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JPMorgan Chase & Co. (JPM) CEO Jamie Dimon on Q2 2021 Results - Earnings Call Transcript

Jul. 13, 2021 2:26 PM ET | JPM, JPM.PC...

Q2: 2021-07-13 Earnings Summary

Slides Press Release

EPS of $3.78 beats by $0.63 | Revenue of $30.48B (-7.58% Y/Y) beats by $796.54M

JPMorgan Chase & Co. (NYSE:JPM) Q2 2021 Results Conference Call July 13, 2021 8:30 AM ET

Company Participants

Jamie Dimon - Chairman and CEO

Jeremy Barnum - CFO

Conference Call Participants

Glenn Schorr - Evercore ISI

John McDonald - Autonomous Research

Ken Usdin - Jefferies

Jim Mitchell - Seaport Global Securities

Mike Mayo - Wells Fargo Securities

Ebrahim Poonawala - Bank of America Merrill Lynch

Steven Chubak - Wolfe Research

Matt O'Connor - Deutsche Bank

Gerard Cassidy - RBC Capital Markets

Betsy Graseck - Morgan Stanley

Charles Peabody - Portales Partners

Operator

Good morning, ladies and gentlemen. Welcome to JPMorgan Chase’s Second Quarter 2021 Earnings Call. This call is being recorded. Your lines will be muted for the duration of the call. We will now go live to the presentation. Please stand by.

At this time, I would like to turn the call over to JPMorgan Chase's Chairman and CEO, Jamie Dimon; and Chief Financial Officer, Jeremy Barnum. Mr. Barnum, please go ahead.

Jeremy Barnum

Thanks, operator. Good morning, everyone.

Before we get going, I’d just like to say how honored I am to be on my first earnings call following the footsteps of Marianne and Jen, both of whom taught me so much during my time working for them and whose shoes will be very difficult to fill, but I'm going to try. So with that, this presentation is available on our website, and please refer to the disclaimer in the back.

Starting on page one. The Firm reported net income of $11.9 billion EPS of $3.78 on revenue of $31.4 billion and delivered a return on tangible common equity of 23%. These results include $3 billion of credit reserve releases, which I'll cover in more detail shortly.

Touching on a few highlights. Combined debit and credit spend was up 45% year-on-year and more importantly up 22% versus the more normal pre-COVID second quarter of 2019. It was an all-time record for IB fees, up 25% year-on-year, driven by advisory and debt underwriting. We saw particularly strong growth in AWM with record long-term flows as well as record revenue. And finally, credit continues to be quite healthy, as evidenced by our exceptionally low net charge-offs across the board.

Regarding our balance sheet, the trends from recent quarters have largely continued. Deposits are up 23% year-on-year and 4% sequentially, and loan growth remains low, flat year-on-year and up 1% quarter-on-quarter. Although, we have bright spots in certain pockets, and the consumer spend trends are encouraging.

So, now turning to page 2 for more detail. As I go through this page, I'm going to provide you some context about the prior year quarter because the year-on-year comparisons are a bit noisy. So, with respect to revenue, the second quarter of 2020 was an all-time record for markets with revenue of over $9.7 billion, and we recorded approximately $700 million of gains in our bridge book. With that in mind, revenue of $31.4 billion was down $2.4 billion or 7% year-on-year.

Noninterest revenue was down $1.3 billion or 7% due to the prior year items I just mentioned, partially offset by strong fee generation in Investment Banking and AWM as well as from card-related fees on higher spend. And net interest income was down $1.1 billion or 8%, driven by lower markets NII and lower balances in card. Expenses of $17.7 billion were up 4% year-on-year, largely on continued investments.

And then on credit costs, going back to last year again, you will recall, in last year's second quarter, we built $8.9 billion in credit reserves during the height of the pandemic, whereas this year, we released $3 billion. So in this quarter, credit costs were a net benefit of $2.3 billion. And setting aside the reserve release, it's also worth noting that net charge-offs of just over $700 million were half of last year's second quarter number and continue to trend near historical lows.

On the next page, let's go over the reserves. We released $3 billion this quarter as we grow increasingly confident about the economy in light of continued improvement in COVID, especially in the U.S. In Consumer, we released $2.6 billion, including $1.8 billion in Card and $600 million in Home Lending. And in Wholesale, we released nearly $450 million. So, this leaves us with reserves of $22.6 billion, which as a result of elevated remaining uncertainty about COVID and the shape of the economic recovery, are higher than would otherwise be implied by our central economic forecasts.

Now moving to balance sheet and capital on page 4. We ended the quarter with a CET1 ratio of 13%, down slightly versus the prior quarter as net growth in retained earnings was more than offset by higher RWA across both, retail and wholesale lending. This quarter also reflects the expiration of the temporary SLR exclusions. And as we anticipated, leverage is now our binding constraint. As you know, we finished CCAR a couple of weeks ago and our SCB will be 3.2%, which reflects the Board's intention to increase the dividend to $1 per share in the third quarter.

Okay, now, let's go to our businesses, starting with Consumer & Community Banking on page 5. CCB reported net income of $5.6 billion, including reserve releases of $2.6 billion on revenue of $12.8 billion, up 3% year-on-year. Of particular note this quarter is the acceleration of card spend. And so, while card outstandings remained lower than pre-pandemic levels, this quarter's trends made us optimistic.

Total debit and credit spend was up 45% year-on-year and more importantly, up 22% versus the second quarter of '19. And within that, compared to 2019, June total spend was up 24%, indicating some healthy acceleration throughout the quarter. And travel and entertainment has really turned the corner, with spend flat versus the second quarter of '19, accelerating from down 11% in April to actually up 13% in June.

The rest of the CCB story remains consistent with prior quarters. Consumer and small business cash balances remain elevated, resulting in depressed loan growth. Overall loans were down 3% year-on-year from continued elevated prepayments in mortgage and on lower card outstandings, partially offset by strong growth in Auto and the impact of PPP.

Home Lending and Auto continued to have strong originations with Home Lending up 64% to $40 billion, the highest quarterly figure since the third quarter of 2013, and Auto, up 61% to a record $12.4 billion. Deposits were up 25% year-on-year or approximately $200 billion, and client investment assets were up 36%, driven by market appreciation and positive net flows across our advisor and digital channels. And our omnichannel strategy continues to deliver. We are more than halfway through our initial market expansion commitment as we have opened more than 200 new branches out of our goal of 400, which have exceeded our expectations by generating $7 billion in deposits and investments. And we are planning to be in all 48 contiguous states by the end of the summer.

Digital trends continue to be strong as retail mobility recovers at a faster pace than branch transactions, which are still down more than 20% versus 2019. Active mobile users grew 10% year-on-year to over 42 million, and total digital transactions per engaged customer were up 12%. Expenses of $7.1 billion were up 4% year-on-year, driven by continued investments and higher volume and revenue-related expenses.

Looking forward, the obvious question is the outlook for loan growth, especially in card. And we are quite optimistic that the current spend trends will convert into resumption of loan growth through the end of this year and into next. And while we wait, the exceptionally low level of net charge-offs provides a substantial offset to the NII headwind.

Next, the Corporate & Investment Bank on page 6. CIB reported net income of $5 billion and an ROE of 23% on revenue of $13.2 billion. IB fees of $3.6 billion were up 25% year-on-year and up 20% quarter-on-quarter, an all-time record, driven by advisory and debt underwriting, leading to a year-to-date global IB wallet share of 9.4% and a number 1 ranking.

In advisory, we were up 52% year-on-year, benefiting from the surge in announcement activity that has continued into the second quarter. Debt underwriting fees were up 26%, driven by an active acquisition finance market, offset by lower investment-grade issuance. And in equity underwriting, fees were up 9%, primarily driven by a strong performance in IPOs.

The resulting Investment Banking revenue of $3.4 billion was roughly flat year-on-year due to the headwind of the prior year's markup in the bridge book. Looking ahead to the third quarter, the pipeline remains very strong. We expect M&A activity and the IPO market to remain active. And while IB fees are likely to be down sequentially, we still expect them to be up year-on-year.

Moving to markets. Total revenue was $6.8 billion, down 30% compared to an all-time record quarter last year. While normalization has been more prevalent in macro, overall, we ran above 2019 levels throughout the quarter on the back of strong client activity, outperforming our own expectations from earlier in the year.

Fixed income was down 44% compared to last year's exceptional results, but up 11% compared to the second quarter of '19. Equity markets was up 13%, driven by record balances in prime as well as strong performance in cash and equity derivatives, where we matched last year's great results. Looking forward, while we expect normalization to continue across both, Investment Banking and markets, and most notably in fixed income, the timing and the extent of the normalization is obviously hard to predict.

Wholesale Payments revenue was $1.5 billion, up 5% driven by higher deposits and fees, largely offset by deposit margin compression. And security services revenue was $1.1 billion, down 1%, as deposit margin compression was predominantly offset by growth in deposits and fees. Expenses of $6.5 billion were down 4% year-on-year, driven by lower performance-related compensation, partially offset by higher volume-related expense.

Moving to Commercial Banking on Page 7. Commercial Banking reported net income of $1.4 billion and an ROE of 23%. Revenue of $2.5 billion was up 3% year-on-year with higher Investment Banking, Lending and Wholesale Payments revenue, largely offset by lower deposit revenue and the absence of a prior year equity investment gain. Record gross Investment Banking revenue of $1.2 billion was up 37% on increased M&A and acquisition-related financing activity compared to prior year lows.

Expenses of $981 million were up 10% year-on-year, driven by higher volume and revenue-related expenses and investments. Deposits of $290 billion were up 22% year-on-year as client balances remain elevated. Loans of $2.5 billion were down 12% year-on-year, driven by lower revolver utilization compared to the prior year quarter and down 1% sequentially.

C&I loans were down 1% quarter-on-quarter with lower utilization, partially offset by new loan activity in middle market. And CRE loans were down 1%, but we saw pockets of growth in affordable housing activity. Finally, credit costs were a net benefit of $377 million, driven by reserve releases with net charge-offs of only 1 basis point.

And to complete our lines of business, on to Asset & Wealth Management on page 8. Asset & Wealth Management reported net income of $1.2 billion with pretax margin of 37% and an ROE of 32%. Record revenue of $4.1 billion was up 20% year-on-year as higher management fees and growth in deposit and loan balances were partially offset by deposit margin compression. Expenses of $2.6 billion were up 11% year-on-year driven by higher performance-related compensation and distribution expenses.

For the quarter, net long-term inflows of $49 billion continued to be positive across all channels, with notable strength in equities, fixed income and alternatives. AUM was $3 trillion. And for the first time, overall client assets were over $4 trillion, up 21% and 25% year-on-year, respectively, driven by higher market levels and strong net inflows. And finally, loans were up 21% year-on-year, with continued strength in securities-based lending, custom lending and mortgages, while deposits were up 37%.

Turning to Corporate on page 9. Corporate reported a net loss of $1.2 billion. Revenue was a loss of $1.2 billion, down $415 million year-on-year. NII was down $274 million primarily on limited deployment opportunities as deposit growth continued, and we realized $155 million of net investment securities losses in the quarter. Expenses of $515 million were up $368 million year-on-year.

So with that, on page 10, the outlook. Our 2021 NII outlook of around $52.5 billion remains in line with the updated guidance we provided last month. But, as you'll note, we've also lowered our outlook for the card net charge-off rate to less than 250 basis points, which, as I mentioned in CCB, provides a meaningful offset to the NII headwind.

And it's worth mentioning that the current environment makes forecasting NII even in the near term unusually challenging. So, while $52.5 billion remains our current central case, you should expect some elevated uncertainty around that number, not only because of the ongoing impact of stimulus on consumer balance sheets, but also due to volatility coming from markets, among other things. And as a reminder, most of any fluctuation in markets NII, whether up or down, is likely to be offset in NIR.

On expenses, we've increased our guidance to approximately $71 billion, driven by higher volume and revenue-related expenses.

So, to wrap up, we are encouraged by the continued progress against the virus and the economic recovery that is underway, especially in the United States. Although we want to acknowledge the challenges that much of the rest of the world is facing and we're hopeful that a global recovery will follow closely behind. Our performance this quarter once again showcases the power of our diversified business model as headwinds in NII from consumer delevering are offset by strong fee generation across AWM and CIB, and exceptionally low net charge-offs across the board.

While we're proud of the performance of the Company and of our people through the crisis, the competition in every business from banks, fintechs and others is as intense as ever. So, as we look forward to an increasingly normal environment, we are enthusiastically focused on competing for every piece of share in every market, product and business where we operate and making the necessary investments to win.

With that, operator, please open the line for Q&A.

Question-and-Answer Session

Operator

[Operator Instructions] And our first question is coming from the line Glenn Schorr from Evercore ISI.

Jeremy Barnum

Hi Glenn.

Glenn Schorr

Hi there. Hi Jeremy. Welcome. Welcome to the party.

Jeremy Barnum

Thank you very much.

Glenn Schorr

Question on NII if I could. I apologize if it's a little multifaceted. But so even though we're getting some inflationary data and you're possibly inclined an economy as it might, rates fell. I'm not sure you want to opine on why, but let's talk about you kept the NII guide, I'm assuming, because deposit growth is strong. Curious your thoughts on consumer payment rates staying at this elevated level, deposit growth staying at this elevated level? And then most importantly, if you're managing the balance sheet any differently, meaning you had been slow playing, putting money to work, rates are even lower now, are you still slow playing putting money to work? I appreciate it. Thanks.

Jeremy Barnum

Yes. Thanks, Glenn. All right. So, let's sort of take that in parts. So, in terms of our NII guidance, so yes, so we're reiterating $52.5 billion for the full year. So, just to take your deployment point first, obviously, rates are a little bit lower, long end rates are a bit lower. The curve has flattened a little bit since we provided that guidance. But when we provided that guidance, we were reasonably conservative in our deployment assumptions through the rest of the year. So, as a result of that, it's not really a meaningful factor, sort of at the level of precision that we're talking about here.

In terms of the consumer side, as you say, obviously, it's really card is really going to be the big driver. So, you heard us talking about payment rates, and you see the sequential growth in card loans. So, we do believe that the sort of acceleration in the pickup in spend is going to translate to, as I say, a resumption of loan growth in card. But, we do think that pay rates are going to remain quite elevated at a minimum through the end of this year. So, as a result, we don't really see revolving interest-bearing balances increasing meaningfully this year. And so, as a result, that remains a headwind for the overall NII for this year, which is incorporated in the outlook.

Glenn Schorr

Okay. And then, in terms of managing balance sheet any differently in terms of putting money to work, you still conservative on that front?

Jeremy Barnum

Yes. Look, I mean, I think you've heard us talk about this before, right? So, our central case, from an economic perspective, is for a very robust recovery. And that's pretty much a consensus view between us, our research team, the Fed, et cetera. And that view is associated with higher inflation, along the lines of the Fed's own targets for higher inflation. All those things together -- it's an outlook that's associated with higher rates, all else equal. And so, in light of all that, we do remain happy to stay patient here. And if you look at our EIR disclosure, which you obviously won't see until you get the Q, but some of you guys have written about this recently, our overall sensitivities here are kind of in line with the industry. So when you consider kind of the tail type things that Jamie always talks about, the complexity of the balance sheet and various other factors, we do still feel that being patient here makes sense.

Glenn Schorr

Okay. And just one quickie on the recent both acquisitions and investments. And you or Jamie could feel free to take it. I'm curious on A, big picture, is it just coincidence that there's been five things within a very short period of time? And maybe if you want to expand on maybe net mix specifically and why the change in terms of shying away from international expansion in the past and now making a little bit better move in. I appreciate it. Thanks.

Jeremy Barnum

Sure, Glenn. So, let me start with the international expansion point on the consumer side because that's interesting. You've heard Jamie over the years talk about why it wouldn't really make sense to do international expansion in consumer when you think about that through the lens of branch-based strategy. So, if you imagine, going outside of the U.S. and opening branches in other countries and competing with the incumbents, just from a branding perspective, from an operating leverage perspective, we've never felt that, that was likely to be a successful strategy for us, and that hasn't really changed.

The difference right now is the ability to do that digital. So, what's really particularly exciting about the international expansion narrative, both in the UK and now with our recent investment in C6 in Brazil, is the ability to kind of experiment a little bit. Obviously, it's a strategically compelling opportunity. Brazil, as you probably know, is like the third biggest consumer banking market in the world. But it's kind of fun to be the disruptor.

And so, I think for us, given our position in consumer banking in the United States, being in a place where we are actually the outsider disrupting through these kind of digital channels, we see it among other things, in addition to being compelling financially, as a really good opportunity to learn and to challenge ourselves a little bit from the inside. So, we're very excited about that stuff.

Operator

Our next question is coming from the line of John McDonald from Autonomous Research.

John McDonald

Good morning, Jeremy. I wanted to ask you about capital. You mentioned leverage is now the binding constraint. And Jen has previously talked about a 12% CET1 target. I guess, could you talk about the multiple variables that you're balancing as you guys decide what capital levels to run at? You've got a rising G-SIB score, an SLR cushion that's shrinking, but maybe the rules get revised. And obviously, in SCB, that came down a little bit, but maybe you're hoping for more. How are you wrapping that all together into what kind of capital levels to target?

Jeremy Barnum

Yes. It's a good question, John, and yes, there are a lot of variables. So, let me start by saying that in terms of a 12% target, it's not off the table is what I'll say about that, meaning 12%, it's not necessarily -- doesn't necessarily need to be higher. So for now, it's not off the table. But, the element of time, i.e. when are we bound by what, matters quite a bit as you think about this. So, just to go through some of the pieces, you've noted the GSIB point. So, we're in the 4% bucket now as of the end of last year. That comes into play in 2023. We're currently operating in 4.5. As you know, that's quite a seasonal number. So, it's still possible to get under 4.5 for the end of this year. But, we have to acknowledge an elevated probability, I would say, of landing in 4.5 bucket this year. But, the 4.5 bucket would be binding in 2024.

And as you noted, in the meantime, we're bound by SLR. And we've been quite public about our views about these things, about the extent to which, increasingly, our capital requirements are driven by non-risk sensitive size-based measures, which were really designed, especially in the case of SLR, as backstops, which the Fed has acknowledged. So, our priority right -- and the Fed has talked about potentially addressing some of these things. We know we're waiting for an NPR on SLR, but also, they've said that a potential G-SIB fix could come as part of the holistic implementation of the Basel III end game.

So, there's a lot of things that are going to play out between now and some of those minimums becoming binding. And realistically, right now, we're going to be operating above 12% anyway in light of the leverage bound in all likelihood. So, we're managing a variety of different factors, near term, short term, props, common, et cetera. And we're just going to try to be nimble about it as more information comes out over the next few quarters.

Jamie Dimon

If I could make a further point, we have tons of capital, $200 billion of CET1, $35 billion of preferred, $300 billion of long-term debt, only $1 trillion of loans, which is the riskiest asset we have, and $1.5 trillion of cash and marketable securities. So, the underlying thing is there's just tons of capital in the system. And I think one day, if you’re going to look at and say, why so much, to the liquid side.

John McDonald

Yes. And then, a quick follow-up, Jeremy, on expenses. You revised the fiscal year '21 outlook upward a few times now. Could you give a little more detail on the business volumes and revenues that are driving this? And also, we hear a lot about inflation across the economy. Are we seeing broader inflation play a role in your Company's expenses and outlook?

Jeremy Barnum

Yes. So, a couple of things there. So yes, as you note, we have revised up from 70 to 71. And the biggest single driver there is volume and revenue-related expense, where if you -- it is tough. Well, it's...

Jamie Dimon

The comp, we're going to be competitive in comp no matter what it takes. Let's keep that at the back of your mind.

Jeremy Barnum

It is a little bit of comp. It's also transaction-related volumes. It's also marketing expense in certain pockets. So, it's all the stuff that fits in the category of volume and revenue-related. And I think the point is obviously, we're all a little bit focused on the NII headwinds right now. But from an NIR [ph] perspective, across markets, AWM, IB, CIB in general and even pockets, wealth management and CCB, we're actually outperforming the revenue expectations that were built into our prior expense guidance. So that's kind of the dynamic there.

In terms of inflation, I would say that we're not seeing inflation in our actuals. But obviously, your guess is as good as mine in terms of the future, but it would be reasonable to assume that that's going to be a little bit of a challenge to a greater or lesser degree if the economy as a whole is in a slightly higher inflationary environment. And we did probably include a little bit of that expectation in the 71 for this year.

Operator

Our next question is coming from the line of Ken Usdin from Jefferies.

Ken Usdin

Jeremy, if I could just follow up on your points about capital. And just how we should be thinking about -- you gave us clarity on the dividend, and we know there's the $30 billion open authorization on the buyback. Again, just kind of fitting for the middle there, how do you balance just the magnitude of buyback you do from here versus the ongoing growth that we have in the balance sheet vis-à-vis what you just talked about as far as the limitations? Thanks.

Jeremy Barnum

Yes. So I mean the answer to how we balance it is we talk about it a lot. We have a lot of smart people looking at it, trying to balance all the different constraints that we're managing. And I think Jen talked before, especially when it comes to the balance between our risk-based minimums and the SLR constraint, which, as you know, we can address with pref, so about kind of the mixture of prefs and common. So, we're looking at that. I think RRP is helping a little bit on the deposit growth side, which helps a little bit with the management of SLR. But, as I said previously, we're going to stay nimble there and use the tools at our disposal to try to strike the right balance between buybacks and pref issuance, recognizing that overissuing prefs potentially locks us into high cost prefs with low flexibility because of the five-year lockout. So, there's a lot of balancing there, and we're just staying nimble as information potentially trickles out on the evolution of the rules.

Ken Usdin

Okay. And then, just so then as far as how you guys will communicate, we'll just find out about the buyback on a quarterly basis as opposed to you giving a more broad outlook of your expectations around buybacks as it happened more in the past. Is that fair?

Jeremy Barnum

Yes. I think that's right, especially in the new environment that we're operating in from a buyback perspective, now that it's not sort of an approved plan through CCAR, but it’s rather than just the overall $30 billion Board authorization. Given what I just talked about in terms of the need to stay nimble across multiple constraints, we wouldn't want to box ourselves in by speaking publicly ahead of time in terms of what we're going to do, so. And you know, obviously, our normal capital here. At the end of the day, we're always going to invest first and look at interesting acquisitions and pay a sustainable dividend. And at the end of that, we'll look at buybacks in the context of all the other factors.

Jamie Dimon

Yes. We can probably give you a more definitive thing after they finish Basel III, which is now 10 years in the making and SLR and all the updates, and then you'll have more certainty about how this is going to operate going forward.

Operator

Our next question is coming from the line of Jim Mitchell from Seaport Global Securities.

Jim Mitchell

Maybe just a follow-up on the card business. You had 7% quarter-over-quarter growth in balances, but I think your guidance was still a little cautious. Is that just being conservative, you're still not sure about the relationship between spend and balance growth, or how do we think about the good quarter and sort of that cautious outlook?

Jeremy Barnum

Yes. So, I wouldn't use the word conservative. We've tried very hard in our outlook to give you central case numbers. So, we're going to be wrong, but hopefully, it will be wrong symmetrically. So, we really want to try hard to give you central case numbers that don't have baseless optimism or unnecessary conservatism in them.

So, the point that you highlight, the sort of apparent disconnect between the sequential increase in card loans and the relatively muted NII outlook is really just about pay rates. So, we continue to see very elevated pay rates by historical standards really highly unusual as a result of some of the themes that we've called out in terms of the strength of the consumer balance sheet. So, as long as that's true, and we're seeing sort of unusually low conversion of spend into revolving balances, that's going to be a little bit of an NII headwind until the consumer starts to re-lever, which we do think will happen. We just don't think it's likely to be a meaningful effect this year.

Jim Mitchell

That's fair. And then, on the charge-offs, that's obviously been a big benefit. I think if we look at delinquencies, both early stage and later stage, they kept falling throughout the quarter. Is there anything unusual this quarter where we saw a pretty big drop? Should we expect further declines in NCOs as the year progresses, given delinquency trends?

Jeremy Barnum

Yes. So, I think on charge-offs, I would just stick to the updated card guidance that we gave, which is lower, just saying there's going to be below 2.5. But again, it's the same themes, right? Like elevated cash buffers in consumers are resulting in exceptionally strong NCO performance and sort of upside surprises in terms of people paying. So, there's sort of two sides of the same coin right now, lower revolving balances, better NCOS. And then, as we continue returning to normal, presumably in 2022, we should see both of those come back slightly to historical trends.

Operator

Our next question is coming from the line of Mike Mayo from Wells Fargo Securities.

Mike Mayo

Hey. Jeremy, welcome. My question, I want to follow-up, I think Glenn asked Jamie for the answer to this question. So I'm going to try again. Are these acquisitions that you've done, I count eight since December. And the question is, Jamie, what is the strategy? Is the strategy, I guess, in some cases, it's to disrupt to new markets as Jeremy said, maybe it's to avoid costs, maybe it's the scale across tens of millions of customers or, and this is the real question, are you looking to connect some of these acquisitions like Nutmeg with -- these Kraft Analytics, MaxX, [ph] C6 Bank, OpenInvest, 55ip. Is the goal to somehow 1 plus 1 plus 1 to equal more than 3 as you introduce these acquisitions, these companies, these people to each other to create kind of like a 21st century digital banking storefront, or is that too much of a reach? What's the grand plan here?

Jamie Dimon

A little bit too much of a reach, but there's a very smart analyst who said it was a string of pearls, and I put in that category. On asset management Campbell [ph] is just managing lumber assets. Timber assets is going to be great things for asset management. 55ip has a tax-efficient management to it there. Obviously, Nutmeg, and what we're already doing in the UK will be linked together, offering consumers digital product, both in deposits, small business, eventually lending and investments, global investing, et cetera, makes sense.

C6 is another one. Jeremy said it's a huge market. So, we're looking at anything which has adjacencies. It could be data, it could be management. A lot of these are going to fill in, and some are a little bit more discount for us. So, how we look at retail, digital overseas, we've got patience and time. And we're going to spend a lot of time to see if we can build something very different than we have in the United States. And so, it's a little bit of everything.

The cxLoyalty, the travel company, again, if you look at that, we are already so large in the travel business. So, think of this as enhanced services and products and capabilities to work with our clients, travel packages, et cetera, which we already got to remember, the seventh largest travel company in the United States. And that doesn't include all the travel going across our credit card and debit card that's traveled, but we are in the travel -- effectively the travel agent. And so, it's a little bit of all that. I'm thrilled we're doing it. We're looking all the time. We're not going to end up with a lot of wasted assets. But some of these things may not work there, but that will be okay.

Jeremy Barnum

Mike, the only thing I would add is there's a couple of themes that to me come through some of the things that we've done recently. One of them is ESG. You see that especially in the AWM deals. And the other is just improving the customer experience, whether it's through various fintech deals or cxLoyalty, customer experience is a key priority for us. And we want to have all the tools necessary to deliver that.

Jamie Dimon

And equally important, we're putting a lot of money into building. And we have, like every quarter for the next two years, you're going to have new products and new services being rolled out across the Company. I think they're just exciting and very good, and more and more integrated, more and more simple to use, more and more customer friendly, et cetera. And so, -- but we're doing a little bit of all of that. And we want -- yes, go ahead.

Jeremy Barnum

Go ahead, Mike.

Mike Mayo

And just my follow-up, as you talked about disrupting, I thought that was interesting, disrupting in the UK. But since you wrote your CEO letter, Jamie, I mean, it's only gotten more competitive from the fintech and big tech and big retail and everybody else. And that's a question that comes up probably to everyone on this call. Are you going to be disintermediated over the next five years, whether it's -- you know all the companies, but it just seems like they're ramping up that much more. You have an executive order from the White House, maybe you have to share data. What's your current mark-to-market of the threat from outside of banking to your business?

Jamie Dimon

Yes. I don't see any different thing when I wrote the letter. I think we have huge competition in banking and shadow banking, fintech and big tech and Walmart. And obviously, there's always a changing landscape, but we also have a huge -- we've got brands and capability and products and services and market share and profitability. I think some of these competitors are going to do quite well. I think a lot of them will succeed over time. But that's called good old American capitalism. I'm quite comfortable we'll do fine. I do think there's going to be a lot of people still in the banking business. I'm talking over 5 or 10 or 15 years. I think one day on a call which when they took a shadow bank or banks who will shadow -- will be shadows themselves.

Jeremy Barnum

We're working hard to make sure that we're offering services that are not disruptible because they're good. So if our clients are happy, and we're providing them a great experience, then there's nothing to disrupt.

Operator

Our next question is coming from the line of Ebrahim Poonawala from Bank of America Merrill Lynch.

Ebrahim Poonawala

I guess just sticking with the digital strategy. We heard Jamie talk about multiple times around the lack of imagination that cost the banking industry in terms of either payments or buy now pay later, and you talked about your international expansion. But again, going back to Mike's point, as shareholders of banks in the U.S., should the expectation be that banks will be fast followers of what fintech comes up with and replicating that, given the risk of cannibalizing your own sort of revenue set, or do we expect or do you think we should expect more disruptive innovation coming from banks in the United States on consumer banking?

Jamie Dimon

I think it's both. I mean, it's not an either/or question. And remember, a lot of these banks have done quite well, including Bank of America has done quite well in digital products and stuff like that. So, when I talk about lack of imagination, I mean, the whole Company. I mean, when you look at some of these things, it was -- we could have imagined more why they become a competitor down the road. So, some of these competitors are quite good. I call it Bobby and Eaton. [Ph] They start with one little thing. They have product. They have services. They have eyeballs. They had customers, and they find ways to monetize it. So, we've got to be a little more forward-looking in how they're looking at active guys and stuff like that. But in our case, there'll be a little bit of everything.

Jeremy Barnum

Yes. And I would just say the whole like cannibalization and fast following thing, I think we've moved a little bit beyond that. Like there will be times where we have the first idea and we're eager to lean in and innovate that way. There are times when someone else has the first idea, and we're eagerly copying it. But, the whole -- we don't want to do this thing that makes sense with the customer because we might be cannibalizing our own revenues, that's a recipe to become a shadow of your...

Jamie Dimon

We have no fun cannibalizing revenue. Just keep that in mind. We will do the right thing when the time comes. And sometimes dayrate dollar short, but we'll do the right thing. And just if you look at the Company, I mean, if you look at -- we talked about SLR, I always get -- about CS and SLR, but look at the flows across this company. Look at the debit card, the credit card, the trading flows, the market share, the -- that's why I look at much more than what are the ups and downs to the earnings this quarter because of CECL. I don't think that means anything for the future of the company.

I mean, our bankers, our traders, our credit card, our debit card, our merchant services, our auto business, our digital, it's doing pretty good. I read -- I look at these reports. My God, the company is doing quite fine. And yes, and we'd like to be a little critical of ourselves. I think when companies aren't, that's part of their failure. They should look at what they didn't do well and what other people have done well. And so, I'd be prepared. And we have a really fair assessment of the competition. It is very large and it's going to be very tough. It does not mean that JPMorgan will win, these eyes are open.

Ebrahim Poonawala

And I agree and I think banks don't do talk enough about client acquisitions and market share. So, I agree with you there. Just as a follow-up, Jamie, very quickly. There's some questions around like peak inflation, peak growth. I know you guys are very bullish. Compare and contrast how the world looks to you today versus back in 2011 when we came out of the financial crisis and the risk of GDP growth disappointing over the next few years?

Jamie Dimon

I think they're completely different fundamentally. Coming out of the '09 crisis, okay, the world was massive overleveraged. We had investment banks at 40 times leveraged, not JPMorgan. We did not need PARP and didn't need help. The Lehman, Baird, Goldman, Morgan, you had banks overseas, Dexia, the landed banks that I can't remember half of them, all went bankrupt. You had hedge funds deleveraging, a constant deleveraging, you had $0.5 trillion to $1 trillion in mortgage losses that were going to be recognized, actual losses spread around balance sheets and derivatives and stuff like that. So, the world is in a massive deleveraging mode. The consumers overleveraged, companies were overleveraged. The bridge book on Wall Street was $400 billion. Today, it's, I think, 60. If you look at today, today, everything we talk about loans being down is the consumer is -- the positive prime. The consumer, their house value is up, their stock rises up, their incomes are up, their savings are up, their confidence are up. The pandemic is kind of in the rearview mirror. Hopefully, nothing gets worse with it. And they're ready to go.

And you see it in home prices, you see it in auto purchases. You see it -- I mean, they'd be much higher but for supply constraints right now. And so -- and businesses equally are in good shape. They're not overleveraged today. They do have a lot of charts show that corporate debt is like higher than it was, so, is corporate cash.

If you look at middle market losses, it's almost zero, almost zero and huge unutilized revolving stuff like that. So, the second the economy starts to grow, which -- and I mean, as you're going to see loans go up because inventory receivables and capital expenditures and stuff like that, so it is completely different. And you've got fiscal policy on autopilot. I mean, there's a lot that hasn't been spent yet. There's a lot more that's going to be passed. And if QE so far is a little bit of [indiscernible] $220 million [ph] a month. And I just think you're going to see -- hopefully, see a very strong economy. We don't know how long.

Obviously, if you listened to what I just said, that is a inflationary effect on that. And we don't know in the future, I talk about Goldilocks. Goldilocks is -- and I'm hopeful, not predicting. Like Goldilocks is that inflation goes up, the 10-year bond goes up, the growth is still quite strong. You may have growth in the second half this year as stronger than it's ever been in the United States of America, okay? And Europe is probably six months behind America. And so, growth can go into next year, and the 10-year bond goes to 3% and a lot of growth, the short base grows. It won't make any difference. We always had strong growth in consumer there, jobs are plentiful, wages are going up. These are all good things. And so, obviously, if the inflation can be worse than people think, I think it will be a little bit worse with these kinds of things. I don't think it's all temporary, but that doesn't matter if we have very strong growth.

Jeremy Barnum

Yes. There are always risks in any environment, but the risks in this one I think are quite different from the ones that we had coming out of the global financial crisis.

Operator

Our next question is coming from the line of Steven Chubak from Wolfe Research.

Steven Chubak

So, I wanted to start off with just a follow-up question on card NII. Jeremy, you did strike an optimistic tone on the higher spend trends and the potential for future NII tailwind as payment rates start to normalize. And just looking at the card revenue rate, given there are another of inputs in that metric, I was hoping you could just help us isolate the potential NII benefit versus the current baseline from a normalization in payment rate. So, just the payment rate normalizing, what would be the incremental step-up in the quarterly NII run rate?

Jeremy Barnum

Okay. So, there's a lot of pieces in that question. So first, let's talk about the revenue rate. So, a couple of things. So, in terms of the NII, we don't really see a meaningful uptick in card NII happening this year. Like you might maybe see a tiny bit of it sequentially fourth quarter versus third quarter, but I think it's going to be pretty hard to see. So, I think you want to be thinking about that as a 2022 effect.

I'm not going to get into guiding on revenue rate for 2022. And I will actually point out that we're in the market right now competing aggressively with some great offers, and I'm happy to say actually the client acquisition in card is going great and we're seeing great uptake on the offers. But that comes with a bit of elevated marketing expense. So, as I look out to next quarter, you might actually see a bit of a dip in the revenue rate just because of the way the accounting works there.

Steven Chubak

Okay. And for my follow-up, Jeremy, I just wanted to ask or at least hone in on one comment you made, where you said you could potentially still manage to a 12% capital target. I was just trying to better understand how much capital cushion you are looking to manage to under the SEB? And if the G-SIB surcharge is not recalibrated, where do you think you'll have to run on a steady-state basis just because it feels like waiting for to go, we haven't seen any changes on the recalibration front, specifically with the G-SIB surcharge.

Jeremy Barnum

Yes. Okay. So basically, that's a question about the management buffer and a question about what we would do in a world where G-SIB doesn't get recalibrated. And a world where GSIB doesn't get recalibrated is a world where our capital minimums are quite a bit higher, starting in 2023. We obviously disagree with that. We don't think it makes any sense at all, given that a big part of the driver of that increase in the amount of capital that we would have. And as Jamie pointed out earlier, both we and the system are really flushed with capital, and the regulators have been pretty clear that there's enough capital in the system right now, and that growth would increase that amount quite a bit for us and for everyone else. So, that's a big part of the reason why we've been so vocal for so long about the need to recalibrate that. And I think we see some of our competitors making those points, too, as they start to creep up into higher buckets.

And to be fair, the Fed has acknowledged that this is a thing that used to get fixed. It's just that they're kind of busy trying to get the Basel III end game put in place in the U.S. rules, which brings particular complexities in light of the Collins floor.

Jamie Dimon

Can I just add to this? So, I've always remarked that the G-SIB calculation is one of the [indiscernible] I've ever seen in my whole life. And then we doubled it here. So, the European banks have a lot of disadvantages in terms of -- they don't -- they can't have the regulators -- they can expand across Europe. But one of the advantages, they have pretty much half the G-SIB. But I still think that in the long run, that's right for America to be doubling what I could consider basing artificial number. So, let's just wait to see what all the new rules are, and then we'll answer that question. You don't have to sit there and guess what's going to happen.

Jeremy Barnum

Yes. And I think you see the important point is that in the near term, we're actually bound by leverage. So, that's what we're focused on right now. That's our biggest single thing that we'd like to see fixed because that is affecting the management of the balance sheet right now in ways that we think really don't make sense and eventually result in higher costs that will get passed on into the real economy.

Just to touch on your buffer point briefly, when all is said and done and the framework is fully settled, hopefully, we're back to being bound by risk-based constraints. We have a bit more experience with a couple of years of SCB and there's a little bit less rule uncertainty, it would be -- there's an interesting conversation to have about what the right management buffers are for people in a world where we do think it's important, and we've made these points to destigmatize the use of buffers. We've made this point in the context, for example, of the money market complex, too. We have all these kind of guidelines and the rules have them as buffers that you're supposedly free to use, but that's not the way everyone treats them. So, buffers become minimums, and that adds brittleness to the system that makes it more procyclical than anyone wants it to be.

So, down the road when things are stable, the buffer discussion could become interesting. But right now, it's a somewhat simpler story, and that's really the SLR.

Jamie Dimon

And remember, there's one buffer, you guys -- we don't really talk about, which is $40 billion of pretax earnings a year, okay? That's a huge buffer. It's huge. It allows you to change your forward-looking capital if you buy back stock and don't buy back stock. And so, we have a lot of levers. And whatever happens, we're going to figure out a way to do a great job for shareholders.

Operator

Our next question is coming from the line from Matt O'Connor from Deutsche Bank.

Matt O’Connor

I want to circle back on costs. Obviously, this year, some of it is driven by the stronger-than-expected fees. Some of it is the inflationary pressures you mentioned. Some is I think discretionary, as you pointed out in the past, accelerating some investment spend. But, the question is, as we exit this year, when we look back on costs from 2021 and say they're a little bloated because of all those factors, or is this going to be a good base year to grow off of going forward?

Jeremy Barnum

Okay. So, there's a couple of points in there. There's -- the word -- let's talk about bloated. I mean, you've heard Jamie talk about cost before, right? So we go after everything all the time. We go after waste. We try very hard to never be loaded and to not waste. That is a constant discipline. It's hard work. We look for it everywhere. So I would like to say that bloated is not a word we would ever use to describe ourselves. And we spent a bunch of time in the valves of this organization. I really don't think that, that's true. And I don't think anything about what we're doing in terms of how money is being spent this year is wasteful.

And in fact, as you know, the really big driver of the kind of impact on run rate spend is the investments that we're making, especially investments in technology and customer experience and then transforming the core efficiency of the company in terms of things like technology, modernization and data centers and so on.

So, in terms of projecting forward into 2022, I don't want to get into giving 2022 expense guidance here. And I think that you really have to unpack that cost number between the parts of it that are volume and revenue-related and the kind of more run rate, structural and investment costs as we've talked about before. So, I think this year is -- it's a little bit tricky to unpack the components from their perspective to project them to...

Jamie Dimon

If we can find more good money to spend, we're going to spend it. And I told you guys that there's good expense. When we have credit card spend, so much money in marketing, the returns are very good and they spend it. If we can open hire great bankers, something, we're going to spend it. If we can -- we spend $200 million in new data centers, which have a huge benefit for us down the road, we're going to spend it. We do not manage the Company so we can tell analysts what the expense number is going to be. That is just a bad way to run a company. And conversely, a lot of revenue stuff, too. Revenues aren't always good. And we all know how much risk we take in these businesses and stuff like that. So, we spend a lot of time in good revenue, bad revenue and good expense and debt expense. And that's what's going to drive the franchise in the next 5 or 10 years.

Matt O’Connor

Understood. And then separately, as we think about capital allocation kind of longer term, is there a thought to more meaningfully increase the dividend payout? I mean, as you saw at the beginning of the COVID crisis, buybacks were suspended, after stocks dropped sharply, banks couldn't repurchase until they roughly doubled. But dividends were maintained. And obviously, your pretax earnings power that you alluded to is very strong. It seems like that soft 30% cap has gone, obviously. So, just thoughts, it's not going to happen all in maybe one CCAR cycle, but if we do get a multiyear economic recovery, is your thoughts of pushing the dividend higher maybe closer to like a 50% payout?

Jamie Dimon

Probably not. I mean, I think firstly, we wanted the dividend which is sustainable through a bad downturn, and so we really want to do that. And I think this time kind of proves that. It was a very minor thing relative to capital retention. But we want to invest in our future and invest in growing and stuff like that. And if we can't -- and we don't want to raise the dividend so high that it cripples your ability to do other things.

Jeremy Barnum

Yes. And the way that flows into just capital buffer sort of makes that point clear, right? So every -- part of the reason that we're at 3.2 instead of 3.1 is the $0.10 increase that the Board announced its intention to do.

Jamie Dimon

And if I owned 100% of the Company, there would be no dividend.

Operator

The next question is coming from the line of Gerard Cassidy from RBC Capital Markets.

Gerard Cassidy

Can you guys share with us -- if you take a look at your net interest margin in the quarter, obviously, it came under pressure. And if we assume -- and I know this is a big assumption, but if we assume that rates don't really change from here over the next 6 to 12 months, the long end stays anchored where it is, at what point does the average yield in your average interest-earning assets start to stabilize or maybe go up because the new business that you're putting on equals or exceeds what's running off in terms of interest rates on the products that are coming off the balance sheet?

Jeremy Barnum

Yes. Good question, Gerard. So, I mean, I guess one way to think about your question is whether we basically think that NIM has hit the bottom in this quarter. And I think we've all learned the lesson that calling the bottom is a very dangerous thing.

And I would also point out, and I would direct you to like the last page of our supplement, I'm not going to give you a big speech on markets NII, which is my favorite topic and why that is really a sort of a distraction that we shouldn't look at, maybe a little bit about next quarter. But we do have that disclosure where we split out total NII and markets NII as well as NIM excluding markets. And the reason I raised that is that, yes, your overall mental model is not wrong. It's reasonable to think that NIM might stabilize around these levels. But it's noisy, and the markets numbers in there, and that's going to add noise. And also, I would say right now, there's an unusual amount of numerator, denominator type effects. So whatever winds up being true about the numerator, you also have quite a bit of volatility in the denominator there, which is one of the reasons that we obviously don't manage to that number as you've heard us say before. But your overall frame, it sounds reasonable to me.

Gerard Cassidy

Very good. And then, as a follow-up, and I may have misheard you, so correct me if I'm wrong. But I think you said that the higher level of noninterest expense, the outlook that is, was really driven by the improved outlook for noninterest income. Can you give us any color on that part of it, the outlook for noninterest income improvement?

Jeremy Barnum

Well, it's -- I mean, some of it's in actuals, and some of it's in the outlook. But at a high level, the point is simply that if you look at the mix of revenue across this company, we have some offsetting dynamics right now. We've got NII headwinds from the consumer delevering, as we've discussed. But, as you saw in this quarter's CIB and AWM results, we had exceptional performance in banking even though -- and in wealth management. And even though markets is down year-on-year, it's actually up significantly from what we expect [Technical Difficulty] higher expense guidance. So, that's kind of how it all comes together.

Gerard Cassidy

I appreciate it. Thank you.

Jeremy Barnum

You want some of these expenses to go up because that means that good revenues are going up.

Jamie Dimon

Indeed.

Operator

Our next question is coming from the line of Betsy Graseck from Morgan Stanley.

Betsy Graseck

I had a couple of questions. One was just on thinking through the outlook for NII, like you indicated, $52.5 billion, subject to market conditions. Can you just give us a sense as to how you're thinking about market conditions? What's the trigger point for being maybe better than expected versus coming down? And I ask in context of -- I noticed your securities book, you shifted a bunch from AFS to HTM. So, it feels like from that, you're waiting more for rates to move up materially before you would lean into that yield curve trade. Maybe you can give us a sense as to what that market conditions comment was referring to and how you're thinking about that?

Jeremy Barnum

Sure. So, let's go through that for a second. So, I said I wasn't going to give my big markets NII speech until next quarter, but I can't resist. So, you talk about market conditions, the markets NII component of that NII outlook includes things like the extent to which we have spec pools versus TBA, is the extent to which we have futures versus cash and high rate countries like Brazil, the growth in prime brokerage balances. The common theme across all of these is there are situations where you're deploying balance sheet in the markets business to serve clients. And that's profitable deployment on a spread basis, but there's quite a bit of gross up between the kind of non-derivative piece of it and a derivative or derivative-like piece of it, where the derivative piece of it doesn't have any NII, and the non-derivative piece of it does.

So, every unit of that sort of activity that you do creates a significant swing in the NII number, either up or down, with very little impact to the bottom line. Now that's not the entirety of the market story. There are parts of the markets business where we're actually doing more...

Jamie Dimon

The market, not the market...

Jeremy Barnum

No, I know. But a part of the market dependent comment is the market dependent -- I don't have markets. I'll go to the other point in a second, and I'm almost done with the speech.

Anyway, you get the point. So, that's one point of fluctuation. But going to your other piece, so the AFS, HTM, and I think your implied question, which is basically what would make us want to deploy more into a higher rate environment.

So, I will say that the AFS, HTM changes that you've seen are really just primarily about managing capital across the various constraints while preserving the right level of flexibility to do deployment. But given the level of cash balances right now, the AFS, HTM, there really remain constrained in terms of duration buys. And I think we have enough flexibility in there to do kind of short-end cash deployment tactically as we always do.

So, to get to the punchline, it's kind of what we said before, which is, we're bullish on the economy. We believe that that comes with higher inflation and therefore, higher rates. And in light of that, we're happy to be patient right now. When that actually changes and we decide to deploy more, you'll see it in the future.

Jamie Dimon

And just a simple way to think about it, the 52.5 other than the markets business, which goes up or down, if rates go up, you do see our earnings at risk disclosure, we will earn more NII, all things being equal, which of course they never are, but all the deal. And in addition to that, we can make decisions to deploy more money for more NII.

Betsy Graseck

It's interesting versus when you were at our conference, Jamie, but it seems like the 52.5 is more a function of the curve, given the fact that card did, it looks like better than you had thought at that time in the middle of June, based on your comments about spend being up so much. But, the...

Jamie Dimon

Betsy, let me just -- sorry to interrupt you, but let me just pick up on that point for a second because I think someone else has a similar question. But I would just remind you that we do see that very healthy sequential growth in card loans on the back of spending. But, the key issue is the revolve behavior. And so, our view on that really hasn't changed, and we do see elevated pay rates as a result of the cash buffers, which remains kind of the consistent reason why we have a muted outlook this year.

Betsy Graseck

Yes. No, I totally get that.

Jamie Dimon

I don't want to correct anyone here, but I personally think you'll see it go up by the end of the year, okay? I think, we'll be a little conservative on that because of all the spend and stuff like that. But we hate guessing. What I look at much more is how many cards you have? How much spend do you have? How many happy customers do you have? NII will take care of itself.

Betsy Graseck

And on that front, your card fees were quite good, right? You mentioned that in your press release. Maybe you can give us a sense as to the drivers? Is that new openings? Is that basically what it is? How sustainable is that? Because that was a bit of an upside surprise in this result, the card fees?

Jeremy Barnum

Yes. I mean, I think it's just spend, right, Betsy? I mean we can get you a bit more color than that. Reggie can follow-up if you want. But at a high level, I think the card spend number is really all about -- I mean, sorry, the card fee number is really all about spend terms.

Betsy Graseck

Okay. And then, just one last if I can squeeze it in. Your VAR came down significantly. Can you give us a sense as to what's going on there?

Jeremy Barnum

Yes. I mean, that's just the volatility of last year's prior quarter coming out of the time series, right, if you think about it.

Operator

Our next question is coming from the line of Charles Peabody from Portales Partners.

Charles Peabody

Yes. I want to ask that NII question a little bit differently. In reiterating your $52.5 billion guidance, you said there was potential for some variation or variability around that number. And I'm trying to understand where the greatest variation could come from. Is it in your loan growth expectations? Because I'm hearing that you really are not expecting much in the way of loan growth, or is it in the shape of the yield curve because of the Fed's QE actions or words around taper?

And talking about the yield curve, could you also talk a little bit about what's more important, the short end of the yield curve between Fed funds in the two-year or the long end? And in that conversation, also talk about the significant amount of liquidity that's about to hit the short end. Thanks.

Jeremy Barnum

There is a disclosure in the March 31st 10-Q, it shows earning risk if rates go up 100 basis points, U.S. dollar and non-U.S. dollar of $7 billion, if the whole curve goes up 100 basis points. So, the $7 billion, some number like 4.5 or 5 is short rates versus long rates. The long rate number is cumulative. I would add every year until you roll over these things at slightly higher rates. That is the number, okay? They are -- obviously, loan growth is loan growth, that's in the plus or minus, but the biggest thing is interest rates.

Jamie Dimon

Yes.

Jeremy Barnum

Because of variables. Well, let me give you the variables, Charles, because it's kind of a reasonable question. So I'll spare any more markets NII speech. You heard it already, but that's obviously a big factor.

Within card, we are somewhat optimistic about loan growth, but just remember that that loan growth has to translate into revolve to drive NII. And so, if pay rates remain -- as I said earlier, it's the central case forecast that reflects the recent experience. So, we are forecasting elevated pay rates. But of course, we could be wrong, they could be even more elevated than we are currently forecasting. So, that would be downside. And the opposite of that if we see the consumer relevering, starting a little bit sooner, would create upside there. And then, there's the impact of deployment. So we're staying patient right now. That means that we're not earning the steepness of the yield curve. And if that changes, that could create a little bit of upside. And then, there's always the tactical action that we can in the front end of the curve.

Right now, those aren't very interesting because IOER is above money market rates, which is a big part of the reason that you see RRP having so much uptake. But if that were to change and there were opportunities in repo and so on, then that could help a little bit as part of our constant tactical deployment there. But that's not again our simple case.

Charles Peabody

Just to follow-up on that. I mean, the liquidity that's going to hit in July and August is substantial. And that's going to have some impact on the shape of the yield curve at the short end. We saw a rise in the overnight repo rate, reverse repo rate in June. Is it possible that we have to have another one to keep rates from falling too far?

Jeremy Barnum

Yes. I mean, I think that's a question for kind of short-term fixed income market strategists and my old research team. But right now, it seems like the Fed is pretty committed to making sure that repo rates don't trade negative. That's part of the reason they made the technical correction. That's part of the reason RRP is paying what it pays. So, we'll see what happens there. But to me, the front end of the yield curve from a deployment perspective looks not very interesting right now, and that is kind of our central case for the rest of this year.

Charles Peabody

And did the rise in the RRP rate have any -- your comments about market-driven NII, did it have any impact on market-driven NII?

Jeremy Barnum

Yes. That's not really the way that works...

Jamie Dimon

About 5 basis points.

Jeremy Barnum

Yes. I mean I think you may be -- I mean, I don't know if it's part of your question or not, but there's, of course, the increase in IOER, and there's some pretty simple math you can do there about 5 basis points on -- or 10 basis points on $0.5 trillion for half a year. But those are pretty small numbers in the scheme of all the precision we're dealing with here.

Operator

A follow-up question is coming from the line from Gerard Cassidy from RBC Capital Markets.

Gerard Cassidy

Jeremy, I just wanted to follow-up. Can you give us some color about the residential mortgage lending business? How was the gain on sale margins this quarter? Any outlook on margins or any outlook on volumes, I should say? But also, did you say also that you guys sustained a small loss or a loss in the servicing area? If so, what drove that? Thank you.

Jeremy Barnum

Yes. So let's talk a little bit about mortgage, which is a business I'm still learning. But, we've had very robust originations, $40 billion this quarter. I think the most significant -- one of the significant things that's going on is we've really finished unwinding all of our credit pullbacks from the crisis. So, we're fully back in the corresponding channel, which is obviously helping the volumes.

There's obviously been a huge refi boom over the last year with lower rates. That's starting to slow down a little bit. The purchase market has been quite robust, although now we've seen so much home price appreciation that maybe affordability starts to be a little bit of a headwind.

So, as we sit here today from a margin perspective, you have your kind of typical dynamics. As rates go up a little bit, refi slows down a little bit that the industry has built capacity. You have probably a little bit of a margin headwind looking forward. And obviously, there's a mix effect. So, as corresponding becomes a much bigger part of the originations, you have mix-based margin compression, so. And obviously...

Jamie Dimon

... was at all-time highs. And now, it's not even normal. It's just getting -- all-time highs.

Jeremy Barnum

Yes, exactly. So it's a headwind relative to a super elevated prior year quarter, but it's still perfectly healthy.

In terms of the servicing business, I think really, as you all understand, in the current environment, the prepayment rates, prepayment speeds have been running significantly above our model forecast. And so, as we continue to really update those as part of our risk management, that can -- small risk management losses. But in general, the risk management of the parts of the MSR that can be managed has actually been very good and very stable. So, I think that's everything you had, Gerard, right?

Gerard Cassidy

Yes. Thank you very much.

Jeremy Barnum

Yes.

Operator

No incoming questions. Thank you.

Jamie Dimon

At the end, I just wanted to thank Jen Piepszak for a great job as CFO. You'll also know she's happy Wisconsin in a new job. And Jeremy, I know a lot of you know Jeremy, but he's been the CFO of the IB for seven or eight -- eight years or so, so a complete professional. And so, Jeremy, welcome to your first call, and congratulations.

Jeremy Barnum

Thank you, Jamie.

Jamie Dimon

Also talk to you all soon. Thank you.

Jeremy Barnum

Well, I survived it.

Operator

Thank you, everyone. That marks the end of your call. Thank you for joining, and have a great day.