US banks

JPMorgan Chase and Wells Fargo braced for sharp rise in credit losses

Two leading US banks increase provisions by $10bn as earnings fall in first quarter

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Laura Noonan and **Robert Armstrong** in New York APRIL 14 2020

JPMorgan Chase and Wells Fargo reported steep falls in first-quarter earnings as the two US banks increased loan-loss provisions by $10bn from last year to prepare for the ultimate impact of the coronavirus pandemic.

Jamie Dimon, JPMorgan's chief executive, said his bank was bracing itself for "the likelihood of a fairly severe recession", while his counterpart at Wells, Charlie Scharf, warned of increasing economic pain to come.

"It wouldn't surprise me that people will continue to be surprised by the (economic) numbers," Mr Scharf said. "There is more downside than there is upside at this point given the uncertainty in the environment."

JPMorgan, the biggest US bank, set Wall Street's earnings season off to a grim start by reporting that net income fell 69 per cent to $2.9bn in the first three months of the year. An hour later, Wells, the fourth-biggest US bank, reported a 89 per cent drop in first-quarter profit to $653m.

At both banks, earnings fell because provisions to cover losses were raised. JPMorgan increased its loan-loss provisions by $6.8bn from last year's level to $8.3bn, the highest since 2009. Wells added an "unprecedented" $3.1bn of loan loss reserves and took $950m hit on its securities' portfolio.

JPMorgan shares closed down 2.7 per cent, while Wells ended the day 4 per cent lower. The S&P 500 gained 3.1 per cent on Tuesday.

At JPMorgan, the elevated provisions were taken even though just 4 per cent of mortgage holders had missed payments so far, and late payments on credit cards were up only slightly.

Jenn Piepszak, chief financial officer, warned that "credit-reserves build could be meaningfully higher" in subsequent quarters, particularly since the bank now has more severe forecasts for unemployment and economic growth than when it made its assessment on first-quarter loan losses.

In addition to its loan-loss provision, JPMorgan also took a $1bn charge for widening spreads on its derivatives books, and an $900m charge for marking down the value of short-term bridge loans.

"JPMorgan Chase and Jamie Dimon usually lead the way in conservatism," said Wells Fargo analyst Mike Mayo, adding that what was "really remarkable here is that they took a $9bn punch in the stomach and were still profitable."

JPMorgan also warned that it expected a $3.5bn fall in non-interest revenue at its investment bank for the 2020 year overall, while company-wide net interest income is now expected to come in at $55.5bn for the full year — lower than the $57bn-plus figure JPMorgan flagged at its investor day in February.

Mr Dimon — who said his career plans had not changed after life-saving heart surgery in March — stressed that his bank had "performed well in what was a very tough and unique operating environment".

Analysts largely agreed, including RBC analyst Gerard Cassidy who told clients: "Overall, JPM posted a decent underlying first-quarter results in the midst of unprecedented headwinds."

Edward Jones analyst James Shanahan said he expected Bank of America to report similar trends to JPMorgan's when it announces earnings on Wednesday morning. "I really appreciate the tone (from JPMorgan), he added, "They're just honest about the cyclical nature of the business."

JPMorgan's investment banking revenue fell 49 per cent year-on-year, to $886m, mostly because of the $900m of writedowns on bridge loans.

Markets revenues of $7.2bn were up 32 per cent — far higher than the "mid-teens " rise investment bank boss Daniel Pinto had indicated in late February — as "strong client activity" drove a 34 per cent rise in fixed-income trading while a derivatives boom helped equities revenues to rise 28 per cent.

Just three months ago, JPMorgan reported its highest ever annual profit, making net income of $36.4bn as its consumer and investment banks then boosted profits even as interest rates fell.

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