mean, so we just build the business; cover your clients, people, systems, ops, services, execution, straight through

processing, and it will be what it is. And, yes, it may very well change because of short-term sentiments, something like that. Having said that, if the economy looks like it's okay, and America is still growing, it will be fine.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

So [ph] back onto (19:56) the longer term growth opportunities, J.P. Morgan rolled out You Invest. Maybe you could just tell us what is that, and what's the target of the customer base.

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

A

How many of you have a Chase account? Okay. You can now buy yourselves stock for free, okay, if you have a Sapphire banking account. So, if you're a good client, you can buy yourself stock for free. And you're going to get research, we're going to – we don't have options and margin yet, we're going to add that, so it's not the full product set yet. We're going to add some form of self-directed, robo-type of investing, very basic stuff to get people started, and it's just a product among all the products we offer. So, we're doing a – we want to offer you more products or services. You can get your FICO score, I think it's like 19 million people. And soon, we're going to offer you, show you ways to improve your FICO. But you can actually see what could you do tomorrow that actually might make your FICO score go up by 10 points, that is called the Credit Journey. So, what we want to do is offer more things to very good clients to get – earn more of their business.

Like I said, in high net worth, we have a 1% share. So, Chase Wealth Management started as – the private clients and the branches started as a hope and a dreamlike 10 years ago. Now, there are 3,000 of them. And I always ask the management team, why not 6,000? Why not 20,000? Does it work? If it worked, do we have a formula that works? And so – and then you can look at our product set, in my view, people need advice. And if you look at some of these companies around the world and you see Fidelity doing it, Schwab doing it, Robinhood doing – they're all starting to do, which is this is for free, but a lot of people gravitate to some type of advice and how they pay for that. They may pay for it differently, some people want to pay by trade, some people want to pay a subscription, $10, $20, $30 a month. So, we'll figure it out, but we want to offer great products and services to get more of your business. And, of course, it makes it easy to open accounts, to move money, to start saving, to educate people how to have a rainy day fund, all these things that make a better financial journey for people.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

So, you also announced branch expansion plans into several new markets. Some are arguing that that's caused some of the consolidation that we've seen among banks beneath you, but how is that branch expansion going...

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

A

So, we – you all know the banking system was because of interstate banking was not allowed, people started to put banks together so you had to become a hodge podge of banks. Some are adjacent to states and some aren't, and stuff like that. But I looked at J.P. Morgan and Chase in particular, why not – why weren't we in some of these cities? Now, I always knew, if you were in a retail business, clustering matters. Your market share by city matters. Going from 0% to 1%, you probably will be losing money. Going from 12% to 13%, I guarantee you, that 1% will gain you money. So, there's always more of a temptation to open where you are, and there are always opportunities where you are. And where you are, you're always kind of consolidating and opening, changing your fleet, but why not – I always wanted to do D.C. And, of course, I couldn't do it for a while, but eventually got the green light from regulators, so now we've opened, I think, 5 or 10 branches in D.C., and they're doing really well.

And what I always worry about a little bit is what's a new city – like if you go to a new city, everyone has already got a checking account, everyone has already got a small business account. How can we entice you in other than with great products and services so we're doing better than we thought, which is great. I mean, it's very exciting. And it's very positive to be growing and expanding, and now, we're doing Charlotte and Nashville and Boston, and so far, so good.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

So, technology is a big area of focus for the banks. You spend a lot of money in technology, you spend a lot of time at Investor Day highlighting it. What competitive advantage does it give you? And I'm sure it varies by business and by region, but...

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

A

See, I don't think this is new. I think it's been true my whole life. That technology is kind of a key driver of stuff. And if you look – like Paul Volcker used to say, banks haven't invented anything other than the ATM, that's just grossly untrue. The cost of conducting business in wholesale is almost a tenth of what it used to be. With straight-through processing, lower error rates and stuff like that, you can raise money in three or four currencies around the world in an hour. And so, it's great for business.

And consumer side, in some ways, the pricing hasn't changed, but the product set has changed. So, on the consumer side, you didn't have bill pay before, you didn't have alerts, you didn't have mobile banking, you didn't have digital account opening, and you now have a – now ATMs could do a tremendous amount of stuff. You can do – now we have investing in stuff like that. So, what drives all this is technology. And so, you have to invest in technology. I think one of the main points that Marianne Lake and Daniel Pinto and Gordon would make is that we've increased a lot of technology spend. They think we continue to invest in the future, but not have to grow it a lot anymore. And so, I want to make sure we make all the investments to win. Obviously, you want to do it efficiently. So, both are true. But I think if you don't keep up in technology, you lose. I think it's just a matter of time. And so, to me, it's not a can you do it, you have to do it. And if you don't do it well, you will lose.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

And what are a couple of examples within the technology that you think J.P. Morgan has that maybe some of your competitors don't have? It's a big number that you put out there, the $11.5 billion. I'm often asked like, how does everybody else compete? It's not always apples-to-apples comparing you to, say, a regional bank or a foreign bank.

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

A

Yeah. Remember, things show up in different lines in accounting. So if you're a regional bank, they get some of these things from their providers who are adding digital and account opening and all these various things, and all the banks are eligible do Zelle, do real-time payments. We're building a real-time payment system for the industry through TCH, et cetera. So, all these things, they will participate in some of these things. And – but I wouldn't – when you say unique, every business – remember, we've got Goldman Sachs, Deutsche Bank in certain businesses. And we've got Schwab and Fidelity and other businesses. We've got Robinhood and Wealthfront. And you're eventually going to have Ping An, Lufax, Ally and Ant Financial. So, to me, we're not – it's not like you're ahead of all these people, you're simply not. You're just investing in the stuff you need to do a better job for your own people; straight through processing, easier, cheaper, better, keeping it simple because on the mobile, you can't make things over-complicated, and you just have to do that. So, I would never sit here and say, no, we are better in technology in all those categories, we're not. We're – I think a couple of competitors are ahead of us in cloud. I think on AI, we're doing quite well, but I'm sure some competitors are doing an equally good job in some of those businesses on AI, and those things are real. And obviously, cyber, we have to do to protect our company and our clients.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

Switching to credit quality, you've been very clear that you think most of the risks related to leverage lending is outside the banking industry. This is obviously an area of focus...

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

A

I don't think it, that is factual. Okay. So, I mean, we give these numbers out all the time, but people, they still hyperventilate over it.

Matthew Derek O'Connor

Analyst, Deutsche Bank Securities, Inc.

Q

Well, I think part of it is every few weeks, it feels like some regulator is coming out, talking about the risk in leverage lending and kind of making it an issue or making us focus on it.

James Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

I think since the crisis, we have this never-ending hyperventilation about what people are worried about, the risk they see, I'm worried, scared. Honestly, it gets overdone sometimes. And you bear risk in a bank and you serve clients, and what you want to do is mitigate that risk and serve your clients, you know there's going to be a cycle. I don't know when the cycle is going to come or go. I do think that credit, if you actually look at credit underwritten since 2009 and 2010, consumer side, it's really good. Now, credit losses are going to go up, not because of anything bad, just the maturation of businesses and normal growth and stuff like that. But mortgage, which is $10 trillion of the $13 trillion, it's getting worse. But the subprime or Alt-A type of component is much smaller than it ever was, and now, it's growing a little bit as the shadow banks are picking up a big share of that. But credit card, same thing; auto, I think the subprime component's about the same, maybe leases are extended a little bit too much. Student lending is bad, but it's all the federal government that owns that, and you're going to pay hundreds of billions of dollars through taxes to make up for for-profit lending that they did. And the business side, there's always this chart, and I think it was in the papers this morning, corporate debt is higher as a percent than GDP, but interest payments aren't.

And remember, these companies are bigger and they're stronger, and yeah, there's $2 trillion plus of BBB rated debt. Yeah, and if there's a recession, a couple hundred billion, will get downgraded. So, the high yield market will go from $1 trillion to $1.2 trillion, $1.3 trillion. Is that something that is systemic? No. It will just cause some pain and consternation as, I'd say, is fairly typical. So, of all the leverage lending, $800 billion is in banks, is the more senior piece, I think it's pretty good.

And then, even the stuff that's not in banks are with insurance companies, I think much better constructed CLOs than it used to be in the past, direct lenders who are very smart people. Talking about Oaktree and Ares and Blackstone and BlackRock, and this is not – these are not people who don't know what they're doing. And so, of course, you'll have a cycle. The bridge book in Wall Street today, the whole bridge book is like $50 billion or $60 billion. It was $480 billion in 2007. So, people, if you look at the big picture, it's actually okay. Of course, there will be a cycle and there'll be downgrades and things you can come to expect, but it looks okay. And I think it's kind of rational that you can borrow at 3% or 2% around the world that you borrow to do stuff.

The other thing, I also want to point out about the emerging markets. If you look at the emerging markets, people say the same thing, they are far better structured than they ever were before. They have twice as much foreign exchange reserves they had if you go back 20 years, something like that. Their countries are bigger, their economies are bigger, they're better managed in terms of foreign exchange reserves, and we try to study like how many companies or countries have huge currency or interest rate mismatches, and it seems to us, a lot of these cases, they hedged them or they earn in dollars, they do other things. So it's not – that is not to say there's no risk, it just isn't the same as it was 20 years ago.

Matthew Derek O'Connor

Analyst, Deutsche Bank Securities, Inc.

Q

Do you think we're in an environment where we'll continue to see one-offs, say, within commercial, rates are higher, and liquidity has dried up maybe in some areas? Should we continue be prepared for some of these one-off commercial credits?

James Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

You mean bad credits?

Matthew Derek O'Connor

Analyst, Deutsche Bank Securities, Inc.

Q

Correct.

James Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah, of course. I mean, I think that's a natural state of affairs if companies make mistakes and trouble, competition changes, technology drives things. There are industries under stress today. And you see it at some retailers, and that's, I would say, almost a normal state of affairs. So, you have upgrades and downgrades all the time, and I am telling you, on average, things will get worse over time. Not because they're going to get bad, only because it has been so good for so long that just there'll be some a little bit of just return to normal. And you're going to see that a little bit in almost every product out there.

Matthew Derek O'Connor

Analyst, Deutsche Bank Securities, Inc.

Q

If you look specifically at the consumer, is there any concern that out kind of 9, 12 months you'll have lapsed, the benefits of tax reform, and maybe we'll see more cracks in the consumer than we're seeing right now?

James Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

When you say, is there any risk? Of course, but again, wages are going up, particularly at the low end, which is good. People re-entering the force, consumer confidence is high, their balance sheet is in very good shape, their debt service ratio is like 10%. That's what it was when they started keeping to measure that, like 30 or 40 years ago. It hit like 14% in 2009 or 2008 or something. So it's in pretty good shape. Yes, of course, rates going up can hurt some consumers. Some of that debt's floating rate. But if there's a recession, of course, then the consumers will be hurt. But there's no automatic that will get worse in 12 months from today.

Matthew Derek O'Connor

Analyst, Deutsche Bank Securities, Inc.

Q

I want to ask about some of the management changes that you just announced. But if there is any question in the audience, please raise your hand, we will get you a mic. So, Jamie, you've done a good job moving your management team around into different roles over the years. Marianne was recently moved to head up credit, consumer credit. Jennifer, who's in the audience, has taken over as CFO. Anything else you want to add in terms of management changes?

James Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

No. First of all, this is – we've been talking about this at the board level for the better part of two years. So, it isn't like these things happen overnight. Someone was saying because of my testimony in Washington that I had to do something to show that we are promoting women, which is patently ridiculous. And we have great women inside the company, half my direct reports are women, more than half now, and 30% of the top 200 people. I think it's great. And they're all there because they're good. And obviously, we try to be a diverse company, we try to make sure we treat people properly and let people rise to the top, but they're all there because they're good. And Marianne did a great job as CFO, but it had been six or seven years.

So, to get line responsibility, and if you see her today, she seems so happy. Almost irritating, she's so happy with doing what she's doing. And Jenn, who's in the audience, just stand up one second, Jenn, who is enormously experienced, Jenn was a controller in the Investment Bank, effectively. She was in Mortgage, probably during some of the worst times there. She's been running the credit card company, she's been in the line, and now, she's moving to corporate. I think it makes a lot of sense to move people from line to Corporate, okay, and forever. Because I think you get too comfortable in Corporate. You think you're actually running all the businesses and you're not. Meanwhile, you have to cover the whole waterfront. And when you go to – if you come from line to Corporate, you have a lot of respect for bureaucracy that could be created that you want to get rid of, and so I think it's just great move to people around. But we're lucky to have two stars.

Matthew Derek O'Connor

Analyst, Deutsche Bank Securities, Inc.

Q

Well, I think Marianne's probably relieved she doesn't have to run the Investor Day again next year. You have one of the most comprehensive annual Investor Days. So, sure, a lot of work effort goes into that. Any questions from the audience? Just wait for a mic, please.

Q

Jamie, you briefly touched on this, the topic of market liquidity. It does feel to me that there is a structural change here in that you now have $2 trillion of corporate bonds sitting in mutual funds offering daily liquidity.

James Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah.

Q

Do you share that view and the risk...

James Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah. I added that to my list of differences. And, of course, if these passives, ETFs, et cetera, can cause people are going to sell automatically in. The ETFs, I don't know yet. I mean, if you look at there's one ETF high yield fund that liquidated like – I forgot the exact number, $2 billion or $3 billion in a very quick period. And the ETF usually trades a little bit better than the underlying, then it traded a little bit worse. But it did its job, it actually stabilized because people are coming in and buying the underlying and creating the ETF. So, yes, the answer is yes because people can move very quickly and the marketplace can't assimilate it that fast. [ph] The answer is (35:36) just yes, I just don't know the extent of it.

And remember, the other thing you have to keep in mind, some of these funds, because they are also worried about it, effectively keep more cash. So, they create a little bit of their own liquidity because you know if you're a fund manager, you can't get out of some of these things that quickly. And therefore, you have to run the fund a little bit differently. They hate doing it because it reduces your returns. So, we'll see. And what I pointed out, very importantly, banks cannot intermediate like they did in the past, particularly when the times are tough. They will be constrained. And I don't think that's a good idea. But that's what it is, and that's what we'll have to deal with.

Matthew Derek O'Connor

Analyst, Deutsche Bank Securities, Inc.

Q

So, Jamie, as you think about capital management, not necessarily for this CCAR cycle, to ask a question, but you generate a lot of capital. While your company is growing, the balance sheet growth has not been that much. How do you think about using and deploying your capital over the next couple of years?

James Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Well, the other thing you said about the tax reform. Here's what's important about tax reform. 20 years ago, the United States federal state was at 40%. The world, developing world, developed world was at 40%. Over 20 years, they came down to an average between 15% and 25%. We stayed at 40%. The result of that was that trillions of dollars got reinvested overseas as opposed to here. That was the result. E&Y did an estimate that 5,000 companies are now headquartered overseas that would have been headquartered here; some by acquisitions, some by that – in the inverse, they call the inversions, and obviously it was far more favorable for a foreign company to buy a U.S. company than the other way around.

So, that was a bad idea. That's just a bad idea. So, the benefit of tax reform is retained capital, reinvested here. So $600 billion was brought back, companies are very healthy, which is good. And that capital is being retained and reinvested in the United States. Whether it's through

buybacks, okay – because remember, the politicians act like the buyback, the money disappears, it does not. It's handed back to you and then you do something with it. Hopefully, a higher and better use. And so, to me, we shouldn't act like it's a bad thing. And that has a cumulative, ongoing, positive effect in the United States of America, which will help consumers and wages over time. How it helps in one quarter or not – to me, has never been the issue or something like that.

I would much prefer never to do stock buybacks, okay, if I had a choice. And I think you should only buy back stock when you think your stock is cheap. It's actually doing a favor for the remaining shareholders. But a lot of companies can't reuse all of that cash all at once and they do some stock buybacks, and yes, of course, some people overpay for it. But I'd much prefer to invest in our businesses. And we did a recent acquisition for payments in medical, medical payers and consumers and hospitals and providers, et cetera, that's the type of thing we really want to do. I'd rather build technology, hire bankers, grow and expand. So, over time, I think the banks will start to redeploy their capital not by buybacks, but by investing in their business. And you will end up with something like a third will be dividends, a third will be reinvesting, and maybe a third will eventually go to buybacks, something like that. But I think over time, the buybacks component will come down.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

So, I'm not going to ask what you think about your stock right now or a specific level that it wouldn't be attractive, but just conceptually, how do you evaluate levels of buybacks?

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

A

I gave an example in my Chairman's Letter years ago when the stock was around tangible book value that – and I took analysts; estimates, I think I haircut them by 20%, bought back a big chunk of stock, and then what happened five years later? Okay, five years later, earnings per share and tangible book value per share were higher. So, I've always said, if you believe in your assets and liabilities you're properly accounted for, and we do, okay, then – and you believe your returns are real, not artificial, not one-time, all the stuff like that, which we do, that is a no-brainer. So at two times book, you do exactly the same numbers and it's a little bit of a wash, earnings per share will be higher, tangible book value still won't have earned it all back yet. So still a plus, but obviously, of diminishing value. And so that's what – it is what it is. If the bank is earning 15% to 20% – 15% to 17% return tangible capital and you believe it, it should be worth two times book. It means you can argue more, but it should be worth two times book.

And remember, our earnings, I don't tout the stock. You could buy the stock or not buy, that's totally up to you. But look at our earnings, I mean, the fact is people are paying for subscription businesses, cash management is a subscription business, Custody is a subscription business, Asset Management is a subscription business, retail banking is kind of a subscription business. I can go on and on and on. And so, we have these very steady businesses which will earn a lot of money next year regardless of the environment. There'll be some ups and downs, but a big chunk of that's in the bag already. And then we have some episodic businesses, which people over focus on, in my opinion, because they're trying to catch that one momentum wave. But we just keep doing what we're doing, we could earn 15% to 17% tangible equity for the rest of my career, another 10 years after that, and my shareholder will get very rich.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

Question upfront.

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

A

Nor do I expect it to go up. I get asked these questions like, can you increase the number? No, we cannot. There's something called out there called competition. I think this notion that you can forever increase your returns is a silly notion.

Q

Hi, Jamie, have you seen any irresponsible behavior either on the side of GPs or LPs due to the fact that as private markets, both credit and equity, have kind of expanded more, there's the impression because their mark-to-model, suppose mark-to-market, they are actually much

smoother and less volatile than public market investments. In reality, the underlying moves around just as much, it's just the way it's presented. Thanks.

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

A

I always make fun of models because models are imperfect. I mean models are meant to inform. I'm a fanatic about doing them right, but the notion that they're accurate, I tell people they don't include technology, they don't include character, they don't include millions of different things. And meanwhile, you're calculating the tip of an iceberg and one little thing can change it dramatically, so it could be very, very careful. It is a silly notion that the underlying and private equity doesn't have the same volatility as you will deal with, okay. And, of course, if you are a pension plan, that's how you can account for it.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

Yes.

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

A

You love it but it's – and it's artificial. So I think some of the private equity people do very well for their clients, but that isn't a reason, and all these other reasons is people hype up their returns and stuff like that. And so I think the there are some markets in these underlying markets. So some of them, you can buy and sell. Today these big unicorns are being bought and sold by smart people at different prices than a lot of people have on their books for so, and even those lot of people some have it valued up here in the book, some have it valued down here, so I think it causes some issues. I think it's a far bigger issue, which, if you were an American citizen, you should be concerned about. We've got 8,000 public companies to 4,000. I read recently that Canada has more public companies than we have. And the reasons, now there are good reasons to go private, but the good reason should not be that you can pay your people you want, the board can actually focus on the company and not crossing the T's and dotting the I's, litigation is lower, disclosure is not as onerous, bureaucratic red tape is not as bad, I mean those are not good reasons.

I mean having active public – an active and healthy public market is good, but almost every company you know about this, if they could go private, they probably would. I wish J.P. Morgan can go private, but I – we can't.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

Last question form me, Jamie. Healthcare and the cost of healthcare is very topical right now. And I think it was last year, you announced an initiative with several other leaders in other industries. Maybe you can just tell us what exactly are you doing in healthcare and what are you hoping to accomplish?

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

A

So, look at the healthcare, it's almost 20% of GDP. And if you are – medical companies pointing out to me, we have some of the best in the world and we do have people from around the world come here to get surgery, operations, pharmaceuticals, we do a lot of the invention of pharmaceuticals, medical devices, we are among the best, but the country as a whole has also some of the worst. Opioid crisis, 40 million uninsured, huge obesity problem, which drives heart disease, depression, cancer, stroke, diabetes, you name it. We should have better outcomes in America. End of life is 15% of the cost it should probably be half of that, unwanted end of life care, okay. We don't necessarily take good care of chronic disease, wellness programs work. Foreign administrative cost close to 25% or 30%, a lot of other developed nations, it's half of that. Most developed nations, the average medical cost is 9%.

And the other thing which are these underlying things how important health is. So obviously, being healthy is the most – it is – if you ever get sick, that's the most important thing for you or your family, is you stay healthy. And so there are estimates that say that half of all productivity over the last like 50 years or 75 years was longevity because as you can work longer and you gain knowledge, then you're more productive. And that's an important thing. And longevity is now going down in the United States for the first time in a long time. And there was an article

today by Bob Rubin, Former Secretary of Treasury, and another person about – that we also should understand how important healthcare is in multiple other ways – K to12, how it helps an economy and – we should – we've got to fix it. So, all we said is that we're going to take a long-term effort, sustained, devoted effort with very smart people to look at the breadth of the problems and trying to just kind of analyze it and figure out are there relevant solutions. And we haven't announced anything yet. We don't have anything to announce. But we now have a team.

So I think a year ago, we had no team. Now we have 30 or 40 really good people working with Amazon, Berkshire and J.P. Morgan analyzing our deductible plans, our wellness plans, our PBM plans or where we have better healthcare outcomes and we hope to come up with something – we don't know if we will, but this is a huge issue for America and so it's worth a sustained effort. We hope we'll have stuff we could share with the world. This was not meant to be a profit seeking thing. It was meant to be an improve healthcare thing, starting with our employees and then with anybody out there. So we may very well add other people to this venture over time if we can do it intelligently.

Matthew Derek O'Connor

Analyst, Deutsche Bank Securities, Inc.

We're out of time, but Jamie, thank you so much.

James Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

Matt, Thank you. Folks, thank you very much for having me here.

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