JPM AT THE BERNSTEIN STRATEGIC DECISIONS CONFERENCE

TRANSCRIPT

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JPMorgan Chase & Co.

MANAGEMENT DISCUSSION SECTION

John McDonald
Analyst, Autonomous Research

Great. Thank you, everyone.

We're very happy to have JPMorgan Chase up next. We're delighted to have Daniel Pinto joining us. Daniel is the Co-President and Co-COO of JPMorgan and Head of the Corporate Investment Bank.

A few housekeeping items. You can submit and vote on questions on the Pigeonhole link that's on the left side of your video. And also, please participate in the Procensus poll we're doing about this chat and about JPMorgan shares as well. And that's also on the left side of your video.

Daniel, I know it's late in London, so thank you for joining at this time. You'd never know it's almost 10:00 PM. You look like you're ready to start your day there, so thank you for joining us.

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

John, thank you for inviting me to your conference. It's a pleasure to be here.

QUESTION AND ANSWER SECTION

John McDonald
Analyst, Autonomous Research

Q

Great. Well, it's been a crazy time for Markets over the past few months. I thought we'd start off – we'll talk a little bit later about near-term trends – but for now, more broadly at an industry level, how would you say market forming and the mechanics of the market are functioning?

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

A

Well, at the moment, they are functioning very well. But I think that is interesting – it will be interesting to see that many of the things have happened. When we have them in March, this extreme period of volatility is something that we kind of saw that it could happen. When you have six or seven mini corrections in this cycle with very little news or very little bad news, the markets move dramatically and the depth of the market pretty much was very, very shallow. So, it was expected to see when the correction, the real correction happens because, at the end of the cycle, we are going to be in a situation of extreme volatility. And I think that is driven by probably change in regulations of other issues that really has made the availability of capital to facilitate an investment process at less than it used to be. And you have a long, long period where asset gatherers, asset managers, they've been accumulating risky assets. So, that's why you have that extreme volatility.

What is being extremely helpful that the decisive action from central banks, particularly the fed, the ECB and others, that knowing that, they really decided in a very, very short period of time, things are in the previous crisis, they were doing bit-by-bit probably over a period of a couple of years, so they did it in a couple of weeks. So, therefore, that has stabilized the market, reduced the volatility. And that, coupled with a very solid banking sector with good capital, good liquidity and all that creates an environment for the market to function very normal. And then, we will continue to see that over time. So, I think that at the moment, markets are functioning pretty much as expected.

John McDonald
Analyst, Autonomous Research

Q

Some folks have brought up 2009 as another period where we saw a lot of volatility. And it was a year that ended up being good for Markets' revenues, especially for bigger players. What are some of the similarities and differences when you've compared this to back then?

Daniel Pinto **A**
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

I think that the things that they are – obviously, there is a recession now and it was a recession then driven by different things. But I think that the main difference of the couple that I just mentioned, the size of intervention from the regulators, the fed, are by far more solid and are in a better position in the banking sector that allow this sort of tough situation to be managed in a more rational way. What we have seen as well is companies being a lot more conservative and draw liquidity in amounts that it was a lot of more than it was in 2008. But banks in general been a lot of – with a lot less risk than we have then, so in a better position to provide liquidity to clients, focusing clients, and together with the action from the fed to allow the market to function properly.

John McDonald **Q**
Analyst, Autonomous Research

And what's the opportunity for a market share gains, consolidation in this kind of environment, perhaps like we saw in the Great Financial Crisis after those years where bigger players did gain some share?

Daniel Pinto **A**
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

I see it a bit different this time. I think that there is the short-term and the more the long-term. In the short-term, I think that because banks were in a better position as I just mentioned, I think that I haven't seen a massive swing in market share in the last – probably, the last quarter or two because we're all better than we were at that particular point. So – but I think that the trends in the market are still there, the ones that there were before. Like this is the Markets business is a business of scale that requires a lot of investments, require complete set of products. And that is a machinery that is very expensive to run, that require really a lot of size and scale in order to make it profitable. So, therefore – and allow you to continue to invest in better and better services and products. And the moment that your investment starts slowing down, the competitively of your products is a lot lower, so therefore you start losing market share extremely quickly. And I think that that trend will – it was there pre this crisis – and it will be here post this, regardless of what had happened in the next – in the last couple of quarters and in the next couple of quarters.

John McDonald **Q**
Analyst, Autonomous Research

And could you talk a little bit about how you're managing balance sheet resources in this kind of environment? What are some of the pressures from the – what you call the passive consumption of RWAs?

Daniel Pinto **A**
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

I think that, in general, when you think about the RWA that we have averaged in the fourth quarter of 2019 to what we have probably forecast for the second quarter of 2020, there was a substantial increase. Some of that is essentially seasonal, so we have lower consumption of RWA and there is roughly $30 billion of RWA increase that it was in the plan.

On top of that, you have an extra roughly $100 billion of RWA that we are consuming, of which 70-plus percent is passive. That is draws on existing revolvers, it is value of risk, regulatory VaR, plus stress VaR, it is increasing failed trades, increase in margins, and all these kind of things. And the other 30%, the other $30 billion, is mainly related to new activity that we are providing to clients in Markets and Banking and in other things. So, that's what it is.

So, it was a bit [audio gap] (00:07:56) just by doing exactly the same. The cyclicality of the rules increase your RWA substantially. But clearly, we do have the capital. We were very focused in supporting our clients. And we deployed that balance sheet in a way that where the risk was properly managed and the profitability of those transactions [audio gap] (00:08:25) acceptable. So, that's how we did it. So, we are constantly trying to optimize the utilization to provide the massive – to be able to provide the massive amount of services to our clients and retain or increase, if possible, market share.

John McDonald **Q**
Analyst, Autonomous Research

And could you talk a little bit about corporate draw activity, what are you seeing there? Has it slowed? What other trends would you observe?

Daniel Pinto **A**
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

It has definitely slowed. So, we have at the peak in the Wholesale business overall not just in the Corporate & Investment Bank. So, it was roughly twice as much draw on revolvers than it was in the 2008-2009 crisis. And it was very, very fast. But I think that now has stabilized, and some of these facilities, some of that cash has been – is being paid back as companies feeling more comfortable with the overall environment, and a lot of the companies they've been able to go to the market, issue bond and finance itself in a very effective and more permanent way. So, definitively, we are seeing a decline in demand. When I look at what we were planning for the second quarter and what has really happened, definitively, what had happened is a lot of less demand than we planned originally.

John McDonald **Q**
Analyst, Autonomous Research

And that's because you've seen the inflow of new requests has fallen off pretty sharply, I guess, and then the paydowns of folks that already drew has also...

Daniel Pinto **A**
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

Yeah, you have – yes. You have, and it's on top of existing lines, existing lines being drawn and some payback. And the demand for credit that it was very, very strong. In the month of March and April is now new credit is slowing down. Obviously, it was a massive amount of issuance in the market was in high-grade and high-yield that has helped that. And probably, a bit of better visibility of all the past forward for the season, the economy that we have probably months ago or a month-and-a-half ago.

John McDonald **Q**
Analyst, Autonomous Research

And how about corporate deposit activity? It still feels like from the H8 industry data that deposit activity and inflows have been strong. What are you seeing there? And how much of that is related to folks that draw on the revolvers and park deposits with you?

Daniel Pinto **A**
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

Well, what you have is some is like yes, a lot of companies are withdrawing on their revolver and depositing the money with us. But it's also as the Markets business sold off and people reduce risk, some of the money came to us in form – in the form of cash. So, plus all the QE and all that, it was expected deposits to substantially increase. What we have seen in the last couple of weeks is in the wholesale space, particularly in TS had a small decline in deposits, that means they are not growing up anymore, and some of the money is being redeployed. So...

John McDonald **Q**
Analyst, Autonomous Research

So, that's probably a good sign, in a sense?

Daniel Pinto **A**
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

I think that there is, things are functioning quite well, so when – and the whole as market is stabilizing, also volumes are coming down. So, when I see volumes in Markets. So, we were at the peak depending on the asset class between 2 times to 3 times, plus 3 times, plus the normal volumes. But the average of the first quarter was between 1.2 to 1.4 times, above what it was the first quarter of last year. So, when I look at the month of April, more or less, staying in line way off the peaks but in line with the increase year-on-year, probably 1.2 to 1.4 effects a bit less, but more or less. In May, we are seeing volumes going more towards normal, like relatively flat year-on-year and, in some cases like foreign exchange or commodity, slightly lower for the month of May than what it was last year. So, we are seeing that the situation is stabilizing that's why deposits are coming down. So, the markets are functioning a bit more – companies are more confident, so the markets are functioning a bit more normal.

John McDonald
Analyst, Autonomous Research

Q

Yeah.

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

A

Still, so yet to be seen how this plays out, right.

John McDonald
Analyst, Autonomous Research

Q

Yes.

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

A

Because there is a lot of optimism in the market that, in an economy that is collapsing, so at least in the second quarter and have some recovers, so markets are really pricing a very good outcome here.

John McDonald
Analyst, Autonomous Research

Q

Yeah, yeah. Just on the topic of the balance sheet, we talk a little bit about the GSIB surcharge. What are the factors that you consider when you're deciding to kind of hold the balance sheet in the 3.5% GSIB bucket...

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

A

Yeah.

John McDonald
Analyst, Autonomous Research

Q

...or burst through that to the next level of 4%? What factors do you need to consider as you manage that?

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

A

It's just – as you know, because the ratios haven't been affected and the economy until now that is slowing down, it's been growing quite a lot, is most of the banks were bumping and were bumping against the 3.5%. So, this year at the moment, we are – as we said at Investor Day, we are gravitating in the 4% bucket. And then, we will decide later in the year, depending what the situation is, if we are going to be a 3.5% or a 4%.

I think that the key point here is that we don't want to constrain our client franchise, our client business. We want to maintain our market share, and in that entails to go to 4% is fine. And I think that, as you know, if we were to jump to 4% at the end of this year, so that will apply in January of 2023. So, by then, it may be time for calibration, it may be a different way to measure GSIB. So, we saw that is we are proving the way we do it, but we don't want to really constrain the franchise because of this. And we will see. We will see how the situation plays out towards the end of the year. But we are essentially not constrained in the businesses, trying to keeping the 3.5% we are allowing the business based on the plan, on our own budget to really gravitate towards the 4% bucket.

John McDonald
Analyst, Autonomous Research

Q

And do you have a sense of what factors the regulators are trying to balance when weighing the decision to recalibrate, factor in the growth in the economy, and maybe provide some near-term relief amid the surge that's happening right now in balance sheets?

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

A

Yeah. I think that when you think about since the set of GSIB to the end of last year, the economy probably has grown like 15%, 17%. And probably, the economy will contract around 6% or 7% this year, so – by the end of the year. So, you will solve that if financial sector want to support the growth in the economy, you should allow that to happen.

Number two, I think that the way that GSIB is being measured with this step function is very unhealthy. It should really have a more continuous function, it would allow you to run the business a bit more normal. Because if you jump from 3.5% to 4%, I think that the hurdle is 730 points, you don't want to be a 731. So, you're going to take all the capital and not use it. So, it just a bit more constant function, it will be helpful.

I think that in general about regulation, it makes sense to me that I wasn't expecting really much change until we got through a dark period. And then, all the 10 years of change in regulation and making the banking sector more solid with better capital, better liquidity, better control and all this wall of regulation that we have to face. So, I really – I wasn't really expecting the regulators to change before we tried or road test in a real crisis. And I think that now, they have the ability to do that, and then they notice what work, what didn't work, what it was helpful, and what it wasn't. And probably, we all saw that we all learn from that. And then, there is some adjustment in the regulation into the next cycle after this crisis that allows the banking not to lose control or have less capital, to be more effectively capitalized and more effectively use liquidity to support the market without really weakening the sector at all. So, that's what I was expecting, and probably that is what is going to happen.

John McDonald
Analyst, Autonomous Research

Q

Fair enough. That makes sense. When you think about risk management, how are you managing through some of the heavily COVID-impacted sectors when you think about travel, consumer, healthcare, auto, both in terms of your own exposure and then also working with clients to get them through this?

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

A

So, when you look at our exposure to those sectors, so it has increased a bit. But the way that we manage is very simple. We want to support the clients, we have supported the clients. And the way that we have done it, particularly in those sectors that they are kind of having a hard time, is providing liquidity but in a proven way, structuring the transactions in a way where they're properly secure. And also, more important, not just use our balance sheet but also optimize the usage of the market when the market was open. I think that is the biggest high-grade issue with Boeing in a non-M&A situation, $25 billion. We have done Carnival Cruises, so a $4.5 billion bond, $2 billion convertible, and an equity grade. We have done Marriott. We have done many deals using the market and many deals supporting the clients, like United and others, by deploying balance sheet, but in a way that is prudent and secure.

So, I feel quite good. Clearly, as the economy has deteriorated, so when you think about all these sectors and the downgrade of those sectors has increased over $6 billion in the first quarter, the amount of criticized credit. And as in the second quarter, the economy will deteriorate further, that number will go higher than that. But overall, I feel very comfortable with the exposure to those sectors, the security that we have.

The security of our overall portfolio, when I look at our drawn portfolio, close to 85%, you see that high-grade is collateralized. So, the quality of the portfolio is quite good. And at the end, the way that you deploy and support – deploy capital and support clients in this sort of tough environment is what really cement your market share and relationship with those clients over the long-term. So, we've been very, very thoughtful about how we do it, not just in Banking, the same in Markets.

John McDonald
Analyst, Autonomous Research

Q

Yeah. And beyond credit risk, what are the other risk management issues that are top of mind for you now, whether it's counterparty risks or evaluations and liquidity risks and other? What are the other kind of top of mind risk management issues that are priority?

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank **A**

I think, John, when I look at our world, in Markets for example, our franchise is purely a client-driven franchise. So, we were and where we spend the most of the time is to assess what kind of risk we need to take in order to provide liquidity to clients in the good and the bad times. Because as I mentioned to you in the past, the worst scenario is where you're trying to be very, very smart, taking a lot of risk; it goes wrong, and then you are ended up fighting in a tough time, you ended up fighting with the risk management of your positions while the clients are giving you more and more of the same. So, you lose money with your positions and you don't monetize the client franchise.

So, that is the core of how we think about the risks that we take in Markets. So, we don't need to take a huge amount of risk for the franchise to be profitable. At our scale, the franchise is perfectly profitable. So, the only thing that we need to do is to always be in a position where we can monetize the franchise. And that's what we did. And that is in the way that we provide financing to our market clients, to repo prime, with other forms of financing, in the way that we participate in complicated blocks of any asset class and provide oversized liquidity when it is within what is possible, when it is necessary, and the way that we provide all daily flow of liquidity, day in and day out.

So, clearly, when you think forward from here and you see the S&P trading at probably about 21 times; 12-month forward, when you see this spreads substantially tightening from the highs, and you have all these risks on where the market is pretty much ignoring any potential bad news and really rallying in good news. So, you have to be a bit careful, you have to be a bit careful because, hopefully, the economy rebounds in a way that can really justify this type of valuations. But it is not 100% certain. So, we are, at the moment, considering the current valuation as being more on the prudent side because we want, as we did in March before the whole thing start, to be in a good position if tough time comes again and volatility picks up, to be in a good position to provide liquidity.

I talk about volumes that they are normalizing when you look [audio gap] (00:24:16) going back to pre-crisis level, bid-offer spreads of every product that has some, that is liquid. And that even financing the spreads of liquid assets is going back repo is going back to where it was before. So, there are a lot of good news for us in the markets so you have to be careful. Hopefully, it plays out this way, which is a very good possibility. But as you [audio gap] (00:24:45) worst.

John McDonald
Analyst, Autonomous Research **Q**

Yeah. So, as we think about the near and the medium-term outlook, I guess just when we think about Markets revenues and you look at the industry wallet, 2019 was one of the better years for trading revenues in a while. Obviously, you had a good first quarter. How about over the next year or two, how you think about the medium-term outlook for the industry wallet across Markets?

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank **A**

I think that last year, if I remember correctly, it was slightly up both in Fixed Income and relatively flat in Equities. And when you look at Fixed Income, which is the one that kind of the wallet collapse from a last several, several years, probably has sort of find the base. So, we are not seeing further deterioration. And regardless of what happened with this extreme volatility to have leave, I think that probably, as the economy recover and capital markets continue evolving, so – and European markets hopefully at some point become more capital markets-driven and probably emerging markets will have to develop capital markets to grow. So, you can argue that, over the medium to long-term, the wallet will tend to increase. So, which, it was my view before and is still my view now. In the short-term, it's just a function of this sort of crazy situation. And so far, so good, but...

John McDonald
Analyst, Autonomous Research **Q**

Yeah. So, what about near-term, if you'd think about how the second quarter is shaping up in terms of market revenues. Obviously, Jamie said it was good. But hoping you could put a more – some more detail around what you're seeing in FICC, in Equities for the second quarter and the way you look at?

Daniel Pinto **A**
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

So, what we are seeing for Markets overall is the following. If I – and then, let me be very clear here, that we get it right. If I take revenues as of last night, whatever is the number, and I add to that for the next month, our performance that is in line with the average of the last three years for the months of June...

John McDonald **Q**
Analyst, Autonomous Research

Yeah

Daniel Pinto **A**
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

...it gives us a number in Markets year-on-year for the second quarter around 50% up, five-zero.

John McDonald **Q**
Analyst, Autonomous Research

Five-zero.

Daniel Pinto **A**
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

But it may be a bit more, a bit less, but it's based on that. And the reason why I am thinking about sort of using the average of the last three years for the months of June is because I see in May, two reasons. First, I see in May, volume is going back to roughly flat year-on-year. And also, a lot of the dislocation and pricing dislocations that we saw in April and March, they are more or less coming in line and adjusting. So, it will be less of that, plus volumes normalize, and so I think that it's prudent to assume that June will be similar to that. So, year-on-year, 50% plus or minus, we will see how June plays out.

For Banking, we are going to be up as well across – and sorry, one more comment on Markets, is very driven by Fixed Income, very, very strong performance in Fixed Income, and a very solid performance in Equities. So, overall, both are contributing to a positive number, but Fixed Income is the biggest contribution.

For Banking, we are doing fine. Our market share at the moment, year-to-date, is up 60 basis points at 9.7% considering Dealogic. And revenues for the IB fees for the second quarter, we think that we are going to be up in the mid-to-high-teens, more or less, with gains in all the asset classes in M&A, in equity and debt; M&A, mainly driven by transactions coming from last year that are being closed this year. The new M&A activity, when you look at the announcement, is roughly 40% down year-on-year. So, definitively, new deals are slowing down, but which is going to hurt going forward particularly early next year; but this year looks to be fine so far.

John McDonald **Q**
Analyst, Autonomous Research

Yeah. And then, again, back on the Markets, both are up, FICC and Equities…

Daniel Pinto **A**
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

Yes.

John McDonald **Q**
Analyst, Autonomous Research

FICC is a bigger driver but – and it's also up...

Daniel Pinto **A**
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

Yes.

John McDonald **Q**
Analyst, Autonomous Research

... FICC is up more than Equities?

Daniel Pinto **A**
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

Yes, yes, substantially more.

John McDonald **Q**
Analyst, Autonomous Research

Yeah.

Daniel Pinto **A**
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

But Equities is performing well. So, I'm quite pleased...

John McDonald **Q**
Analyst, Autonomous Research

Yeah.

Daniel Pinto **A**
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

...with the performance of the business.

John McDonald **Q**
Analyst, Autonomous Research

Yeah. And in terms of the industry wallet on the Investment Banking side, how do you look at that? You mentioned that the M&A slowing down the pipeline. I assume DCM is still very strong. We'd look at 2020, what do you think of the wallet and going forward?

Daniel Pinto **A**
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

I think that when you look at year-to-date, the world is relatively flat, according to Dealogic. And then, whatever you make more or less is mainly related to the change in market share. In M&A, the wallet is down year-to-date 17%. But volumes are down, announced M&A is down roughly 40%, 44%. Weaker in the US; stronger in Asia; and weaker in the Americas in general, particularly the US; and it's stronger in Europe, and Asia. Equity Capital Market is up 20%, the wallet year-to-date, and the Debt is around 6% or 7%.

In Debt, it's interesting because the wallet is up year-to-date 6% or 7%, but volumes are up a lot. When you think about March, we issued twice as much on the March before, and in April we issued 50% more than the April before, and we have a substantial increase in high-yield. The issue is that the type of high-yield deals, they are not underwritten deals, they are best-effort deal that they have smaller fees. But the markets are open, so it was perfectly fine. And then, high-grade is based less in general. So, that's why there is a bit of a dichotomy when you compare year-on-year wallet increase and volume increase.

So, we think that – I think that Debt will be largely up year-on-year. So, when I think about high-grade last year, the market issued around $1 trillion. Probably this time, it will be $1.5 trillion or $1.6 trillion. Probably, a flat volumes in high-yield, or a bit up. So, I see Debt slightly up. I think that Equity is slightly up, and M&A probably 15% to 20% down depending on how the economy goes. And overall wallet, that is probably to be from flat to slightly, between zero to 10% down.

John McDonald
Analyst, Autonomous Research

Q

Yeah. Well, a lot of different dynamics, like you said.

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

A

Yeah.

John McDonald
Analyst, Autonomous Research

Q

Yeah.

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

A

So, but the next, who knows.

John McDonald
Analyst, Autonomous Research

Q

Yeah.

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

A

The next six months, so many things happen. So, if a good outcome in the economy happens, so, you can see a reactivation in M&A. That is when you think about the M&A in the months of March, the dialogue totally stopped. And at the moment, the dialogue is picking up. And you see companies with very strong capital position looking at acquisition, not big deal but a smaller deals. You'll see a lot of capital being deployed in minority or in control stakes in the sectors that have been suffering the most. So, there is activity going on. But considering the stage in the economy, so it's not a surprise that it's a little lower than it was last year.

John McDonald
Analyst, Autonomous Research

Q

Yeah, yeah. Well, that's a great update, I appreciate that. One quick follow-up on the Markets revenues. With the May volumes starting to come down and starting to feel flattish and such a big FICC number which is great, assume there are some marks going on and that maybe swing the right way this time. And is that kind of reversing some stuff that happened last quarter on pricing in marks? Is that fair to assume?

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

A

Yeah. There are – so, yes, I said that some in Markets, so you have some normalization of totally positions that because of lack of liquidity that were too stressed and now they're normalized, and you have some of that in Markets. The marks that we reported last quarter, $900 million markdown in our leverage lending book. We'll report that line not in Markets; we report that line in Banking. So, spreads have tightened from there, so you can assume that instead of that $900 million, it's going to come down. Also, we have in the line where we report FVA and other Credit Adjustments. So, we are going to – the JPMorgan spread has tightened substantially. So, you're going to – I know that you don't pay too much attention to it, but that also will be a headwind. But leverage lending, or FVA, that is not included in the 50% plus or minus that I'm talking about in Markets. That is pure Markets revenues...

John McDonald
Analyst, Autonomous Research

Q

Yes.

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

A

...as we normally report it.

John McDonald
Analyst, Autonomous Research

Q

Right, okay. And driven by a combination of volumes and spreads?

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

A

Yes. Yeah, volumes – yeah, as I said, volume very strong thought they are coming down. And spreads is always a function of volatility. So, as the market stabilizes, spreads will sort of normalize and they tighten back.

But also, what you see when we talk about volumes, so that volumes at the peak went up like between 2.2 times to 3.5 times at the peak, the bulk of that increase in volume was done electronically, which is not such a surprise because essentially in those periods of stress, the illiquid stuff is very difficult to trade; and what you trade is what is liquid; and what is liquid, it trades mainly electronic. So, essentially, I don't see that there is a big change in trends that people now they are going to do more and more electronic. I think that the trend is pretty much the same, but the increase in volume was mainly related to liquid asset classes that mainly trade electronically. So, whatever is not liquid, whether it is blocks or that it wasn't electronic before, it's not going to be electronic now.

But the trend, if you look at all across asset classes in the last years, it got the electronic portion of the revenues continue to go out. The piece is done by voice, it continues to be smaller, but more or less in line with our expectations.

John McDonald
Analyst, Autonomous Research

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Okay. Let's transition to a bigger-picture question that we're asking all of the CEOs across all the industries presenting at the Bernstein conference. And it's really the idea if you think through the COVID pandemic and its aftermath, how might that impact your industry and your company, and how you think about whether it's investing or cutting cost and any kind of permanent changes that might come about from the environment that we're going through?

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

A

I think that, I was thinking about this, when you look at the key strategic areas of investments, which is the transformation of the asset management industry and how it will affect our security services based on the Market business. So, the Wholesale Payment space and how we are investing to create this platform and the concentration, the trend of concentration in wallet, in the payment – in the Wholesale Payment space, that it was very evident you have a good page in my Investor Day presentation, that it shows how much revenues of the top four or five players have been increased in the last five years versus increase in the wallet. All those players, including us, have really increased our market share a lot.

The application of technology in Banking to be able to free up the time of bankers and junior bankers to cover more clients and grow market share. And that transformation in Markets as the market become more and more electronic, more algo-driven, more intelligent algos and all that, all these trends, they are in my view intact. What I think it will change is how – two things that we learn. So, first is, we managed to have JPMorgan running in a very normal basis where almost 80% of the people are working from home. And when you exclude from the branches and processing checks, which is lockbox which you can only do it on-premises, so probably 90% of the people were working from home. And in a massive volume increase and very difficult environment, and we managed very, very well with all that.

So, when you think about that, our ability to deploy technology to work from home, and you mix that with the sustainability agenda of reducing our real estate footprint, reducing the burden on public transport and all these kind of things, you could argue that I'm quite convinced that on a rotational basis depending the type of business, you're going to have a substantial part of the population on a rotational basis, not permanently, working from home.

John McDonald
Analyst, Autonomous Research

Q

Yeah.

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

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That will depend on the type of business. It may be that in certain businesses, one week every three is one idea, or 50% every other week, or whatever it is, when we get to normal I think that that will be the way that we operate.

John McDonald
Analyst, Autonomous Research

Q

Yeah.

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

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And as time goes by, we'll have better tools to develop, to understand the productivity when these people are working from [audio gap] (00:40:36).

The other thing that it was very evident is that when we have to make – Gordon and I, we have to make very, very tough decision of sending people to work from home and deploying technology. So, how fast things that would have take a long time to decide, they were decided very, very fast.

John McDonald
Analyst, Autonomous Research

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Yeah.

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

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So, bureaucracy that these companies always have to deal with, some way or the other, went away. And we can retain some of that learnings and to make the company to grow faster.

John McDonald
Analyst, Autonomous Research

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Yeah.

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

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And I'm quite convinced we are going – we are doing a lot of work to see, so obviously, there is a change in risk appetite, what is the right balance and then how do you keep this momentum of fast deciding, faster moving company and not allow the organization to go back to a more bureaucratic stage of business. So, that's probably what I think.

John McDonald
Analyst, Autonomous Research

Q

Yeah. That's very helpful and insightful. Somewhat related in your role as Co-Chief Operating Officer, I know you're responsible for technology across the organization.

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

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Yes.

John McDonald
Analyst, Autonomous Research

Q

I think we're all familiar as consumers with some things that differentiate Chase on the consumer side. When we think about CIB, what are the differentiating technologies that help you gain market share and utilize your scale and really differentiate what you're doing in CIB?

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

A

I think that what it is, is about the technologies that you use to support the quality of the services and the client experience and the completeness of the products and the globality and all that. And that, we've been quite good at that across the company. And I think that, as I mentioned before, when you think about the company spends roughly $12 billion in technology, we've been really trying to, as I mentioned in Investor Day, to get more out of those $12 billion. And when you think about, there are three components of those $12 billion that is similar in the CIB, in Retail or anywhere else, it is developers and we have done a lot of work to really help developers to be more productive and being able to understand what are the constraints for them to be more productive.

And it's very clear that we continue modernizing our infrastructure. There is another portion that is not available. There are people that support the technology organization, meaning for the managers, people that do checks and all these type of things, there's substantial amount of money. But as you modernize the infrastructure, you need a lot less of that. And you can deploy those dollars to more and more effective ways to develop and increasing even better the quality of services.

And the fourth component is all that the physical infrastructure that we use for computing, communications and storage. It's billions of dollars as well. And as we modernize infrastructure, you're going to have a computer environment, storage environment, communication environment that is by far more effective. That's why when I think about the $12 billion and I mentioned at Investor Day that it may be another 20%-30% – I don't know, whatever it is, more output for dollar invested over time as we modernize the infrastructure – I'm quite convinced that it is the case. So, that's why I don't believe that the $12 billion is a number that is going up and up forever, because I think that we'll be able to over time more and more and more with the dollars that we deploy today, and really finance with productivity the bulk of investments that we need to make.

John McDonald
Analyst, Autonomous Research

Q

Got you. We've got time for one or two more questions. I've got a few online here on the Pigeonhole. So, Daniel, one of them is, what would be the challenge of working in an environment of negative rates? It doesn't feel like the Fed wants to go there, but it's something the market worries about. Just from your perspective, what are some of the considerations that you'd have?

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

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So, first, I really don't believe that the Fed will go there. And if they were to go there, it may be for a short period of time. And what it will change the dynamic of the market if there are negative rates for a sustainable period of time, as we have here in Europe.

And you have a very different outcomes for retail than it is for wholesale. In the wholesale business, negative interest rates, obviously, we don't prefer that scenario. But essentially, for the business that are a bit more affected will be the deposit-taking business. But since overall, when you look at the Wholesale business, roughly finances itself, is not such a big deal. So, we will pass through to the clients the bulk of the negative interest rates. And clearly, it will be better if we don't have them, but it is not the end of the world.

In the retail business, it's very different because you have a sustained period of negative interest rates, you may have to adjust the way that you do business, that you charge clients, and all these type of things. But really, it's not our core scenario. We don't think that that is going to happen.

The other point is if it were to happen, are we operationally prepared or not? And the answer is yes. In the wholesale business, we are premier time. We operate already in Europe for all the businesses, so there is not massive issues overall.

John McDonald
Analyst, Autonomous Research

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Great. Well, that is extremely helpful, and we are at the end of our time. Daniel, thank you so much for your input and your perspective, which is very helpful.

And for anyone that's still on, we hope that you will participate in our poll from Procensus. And you'll get to see the results of the poll, and Daniel we'll send them to you as well.

Thanks again.

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

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Thank you.

John McDonald
Analyst, Autonomous Research

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Appreciate it, Daniel.

Daniel Pinto
Co-President, Co-Chief Operating Officer of JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

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Thank you. Thank you, everyone. Stay safe. Thank you, John. Bye-bye.

John McDonald
Analyst, Autonomous Research

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Thank you. Bye.
