2024 INVESTOR DAY – FIRM OVERVIEW

TRANSCRIPT

May 20, 2024

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the stage, Jeremy Barnum.

Jeremy Barnum

Chief Financial Officer, JPMorgan Chase & Co.

Okay. Thank you, Daniel. Let me briefly tell you what we're going to cover today. As we've done frequently in the past, we'll restate our strategic principles and operating model. We're going to review our recent financial results, discuss the current operating environment, and then cover the financial outlook including our return expectations through a range of environments. So let's start by talking about our proven operating model.

We show you this page every year and the repetition is intentional. We have a strategy that is complete, global, diversified and at scale, and we don't expect it to change. Underneath that, we have exceptional client franchises delivering a comprehensive set of products and services backed by powerful brands. We apply unwavering principles across everything, our fortress balance sheet, our risk governance, and our culture. And of course, we focus on long-term shareholder value generation. We talk a lot about investing and it's investing in every way, from attracting and retaining top talent to delivering superior customer experiences. Finally and really connected with that long-term view, we invest in our communities, have sustainable business practices, and we integrate on our own terms environmental sustainability into our business and operating decisions.

As we've have said in prior years, we believe that our operating model is a big driver of our outstanding financial results, powered in no small part by the breadth and depth of our franchises. On the left-hand side, you see the benefits of diversification. Different revenue types and businesses produce stable and growing total revenue.

The right-hand side of the page now reflects our new segment structure with the Commercial & Investment Bank. The relationships among our three lines of business allow us to serve clients across the continuum and have a complete set of products to fit the specific needs of each of our clients. And we operate globally and serve over 100 markets worldwide, including our recent International Consumer Initiatives and the ongoing international expansion in the CIB and Private Bank.

Our operating model is underpinned by world-class client franchises. On the left-hand side, we show our exceptionally strong share positions and we illustrate how the lines of business complement and reinforce each other. And these leading positions are tangible proof points of the benefits of our ongoing investments, consistent strategy and scale. The right-hand side shows market share growth over the last decade. In the CCB, we have 11.3% deposit share and are number one in four out of the top five U.S. markets and we have grown client investment assets by five times. In the CIB, we've had for a long time the number one wallet share in IB fees and Markets revenue. And we've grown market share in both Treasury Services and Securities Services. And in AWM, we've more than doubled client assets to $5 trillion, and we've had 20 straight years of positive net new flows.

While we are extremely pleased with these results, we don't think we're perfect. And given the strength of the competition, we don't take our leadership positions for granted. At the same time, we see the areas of relative weakness as opportunities for growth. Nonetheless, despite these opportunities, our strategy, footprint, client franchises, products and services have in fact produced best-in-class financial performance over the last decade. We could pick any number of metrics to look at. But just to choose one, tangible book value per share has grown at a 10% CAGR since 2005, well above peers. You'll notice consistent themes here. We invest through the cycle and we aspire to have the fortitude to maintain a long-term view even in the presence of short-term pressures, which has proved to be a competitive advantage for us. Our 2023 absolute results are worth highlighting. We grew revenue for the eighth consecutive year. Our adjusted overhead ratio of 53% improved by 4% year-on-year, and we produced $50 billion of net income and a 21% ROTCE. Strong results to put it mildly.

Now, let's turn towards the future. As we look forward and as we've been saying for a couple of quarters now, the environment is getting more complicated. We believe the tailwinds we have experienced recently will abate and will probably turn into headwinds. I'll cover NII in more detail on the next page. On credit normalization, it's worth noting that even though the charge-off rate for Card was already normalized at the beginning of the year, the full year effect will be a headwind to the year-on-year comparison.

Looking at 2024 and beyond, there are, at a minimum, a series of uncertainties. Regulatory capital is obviously a big one that I'm going to cover in more detail. There are various headwinds from proposed new consumer regulations which we feel quite strongly about and which Marianne will cover. We've previously said that we think our current stress capital buffer is cyclically low, so it will probably be a headwind for capital. And as Daniel just addressed, the geopolitical situation remains volatile and complex.

So, with that in mind, let's turn to the outlook, starting with NII. I'm going to start with the punch line here and direct you to the right-hand side of the page. We're revising NII ex. Markets up to $91 billion. That represents a $3 billion increase to the guidance we gave at fourth quarter earnings. And as you can see, we are anchoring the explanation to the slide we used in the earnings presentation at the time since it contains the key thematic building blocks we are using for comparison. Relative to our update in the first quarter, this guidance represents a $2 billion increase.

The primary driver of the upward revision is the combination of a higher rate curve and, in that context, smaller-than-expected increases in the portfolio rate paid assumptions for the rest of the year. However, I would caution that it can take time to observe increased reprice pressure as a result of sustained higher rates. So the error bands here remain wide.

And I'll remind you of what I said on the last earnings call. We have around $900 billion of low-cost consumer and small business deposits, and relatively small changes in the pricing strategy could have a big impact on the run rate. In addition, I should point out that this outlook does include a placeholder for the impact of the credit card late fee rule.

You'll note that the total NII outlook increased to $91 billion. So total NII and NII ex. Markets are now the same. In other words, Markets NII is effectively zero and is driven by similar dynamics to the ones I discussed at earnings, as well as rounding. Stepping back, it remains the case that despite this upward revision, our current outlook relative to the 4Q 2023 annualized NII still implies sequential declines, which might raise the question of when we'll see the trough.

When I look at our internal outlook for the next six quarters, the sequential NII trajectory is a bit noisy and I see instances of sequential increases followed by sequential declines. We'll have to see how it plays out. But given that, I would discourage you from trying to call the NII bottom based on any given sequential increase over the next few quarters.

Next is the expense outlook. Our 2024 expense outlook is about $92 billion, reflecting the $1 billion Foundation contribution of appreciated Visa stock. I want to reiterate what we said in our recent 8-K filing that the $1 billion contribution is just pre-funding of what would have otherwise been spent in future years. So we're not changing the strategy or the amount the Foundation spends, and it has the benefit of being tax efficient. Also, reminder that the $92 billion includes the previously announced $725 million increase in the FDIC special assessment. So, in that context, if you go back to the $90 billion we guided during the fourth quarter, nothing has really changed in terms of operating expenses.

Now, let me give you some color on the drivers. With respect to organic business growth, Daniel covered the strategic importance of each of these initiatives in his section, and you can see some of the additional details on the page. I do want to point out that some of the growth is in the Corporate segment, and that's largely driven by our International Consumer Initiatives where the higher expenses are associated with higher revenues. I'll give you the technology detail on the next page in just a second.

We do see a modest increase from First Republic, but we also expect a lower 2024 exit run rate as synergies are delivered. The increase in volume- and revenue-related expense is primarily a function of our noninterest revenue outlook, especially growth and wealth management revenue across both AWM and CCB, and the expectation of recovery in the Investment Banking wallet, as well as increases in volume-related expense generally.

At the same time, we remain extremely focused on generating productivity in BAU in order to moderate the growth-driven expense increases. Marketing remains a cost driver. And we continue to see measurable revenue and franchise impact supporting robust card loan growth, strong customer acquisition, and great engagement across the deposit and card franchises.

It's worth saying that while we don't call out inflation as a standalone driver, you could argue that it's embedded in all of these, as both labor and non-labor expenses are higher than they otherwise would have been. And while we're past the peak inflation moment, we do continue to see some upward pressure on costs, especially as certain longer-dated elements of the expense base reset.

Now turning to tech. Sorry. I'm going to briefly cover our Firmwide technology spending, and later today, you'll hear more detail from the businesses about their tech priorities and spending in the context of their business strategies.

Starting on the left-hand side of the page, we expect 2024 Firmwide tech spend to be about $17 billion, up approximately $1.5 billion year-on-year. To highlight some of the drivers of the increase, First Republic integration did add a little bit year-on-year. Investments are up about $0.5 billion, which I'll talk more about in a second. And as I just mentioned, when discussing the Firmwide expenses, inflation remains a theme.

We're also explicitly calling out volume-related forces, which are pushing our tech expense up. Specifically, the use of data is growing. We have more digital engagement from customers and we're delivering new digital experiences. In addition, actual transactional volumes are increasing across the company and we've grown the number of employees. So all of this together drives volume-related increases to our tech spend. Offsetting those increases is the ongoing impact of our efforts to improve both the scalability of our infrastructure and the efficiency of our software development cycles.

I would also note that embedded in these expenses are some bubble costs as we're probably experiencing peak modernization spending. So there are some notable instances of overlapping processes and applications operating both in the cloud and on-prem, as well as some bubble expense from the physical footprint as we close down legacy data centers and move into our strategic ones.

On the right-hand side of the page, you can see the breakdown of the investment portion of the total spend by driver. $4.5 billion is products, platforms and user experience related. You'll hear more about that from the businesses. The remaining $3 billion of investment is on modernization broadly defined and notably, that $3 billion is flat year-on-year, and includes the cloud and data center work I just mentioned, as well as our ongoing efforts in cyber and resiliency to protect the Firm and our customers.

And now, moving away from the expense outlook, let me expand a little bit on Daniel's comments about our tech strategy and what our technologists are focused on every day. Improving the efficiency of both our software engineering and our physical infrastructure is a top priority with the end goal being to get maximum productivity out of tech dollars, attract the best people to work here as software engineers, and benefit from all the innovation that is happening in the cloud ecosystem.

The items in blue at the top of the page are different indicators of our progress in moving to the private or public cloud, which Jamie mentioned in his Chairman's Letter. Specifically, the extent to which applications are running a large part of their workloads on the cloud, which is about 50%. The progress we are making in migrating applications to our modern data centers and the public cloud, which is about 80%. And progress migrating data to the cloud. 70% of our data has been landed in the cloud, but we should caveat that landing is not the same as having it be modernized and usable for AI and ML, so there's work to do there still.

On the bottom left-hand side of the page, you can see some indications of our engineering productivity, which we track across three buckets: speed, agility and stability. We've seen a significant overall increase in speed to deliver product features over the last couple of years. And in certain key high priority areas, we've improved significantly more than the average. At this point, agile practices are extremely widespread. But as one of my tech leads says, it's not about doing agile, it's about being agile. It's not about the lingo, it's about actually improving measurable outcomes, and we are seeing that. And as happy as we are about the improving dynamism of the development environment, we also need to recognize that given who we are, we run a lot of critical infrastructure.

So, stability and resiliency are absolutely essential and the increase in automated testing and deployment that comes with a more modern environment is delivering a significant reduction in incidence and a very, very high success rate in connection with releases into production. And on the right-hand side of the page, you see the more tangible economic benefits from infrastructure productivity improvement. The current environment is significantly increasing demand for compute, for storage, for everything as the company grows and becomes more digitally intensive. In the specific case of our so-called private cloud, which is the most modern JPM-owned infrastructure, despite seeing 50% growth in volumes, actual costs are only up 5%. So, as more of our estate moves to either private or public cloud and gets optimized in the new environment, we are optimistic about the efficiencies that will be generated.

So, that's it on tech. Now let's talk about credit. Let me start by giving an update on some of the more relevant Firmwide numbers. We're reserved for a weighted average peak unemployment of 5.4%, and we maintain meaningful weights on the adverse scenario as we still think the balance of risks is skewed to the downside.

On the bottom left of the page, we also thought it would be interesting to look at the evolution of the total allowance for the company since the fourth quarter of 2022. As balances, the economic outlook and underlying credit performance have evolved together to produce an overall increase in the allowance of $2.5 billion. Remember, that First Republic is contributing to some of that.

The remaining $1.3 billion of allowance increase included $1 billion of reserves for net loan growth, primarily in Card, as well as a $500 million build for Office, which you'll hear more about in the CIB presentation. And while we're at it, I should say again that setting aside the question of the weights, if you simply look at the card loan growth we expect this year and the typical seasonality of card balances, the reserve builds and the analyst models for this year still look low to us. The right-hand side of the page is focused on Card, which Marianne will cover in more detail. But we haven't really seen any surprises there, and we expect the 2024 Card net charge-off rate to be about 3.4%.

Okay. Now, let's move to the topic du jour, Basel III Endgame and the buyback trajectory. Given our stated views, we are encouraged by both Chair Powell and Vice Chair Barr's recent testimony that we should expect "broad and material changes". Understandably, people are interested in our opinion about what this could mean in terms of a likely final outcome. I want to again caveat that we don't have any information about the regulatory deliberations that you don't also have. And despite the recent press coverage, we think it would be naive to predict the outcome with any confidence. At the same time, we've obviously studied the issues closely. So at a minimum, we understand the building blocks. So, to help bring the discussion, we've laid out what you might call an informed illustration but that's all it is, an illustration.

You see that we focus on the major items in the NPR that received extensive comments. Retail gold-plating, operational risk, renewable energy investments, corporate risk weights, and then a collection of other capital markets items. To orient you on the page, the chart on the right-hand side shows potential outcomes in the Basel III Endgame RWA compared to the NPR. If you focus on the gray arrow on the left-hand side of the chart, moving down that axis represents a bigger decrease relative to the original proposal, or said differently, a smaller overall increase.

And as you go from left to right, you'll see a section for each of the categories where we've illustrated that some categories could have more outcomes than others, producing a broader range of potential final RWAs. And so, for each category, we chose a point estimate that we thought was a reasonable way to address the feedback and is consistent with broad and material changes. And those choices are represented by the blue diamonds with letters A through E. Those point estimates result in about a $250 billion increase in RWA or about half of the roughly $500 billion increase we estimated under the NPR as originally proposed.

Now, there are a couple of really important things to highlight. First is acknowledging that the blue diamonds that get you to about half of the RWA increase are just one scenario. You can get to that same half using any number of different combinations, and there are many other potential combinations you can generate, which would produce very different RWA increases and result in the wide range of outcomes you can see in the stylized distribution below.

Second, as a reminder, this is a single set of rules which requires agreement among three agencies, making the outcome even harder to predict. And finally, most of this page points to a range of RWA outcomes. But GSIB and SCB are also important components of our capital requirements, and we believe that "broad and material changes" should include some combination of GSIB and SCB, as well as RWA.

So, now, let's connect this illustration to the question of our capital return trajectory. On this page, we show you what you already know. Right now, we have quite a bit of excess capital. As I did with NII, I'm going to give you the punch line before the details. It's clear that based on the amount of excess capital we have, it makes sense for us to increase the amount of buybacks relative to the recent pace of about $2 billion a quarter. And we have, in fact, started to do that.

Now, let's go through the details. We'll walk from our current $54 billion of excess capital to the first quarter of 2025. Based on analyst estimates of both organic capital generation and RWA growth, we would expect a net increase of about $28 billion. In addition, the recently announced Visa exchange nets about $5 billion. And we've previously said we think the SCB is cyclically low. So if that were to increase by 50 basis points, it would be a headwind of about $9 billion. Together, this leaves us with about $78 billion of excess capital as of 1Q 2025 on current rules.

The next bar introduces the impact of the Basel III Endgame. You can see that bar ranges from green, zero overall change in capital, to red, which is the roughly $50 billion of capital increase we estimated right after the NPR was released. The illustrative scenario we had on the previous page would be something in the middle, and everyone will have their own opinion about where we might land. Mapping all this to the right-most bar on the page, you can see that even relative to a realistic worst case scenario and including a management buffer, we still have a significant amount of excess capital. For that reason, we have increased buybacks a little bit. But I want to remind you that right now we still don't see particularly compelling opportunities to deploy capital. So you should expect us to continually assess the opportunity set in the context of our capital hierarchy and adjust our buybacks accordingly.

With that said, let's look at return scenarios. This is an updated version of the analysis we showed you last year. I won't repeat the description of what this is or the caveats about the analytical limitations of the approach. You can get that from last year's presentation if you want. Now, it is interesting to look at what's changed since last year. The launch point is different. Last year's fourth quarter return was similar, but the full-year return was lower. So this year's trajectories lack the upward drift from the annualization of the 4Q launch point.

It's also worth noting that the economic environment is different from last year's. Last year, inflation was still running very hot and there was quite a bit of uncertainty about whether a soft landing was achievable. And if not, what type of recession we might have. As a result, all the scenarios included some form of a recession.

This year, at least according to the consensus of economists, the probability of a soft landing is quite a bit higher. And so the first two scenarios include versions of soft landings, although, of course, there are still a lot of uncertainty, and we still believe risks are skewed to the downside. This year, we also added the Basel III Endgame outcomes as a variable for obvious reasons.

And so what you can see here is that across a reasonable range of economic scenarios, we expect returns to normalize significantly over the next few years. At the same time, while this isn't exactly a through the cycle view, looking at the simulation provides additional context and support for Daniel's statement that assuming a reasonable outcome on the Basel III Endgame, 17% through the cycle is achievable. But of course, some years will be above that and others will be below. And in the end, the most important point is that we're confident in delivering strong relative and absolute returns in a range of environments.

So to wrap up, let me reiterate what's true every year. We continue to invest prudently to deliver share gains and superior returns. We are very focused on executing our tech strategy to prepare the Firm for the future. We are actively managing the balance sheet and we are prepared for a range of economic as well as capital scenarios. And through all that, our longstanding focus on delivering for our clients, customers and communities remains as strong as ever.

And with that, let's welcome Mary to the stage.

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