ADVISOR PERSPECTIVES

JPMorgan's Traders Race Ahead in the Pandemic

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The rising tide of pandemic relief money that's oiling the wheels of finance has been a boon for those in the business of securities trading. Even as the wild market swings have subsided, activity has been buoyant as central banks and governments pumped trillions into economies. This may turn out to be one of the best environments for investment bankers generally, especially those who are buying and selling shares and bonds, but a standout company is emerging.

After a record trading performance in first three months of 2020, JPMorgan Chase & Co. is on course to post a 50% jump in trading revenue in the second quarter, when compared with the same period a year ago, the New York giant's co-president, Daniel Pinto, said last week. The reserved Argentine banker, who has helped JPMorgan move to the top of Wall Street's rankings, was "very pleased" by the performance. That tells you how well things are going.

Other trading firms are doing well too, although not as handsomely as Pinto's employer. Bank of America Corp. expects bond- and stock-trading revenue to rise close to 10% in the period; Citigroup Inc. is seeing "very good momentum" in the fixed-income business after a 40% jump in the first quarter. Citi is still playing catch-up with its rivals in equities trading.

JPMorgan might also be edging further ahead of its European rivals on their home patch. The bank is the favored dealer in Europe for both interest-rate and credit trading, ahead of Goldman Sachs Group Inc. and Citi, according to a poll of bond investors by Greenwich Associates at the end of April. European banks barely made it into the top three in some of Greenwich's subcategories on fixed-income trading.

"It's a balance sheet, scale and electronification game now, and the bigger you are, the better you do," Greenwich Associates said when the report was published. That's propelling JPMorgan — which spends more than $11 billion a year on technology — ahead of its competitors.

America's biggest bank added 2.5 percentage points to its share of trading revenue among its top peers between 2015 and 2019. It has a 12% share of trading in fixed-income, currencies and commodities, an 11% share of equity trading, and a lead in derivatives. That places it at the center of the world's financial markets. Its ability to move large volumes of inventory is unrivaled, competitors and clients say.

Last year, JPMorgan added 25% to its hedge-fund balances, bringing them to $500 billion, and it has been targeting $1 trillion. This growth in hedge fund clients has allowed it to build its stock-trading business, with equity derivatives powering a surge in revenue. It helps too that borrowers have been tapping the bond markets at a record pace.

Crucially, it's the bank's market dominance — which lets it take on more risk relative to its size — that appears to have become self-perpetuating. "We don't need to take a huge amount of risk for the franchise to be profitable," Pinto told a conference last week. "At our scale, the franchise is perfectly profitable. So, the only thing we need to do is to always be in a position where we can monetize the franchise."

For Chief Executive Officer Jamie Dimon, a roaring trading division is just what he needs to make up for the inevitable problems in the lending business caused by the Covid-19 pandemic, with companies and households struggling to repay their loans amid the worst recession in decades. Credit losses will pile up and the decline in U.S. interest rates will erode profit margins in the business over time. JPMorgan's profitable consumer business won't be such a cash cow.

But when the wave recedes, the Wall Street trading titan could be in a league of its own. The question then becomes: Is that healthy for the banking system?

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