JPM AT THE BARCLAYS GLOBAL FINANCIAL SERVICES CONFERENCE

TRANSCRIPT

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JPMORGAN CHASE & CO.

MANAGEMENT DISCUSSION SECTION

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Moving right along. Very pleased to have JPMorgan Chase with us once again. From the company, we have Daniel Pinto, President and Chief Operating Officer. Daniel?

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

Thank you. Good to be here.

QUESTION AND ANSWER SECTION

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Obviously, we're going to spend a lot of time talking about JPMorgan Chase this morning. But I'd love to get, kind of, your macro view of the world; inflation, rates, geopolitics, elections, there's obviously a lot going on. Maybe we could start with the consumer. You guys, I think 80 million customers, 11% deposit market share, 17% credit card market share. So, I think you're more well informed than almost anyone kind of a real-time view of the health of the consumer. Your kind of unemployment rate have picked up of late. Maybe kind of – what are you seeing?

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

Yeah. What we see is that the U.S. economy, even though we see some slowdown, is doing still okay and the consumer is the main driver of that growth. So, what we see is consumption is still there and we have seen some change in behavior like discretionary consumption now stabilized, but it came down a bit.

And non-discretionary is still growing at a slower pace, but is growing. The consumer has delevered over a period of time, so the bulk of the mortgages have been refinanced at lower rates. Unemployment rate has gone up a bit, but it's still within reasonable levels, and wages are still growing around 3.6% or so.

So, the consumers are in relatively good shape. We see, for example, though, the excess savings coming from the pandemic. Those are more or less spent, particularly in the lower segments. The cash buffer in the lower income segment, they're still elevated to historical average because wages are growing faster than inflation. So, the picture of the consumer, still not what it was a year ago, but it's still in a solid place.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

And maybe to shift gears. You know, obviously you have a strong relationship with wholesale clients, maybe kind of get your thoughts around business sentiment at the moment?

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

Business sentiment is okay. I think that there is quite a lot of dialogue in M&A, though, concerns about geopolitics, concerns about the election in this country, what is going to happen with rates or not. So, the supply chain situation is pretty much normalized. The tension between the U.S. and China is always an area of concern. So, in general, there is dialogue, there is activity going on, but CEOs have in their mind all these concerns. So, therefore they are more or less careful.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Got it. We could put up the first ARS question that we've been asking all the companies – all the investors for each company. But so, I guess you were here two years ago. Sounds like some things have changed since then, others remain the same. But one thing is kind of a Corporate & Investment Banking kind of structure of the company, combined Commercial Banking and Corporate Banking – Corporate Investment Banking, to kind of this new CIB, the Commercial & Investment Bank. Maybe just talk to the rationale and maybe provide some examples of, kind of, the benefits or maybe even some challenges that occurred?

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

So, these were two very, very successful units. One of the biggest Commercial Bank in the United States, growing international, and the biggest Corporate & Investment Bank in the world. So, and we've been discussing with Jamie over a long period of time, several years, what is the right time to do this?

And I think that the reason why others did, but we didn't do it before several years ago is because we wanted to be sure that the correct focus on the different client segments was there. That we were not going to be distracted with large clients and not pay attention to the Middle Market, which is a huge opportunity in this country and abroad, international.

So, we allowed this business to grow to a very, very good place. So, at some point, you realize that having two externally reported units give you one challenge and the challenge is, where is a client better served? And then as you ended up, every client that becomes bigger gets transferred to the Corporate & Investment Bank. So, this unit would never grow.

So, I think that by putting it all together allows a proper coverage of the client, whatever is the best place for them to be served, gives us a more effective way to cover more the high end of the Middle Market, outside the United States with more resources than we would have just in the Commercial Bank. And over time, you are going to have some efficiencies and things like that.

So, it makes all the sense in the world, I think, that Jenn and Troy have done a very good job putting it together and I think that it put us in a better place to compete across client segments from the Middle Market all the way to the global large international companies.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

You mentioned Jenn and Troy doing a good job putting it together, that kind of used to be your baby. So, now with them in charge of the CIB, how are you spending most of your time?

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

Well, before I did two things: I was running the Corporate & Investment Bank, and as well the same job as I have now. And the reality was that the strength of the leaders in each of the lines of business, in Markets, in Payments, in Security Services, in Banking, really didn't require me to be too much in the day to day.

So, these guys, women, they were running their operations very, very effectively. So, essentially, I oversee a bit of that. But essentially, in the last several years I've been focused with Jamie in the overall management of the company and working with my partners in Wealth Management and Private Bank or in the retail bank or now in the Corporate & Investment Bank, in areas where I believe there are opportunities for this company to grow.

And so essentially, I'm still doing pretty much the same. So, I’m working with Jamie in running the day to day, I'm focused in all these areas, including technology, including artificial intelligence. Every part of the company, to make sure that the company that is performing very, very well continues in the same path.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

You mentioned opportunities to grow. So, maybe it would be great, we can kind of maybe run through each of the major business lines and kind of where you see those opportunities? You could start with CCB. One of the things that struck me at Investor Day was you talked about

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

15% deposit market share target, U.S. retail deposits, you're at 11% or so now, 20% credit card market share up from 17%. Let me just talk to how you plan to achieve those objectives. How long it takes to get there?

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

Well, the opportunity in retail here in the U.S., even though the business is an amazing business as it is, is really, really big. So, deposit is one opportunity. We said, we've been growing in normal periods, around 30 basis points a year in market share in deposits.

But when you look at all the markets in the United States and when you look at the markets where we have been there for a long period of time, they have a very consolidated presence. We have market shares about 20%, 25%, 26%, things like that.

And there is a big segment of markets where we've been for a long time, but not as long and they are in the 10%, 15%. And then we've been expanding in the last several years in new markets, where we've been in for a very short period of time. And in those, in some places we have 1% market share or 1.5% market share.

So, just continue investing in expanding the brand, optimizing and expanding the branch network in the new markets, continue creating a great client experience. We may talk later about how we're thinking about covering affluent clients. Things like that will naturally take us to that 15% and it may be even higher when you consider how we are doing in markets over the long-term, how we are doing in markets that we are very consolidated.

Credit cards. We've been doing very, very well. So, the revolving balances are roughly 25% above where they were pre-pandemic. But one thing hasn't recovered, totally yet, which is when you think about number of clients that they are revolving is still lower, substantially lower than it was before the pandemic.

And that will normalize over time. So, just that will give you some growth. We have great assets. We're putting a lot of marketing dollars to continue growing that business through different channels. The investments that we are making in travel services, in Connected Commerce. And so, we think that there are opportunities. There are opportunities in the standard segment of the population. There are opportunities to grow in business cards and big opportunities in the very, very premium segment.

So, we think that the credit card business is a fantastic business that we have. I think that we’ve been growing – and I think that momentum towards 20% over the next few years is very achievable.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Got it. I guess, there’s two initiatives across the firm where you’re targeting maybe a slightly different customer base. First, maybe the First Republic integration, kind of taking a different kind of new approaches with the branches there. And second, obviously, U.K. retail banking, we're taking no branches. And I guess there was an article yesterday, you hired someone to maybe take that to Germany. Maybe just provide us an update, kind of each of those.

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

So, as part of there on retail, the other opportunity that we're really very focused on is Wealth Management in the sub $10 million segment. We are really, really small. We have 1.5% market share there, even probably lower. We're making a lot of progress. And essentially, the strategy is to use the branch network and put advisors in the branches to capture the trillions of dollars of money that is being managed by someone else or clients that have their primary account with us. And that is really doing very well.

So, I think that those are the segments where we believe the retail business could continue. First Republic, obviously, they made a mistake, ended up where they ended up. But the company itself, it was amazing, the quality of the balance sheet, it was great.

They got it at the wrong price but the quality was real. So, what we were expecting to get out of the $235 billion in assets that we acquired performing totally according to plan, slightly better. Number one. They did an amazing job servicing affluent clients. And we are learning a bit how we can, in a big company like ours, that ended up a bit siloed doing Credit Cards, Business Banking, Mortgage, Auto financing. How we

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

can, particularly for the millions of affluent clients, to provide a better experience, to have a single point of coverage that allows those customers to really navigate the company better.

And we are experimenting in Boston and in New York to have these sort of coverage centers with bankers that will be brand J.P. Morgan, and I think that Mark O'Donovan mentioned that at Investor Day, and see how we can deepen the relationship with those affluent customers that we have, in addition to the bankers that we acquired from First Republic that they are doing a very good job.

So, I think that we need to do and we are going to do a better job in covering affluent clients and we think that deepening that relationship will be a big plus for the retail business and so far, so good, the First Republic.

On international retail, it's going probably better than we were expecting. We are reaching by now around $28 billion in deposits. We have 2.3 million customers, 1.5 million, 1.6 million of those are highly engaged. We are adding more products. We are launching joint accounts. We are launching credit card. We are progressing with the integration of Nutmeg, the wealth management acquisition that we did, that at the moment has around $9 billion, $10 billion in asset under management and growing fast to make a better and nicer experience through the app.

The strategy, it is the same. We are not going to have branches or anything like that. It's all digital. And at some point, we will expand into the rest of Europe. But another point, we are going to – we talked in the last couple of Investor Days about the cash burn of the business and we are way inside that, even though we are investing because the business is performing and growing faster.

The brand recognition is really very high now and the client satisfaction is really good. So, we need to do a lot of work to keep optimizing the operational side of it, just to make it more and more effective and less high touch and more low touch, and having a better client experience. But really, this one is going well and we will continue assessing as time goes by.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Got it. And maybe turning to the CIB, obviously leading positions in many of the segments you compete in, can you continue to grow share and then maybe, kind of, what sub-pockets of business do you feel like you're not living up to potential, and we can expect improvement?

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

Well, in Markets – start with Markets, at the moment we have 12.3% market share overall between Fixed Income and Equities. We have lost in the last three or four years a bit of market share in Fixed Income when the wallet grow up again. Some of the marginal players they took some of the wallet, but within Equities, we've been growing market share and we continue to grow market share. According to Coalition, at the moment, we are number one or equal one in Equities.

So, that franchise is doing very, very well, but it is a tough business for us and for everyone else. So, we're going to continue investing in this franchise because I am a strong believer that the wallet in that segment will continue to consolidate because the wallet now – the overall wallet has been stable for the last two or three years, a bit up or a bit down.

And even at those levels of wallet, that is higher than it was in the past, is still for banks that are not – or players that are not at scale, it is a low return proposition. So, as the wallet stabilizes, probably there will be more consolidation towards the top 5-10 players.

So, that is about continuing investing, managing the capital and the liquidity effectively, deepening the relationship with the big clients. And that is going very, very well.

In Banking, at the moment, 9.1% market share according to Dealogic. And they are also – I don't know what is the potential because at the end you have conflict, companies have to pay for the deployment of balance sheets to many banks. But I don't know what it is, but probably it's more than 9.1%.

And there are sectors and segments and geographies where we were not doing a good job or we could have done. So, we are investing in hiring some bankers, optimizing our strategy, taking advantage of now the combination of the Commercial Bank and the Corporate & Investment Bank into the new unit.

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

So, I think that there is some growth there. Payments, we have done amazingly well. We almost doubled market share in the last five, six years. We are heading towards 10% global market share in Payments. And I think that that is another business that it was very obvious to me many years ago, that such a fragmented business with such a risk like cyberattacks and things like that, a need for investment and client experience was something that marginal players would really struggle.

So, it was a wallet that it always was going to consolidate. That's why we invested so much. We got – we doubled the market share, as I mentioned. And I think that will continue to grow.

The growth is not just because interest rates went up. It's a lot of fee growth because we are winning pretty much everything that we are interested in winning. So, we are in a very good position there. And then in Security Services, we are doing a good job, it's a very tight ship. We are a top three player. We continue to grow.

We've been investing in technology to create a better client experience. So, good return. So, it's a good business. So, overall, the Corporate & Investment Bank has opportunities to grow, even though at the moment it is probably the biggest that exists in the world still, has more to go.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

I guess kind of look at Asset & Wealth Management, well-run, solidly profitable business.

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

Yeah, but with many opportunities.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Right.

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

I think that on the Asset Management side we have a fantastic franchise growing amazingly well. We have a great franchise in real estate that is doing fine. But I think that is mainly core and you can expand into that. We have a great franchise in infrastructure that is mainly core infrastructure, less risk, lower return. I think that infrastructure is such a big thing and it's just growing so much. But I think the expansion of that is the same, we need to do – we've been analyzing what is our way for the Asset Management company to get into the private credit space.

So, there are opportunities and the Private Banking internationally. I think that is a very challenged, very fragmented business. We have been adding bankers. We are creating the scale. We have done a lot of work with Mary to optimize the deployment of lending versus non-lending revenues, and we have a better mix that is increasing the returns of that business. So, there are opportunities, it's a very nice little business that is doing amazingly well. There are a lot of opportunities.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

I guess in the Asset Management segment, would like an acquisition to kind of increase its contribution makes sense?

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

Contributions, I think, that we've been doing is very surgical, small acquisitions that add to the product offering. I am not a big fan of big acquisitions because I think that if you put a big with another big, most likely you're going to lose a lot of the assets that you have because clients need to diversify. They cannot have.

Daniel E. Pinto A
President & Chief Operating Officer, JPMorgan Chase & Co.

So, we are looking at everything. We look to thousands of things and we have – no, not thousands, 450 things we look at. We have acquired five little things. So, I think that there is – we will continue looking at, but we're in a good place. The other very successful story there is ETF. We have a lot of – we were a bit late to the party. What is the right strategy?

Clearly, it was not go and compete in the big-cap ETF with BlackRock with iShares. What it was is less concentrated managed ETF, and broadly today, the most successful managed ETF platforms that exists, totally built organically. So, I think that there are opportunities here. You need to be smart about it rather than trying to be everything for everyone, but there are opportunities.

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

Makes sense. All right. Maybe shifting to the income statement.

Daniel E. Pinto A
President & Chief Operating Officer, JPMorgan Chase & Co.

Okay.

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

We've got to ask the obligatory 3Q trading question. Get trading and Investment Banking guidance out of the way. I know September is probably the strongest month of the quarter. So, a little bit more challenging to come up with the number there. But just thoughts on how the quarter is progressing. August, obviously, a bit more volatility than maybe anticipated. Just kind of what are you thinking there?

Daniel E. Pinto A
President & Chief Operating Officer, JPMorgan Chase & Co.

So, the quarter is doing fine so far in Investment Banking, that is – it will be a solid quarter. We think that we are going to be around 15% plus/minus increase versus the third quarter of the previous year, IB fees.

And when you look at what is the composition of that: very, very strong performance in debt capital markets, that it continues to be. So, what we are expecting in debt capital markets, volumes in institutional loans and leveraged loans kind of almost double, it will double from last year. So, a lot of that is refinancing and that brings with – it comes with smaller fees. But that is a very, very solid activity, very solid performance this quarter in equity capital markets.

And in M&A it's – what we are expecting in M&A for the year is around probably flat volumes to last year to slightly up. So, M&A this quarter has been sort of flattish overall. But overall, Banking fees will be around 15% plus or minus up. Markets is flattish to slightly positive, probably around 2% or so plus/minus, mainly driven by Equities.

We have very, very strong performance in Equities across the franchise, particularly in derivatives. Fixed Income, a bit weaker performance driven by not necessarily client flows were fine, it is a bit more challenging environment to monetize client flows, particularly in Rates. So, Markets flat to slightly up 2% plus/minus.

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

Year-over-year?

Daniel E. Pinto A
President & Chief Operating Officer, JPMorgan Chase & Co.

Yes. On the third quarter of 2023.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Got it. And then maybe net interest income. I think the guidance for NII, both with and without Markets, $91 billion for the year. Maybe how you're feeling about that, loan growth, the industry may be a bit softer than expected, but Card growth seems to be continuing.

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

Yeah. I think that that one we are tracking towards a number in that ballpark. So, I think that the consensus of the analysts is around $91.5 billion or so. That consensus probably was calculated before the recent reduction in interest rates. But ballpark, we are going to be there. I would like to pause for a second for 2025.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

That was my next question.

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

Okay. So, I'll tell you. 2025, we have the analyst consensus is a drop in NII of $1.5 billion, from $91.5 billion to $90 billion. So, that is not very reasonable because the rate expectation is lower by 250 basis points. So, I think that that number will be lower. We are not going to guide on that now, but the $90 billion is a bit too high.

Clearly, as rates go lower, you have less pressure on repricing of deposits. But as you know, we are quite asset sensitive. So, lower interest rates, you see the EaR, our numbers. So, therefore you can have a sense of what will it be, that is lower than what the analysts are expecting at the moment.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Got it. But I guess kind of – maybe kind of longer term on NII. I think Jamie and Jeremy both have kind of been upfront on this overearning…

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

Yes.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

…on NII, kind of, thesis. But then earlier you were talking about massive growth in kind of retail deposit market share, strong growth in credit card market share. Maybe just talk to kind of maybe more longer term?

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

Longer term, it will be very good. I think that particularly next year, it's going to be a bit more challenged. So, all the things that I mentioned, we feel very comfortable that we're going to achieve them. So, the performance of the company in the long-term, it will be great. The performance of the company next year will be very good too. But the NII expectations are a bit too high. I just want to reprice that a bit.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Got it. And so, less than $90 billion, you want to maybe give us the range or...

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

No, leave it to Jeremy. He's the CFO.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Maybe we'll go to the next ARS question. So, I'm going to push my luck here on 2025. But I guess maybe for 2024 expenses, you kind of been a little bit consistent with that $92 billion number. I think, I guess how are you thinking about that? And then maybe how are you kind of thinking about expenses as you approach next year?

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

That is in the ballpark or is most likely going to happen. There are two components, so expenses this year will be slightly up based on revenue-related expenses.

But then some of the investments they've been – they're hiring-related to certain areas of the investment, they've been growing slower than we were expecting, that's more or less the two cancel each other. That's why the $92 billion is still a reasonable number to have in mind.

For next year, I think that the numbers that the analysts are expecting is also a bit too optimistic because for a variety of reasons. So, one of them is, there is still inflation. So, there is some inflation adjustment for next year.

Some of them, the delayed on investment of this year will hit, some will hit next year, and the annualization of the investment that we have done will hit next year, too.

It will be some new investments that we are going to make. So, there are a bunch of components that tell us that probably the number of expenses will be a bit higher than what is expected at the moment that we will provide more guidance later in the year, so something to keep in mind.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Okay. So just to recap, trading up 15% year-on-year in 3Q. IB is flat to up 2% year-over-year in 3Q. And then it sounds like no change to the 2024 guidance of $91 billion in NII, $92 billion in expenses. As we begin to think about 2025, consensus of $90 billion for NII may be a little bit too optimistic. And I think consensus for expenses next year, $93.7 billion or so, it'll be higher than that.

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

It will be a bit higher than that.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

And then I guess when you think about, you mentioned investments, kind of, anything new in particular we haven't discussed are kind of more – kind of business as usual?

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

Well, there are investments related to all the areas that I mentioned to our growth. And then, we have the big agenda still continues to be technology and artificial intelligence. So, the process of modernization of the technology stack going to the cloud, going through the new data centers, refactoring applications, having a technology stack that is more than effective and efficient that allows us to deliver more with the dollars of investment there is still that agenda requires a lot of work. We make a huge amount of progress, but it's still a long way to go.

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

And artificial intelligence, I think that it will be very transformational. At the moment, if you guys remember, at Investor Day, I mentioned one number that is the benefits that we see related to the deployment of artificial intelligence. I said that it was last year between $1 billion to $1.5 billion.

I think that this year it's heading more towards $2 billion. And a lot of that is related to prevention of fraud. And there are all kind of benefits, but fraud has been a big beneficiary.

Going forward, we think that artificial intelligence, large language models will have, and we are doing a lot of work on this, over the medium to long-term, a big impact in improving processes and efficiencies in the operational services that we have.

We have, I don't know, 100,000-150,000 people doing operational things, in call centers or things like that. Artificial intelligence will have a big impact in many domains, in the way that we manage documents, in the way that we manage voice, emails.

And we are doing two things. So, one is going through the big areas where we have operational services and look at every single process to re-optimize using artificial intelligence and large language models. And the second one is deploying what we call LLM Suite to almost every employee. At the moment it's being deployed to 140,000 employees and it's to help them to do the job that they do; one is optimize as effective as possible. I think that the combination of the two over the next three to five years will really make a difference in the – either we'll be able to process a lot more for the same money or to spend less.

So, I think that operational efficiencies, in my view, it will be the biggest impact over the short- to medium-term rather than any of the other use cases that you have probably heard about it.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Helpful. And maybe just kind of touch on credit quality for a moment. I think the charge-off guidance for Credit Card for the year 3.4% implies kind of a stable-ish launch rate in the back half of the year. You talked, I think, 3.6% for next year kind of any – maybe some recent softness in data changed that?

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

No. Still that is what we are expecting. Obviously, as we change a bit the mix over the medium-term, we expect probably that number to go up a bit because we may do a bit more. We do very little in the less affluent segments.

So, we ended up – and using technology helps you to really underwrite properly. Probably we will focus more on that. That will obviously – we will price accordingly and increase delinquencies more over the – a bit over the medium-term. But at the moment, 3.4% for this year, around 3.6% for next year is what we are seeing. We haven't seen any deterioration.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

And then on the commercial front, any areas you're keeping a closer eye on?

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

I think that from auto financing to mortgages to small business to middle market to large corporates, we haven't seen any deterioration. Clearly, there are some challenges in the Commercial Real Estate.

Probably we haven't seen the bottom of it. We have around $15 billion or $16 billion exposure and we are very well reserved for that. But, as interest rates are coming down, so that will benefit and it will make easier the ability to refinance and handle whatever needs to be done in the industry for that segment.

So, other than that – multifamily lending, you know that we are not exposed or very little exposure to type A. We are mainly type C and type B where the demand is very strong. So, therefore, we haven't seen deterioration at all in multifamily, where the portfolio is $120 plus billion.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Next ARS question, please. Three questions, three minutes. So, I guess first, Michael Barr speaking right now. So, I'm not going to ask you to comment, but if we go by the headlines, it seems like the 20% increase in capital requirements in the industry is going to 10%. Is that good enough for the banks to kind of accept it? There originally was supposed to be a 0% change in capital requirements.

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

We don't know. Obviously, 10% is better than 20%. So, that's good. The issue is we have no idea what have they changed. And one of my area of concerns is, for example, Markets. So, the increase in the original proposal, the increase of RWA for Markets was 60% in a market that is already consuming a lot of capital.

It will totally make everyone to rethink what you do in Markets or what you don't. So, either change in that, it will be good because it would be good for market liquidity and the proper functioning of markets. But we don't know. And then there are many other areas. So, it's not just the overall number, it is a composition of it and we have no idea yet what the composition is.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

That's fair. Maybe put up the ARS next question. Jamie downplayed sizable share repurchase greatly above two times tangible book. You have excess capital. This rollback goes through a lot of iterations, but you have excess capital, just kind of what do you do with that because that number is going to continue to grow?

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

So, yeah, we do have excess capital. So, what we think is the following. First, there is uncertainty about Basel III. Hopefully, that will be clear some way or the other in the next few months, and then, we will know what we are going to face.

But we are – even though I said that the U.S. economy is doing well and it's all good, the valuations in the markets, they are very high. So, the S&P close to the all-time high, some 31x earnings.

Credit spreads are the tightest point or close to the tightest point since the Financial Crisis. So, in an economy that is doing fine, but is decelerating, with interest rates that they are coming down, but we are not going down to anywhere close to where they were in average in the last 20 years.

So, it makes us think that probably to continue the policy of modest buybacks for now is good. So, I think that we will continue to be cautious. We will continue to reassess the situation. Our strategy always going to be to deploy the capital to grow the franchise, but at some point, too much is too much. But at the moment, we are going to stay with the uncertainty around. We are going to be careful.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

And then maybe go to the last ARS question. Before we do that, I just want to make it clear for those in the webcast, when I was kind of reading back what Daniel said, I kind of reversed it. So, Markets flattish year-over-year, Investment Banking fees up 15% plus or minus this last quarter.

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

It is a benefit having the IR people in the room.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Exactly. And maybe just lastly, I guess, Daniel, you know you talked about a 17% on average over time for JPMorgan. Is that the right number? Could you do better than that? And it was interesting on the prior slide, the kind of use of excess capital. I don't know if people saw it, but non-bank acquisitions was the number one audience response for that. I'm not sure if you want to comment to that.

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

A

So, I think that 17% is a good number for us, it's through the cycle. It will be years where it's higher, years where it will be lower. At the moment, deposit margins, particularly retail deposit margins are substantially higher than – they are off the highs, but higher than the historical average.

As interest rates go down, those deposit margins will sort of correct over time. So, it will be years where we are above, it will be the years where we are below. But 17% looks to be a reasonable place to be. And when you compare with the industry overall, it's not like it's an easy target.

So, overall, we feel good about it. We think that we can deliver on that. And for example, next year the 17% may be a bit challenged. So, we will see, but 17% looks fine. Clearly, we are planning at some point to run the company with a normalized amount of capital, so we have that.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

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

Daniel E. Pinto
President & Chief Operating Officer, JPMorgan Chase & Co.

Thank you. Bye.