

# DALLAS BUSINESS JOURNAL

## BANKING & FINANCIAL SERVICES

# One of JPMorgan's new South Region leaders weighs in on where the opportunities are – and aren't

“We're not trying to be too cute and doing anything exotic.”

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A recession seems more likely than not by year-end while long-term return outlook has brightened, according to a new report by J.P. Morgan Private Bank.

The private banking arm of New York-based financial giant JPMorgan Chase & Co. (NYSE: JPM) recently released its mid-year outlook report, detailing five ideas for investors to consider based on findings from client data. Those recommendations include rebuilding equity portfolios, considering more international stocks and putting more money into bonds instead of holding cash.

Investors should also manage their concentrated positions in single stocks or securities and consider the risk and opportunities associated with stresses in regional banks and commercial real estate, according to the report.

Clinton Warren, who was recently appointed as head of Investments and Advice for the bank's newly created South Region, said all the recommendations are relevant to investors in Dallas-Fort Worth. He said the bank will focus on helping clients navigate volatile as it continues to grow and compete for market share in DFW.

The private bank's South Region has \$140 billion in assets under supervision. It has about 400 employees in the region, including 200 advisers. About half of those advisers came to the bank within the last three years.

“Our desire to find the right people and add to our teams is still there,” Warren said. “We're still in hiring mode.”

Warren, along with Pete Chilian, who leads



Clinton Warren is head of investments and advice for the South region for J.P. Morgan Private Bank.

the South Region, particularly see a “vast” opportunity to gain market share with if the bank can capitalize on the trend of corporate relocations to Texas.

“We are in a unique position where we have a long-established business with a lot of clients and a lot of assets,” Warren said. “But if you look at each one of our markets and offices that we're going to be partnering with now going forward, our expectation is that each and every one of them will grow. ...They have a tremendous amount of runway and growth opportunity out of them as people are moving.”

Warren sat down with Dallas Business Journal to dive deeper into the mid-year outlook report and discuss where investors in DFW should put their money – and where they shouldn't.

**We've been through a rough period with several banks failing. What have conversations been like with your clients and have you seen any change in sentiment?**

If you look at our outlook, the title is “The Recession Obsession.” Just put your head around what's happened over the last 18 months. We've had two negative quarters of GDP. We've had an inverted yield curve. We've had a war [in Ukraine]. We've had the Fed raise rates at a pace faster than it has in history. We're fighting inflation. We had equity markets down 20%. Then, the fixed income markets were down 10%. Our clients, our advisers and our country have all gone through a lot over the last 18 months. We still haven't officially called it a recession, which to me seems a little bit crazy. As I grew up, two quarters of negative GDP was what indicated a recession, and that happened about nine months ago.

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My thought is that whenever the official recession happens, we've already witnessed and experienced a lot of those negative returns in 2022. The market has already priced that in, and clients felt that in their portfolios. Now, I think clients are trying to figure out what to do now. Since the bottom in October, the equity markets have rallied 20%. Clients are trying to figure out what the next year, three years and five years look like and what they should do with their portfolio against that opportunity.

Cash balances are higher than historical norms. We just witnessed a 20% pullback in the markets in 2022. You just want to make sure that you have the appropriate amount of risk in your portfolio to achieve whatever your goal is. When we look across our clients, about half of them, are underweight equities against where they should be. It's hard to re-evaluate risk when equity markets are up 20% from the bottom and up 10% year to date, and there's this impending recession. But if you look out one year, three years or five years if that's your time horizon, being at the appropriate risk makes a lot of sense. It's hard to look at that for a one month, three month or five-month period, but if you look out to the horizon, you want to make sure that your equity exposure matches your long-term goals.

**One of the other points in JPMorgan's mid-year outlook said people stay too close to home with their investments and need to consider more international investments and have less concentrated portfolio. How does that translate to the South Region?**

Over the last decade we as a bank have been overweight US equities, which has been the right investment. It has exceeded international markets by 100%. So that's been the right place to be. Going forward, though, we want to close it underweight and make sure that clients are at least thinking through international exposure. We're not going to go

completely overweight Europe or China. But we should be looking at that because the next decade could look different than the previous decade. I think it also rings true to clients, not only in this region, but across the U.S. A lot of our clients make money by having a concentration in something. It's a great way to build wealth, but it's a hard way to maintain wealth. Look at your concentration niching and use all the tools to diversify or protect or hedge. In Dallas there's obviously a concentration of real estate and energy. There are tools we have to help clients mitigate the ongoing risk.

**The mid-year outlook report also discusses how people may have too much cash and should consider putting more of their money in bonds. Is that something you see in the portfolios from your clients here in the South Region as well or are they more diversified?**

It's the same. When you look at our cash balances, they're up substantially. Part of it is for such a long period of time clients were getting no yield on their checking accounts, savings and money markets. It was forcing people to take risk in equities and other securities. Now that you can earn around 4-5%, I think people feel good about that, so you have seen an increase in balances. You can paint a scenario one or three years down the road where interest rates start to trend back lower, so try to lock in some of that yield now. If you just stay in cash or money markets and we do have a recession and Fed lower rates, we could wake up a year from now and those interest rates could be cut in half. The prudent thing to do is for your longer term, not immediate liquidity, is to lock in some duration or yield and go further out in the curve so five years from now you're still earning a decent return in your fixed-income allocation.

**What are the opportunities in the bond market? When interest rates are high. It almost seems counterintuitive to think about bonds.**

We're keeping it mostly pretty simple – just

core [municipal bonds] where you can earn a tax equivalent [return] north of 4%, which is great. The additional benefit is, if we do have a recession and the Fed is forced to lower rates, not only are you getting your 4% coupon tax equivalent, you're also going to get an appreciation and the price of the bond as the Fed lowers rate. You'll get an additional kicker that could double that return. We're not trying to be too cute and doing anything exotic. Fixed income is supposed to be the stable part of the portfolio.

Within equities, where are you seeing opportunities?

I like health care right now. It's the three D's.

The first is demographics. With the aging population that we have, there's increased demand for medicine and health care.

Continued drug innovation is the second one. There are a lot of pharmaceuticals that are doing amazing things and technology and enhancements to the drug spectrum that we can offer out of.

Deals is the third. There is an appetite for M&A within the health care sector. Some of these large pharmaceuticals are going to be forced to buy smaller companies. Health care has been a defensive sector and a growth sector at the same time. Even if we do have increased volatility and we do pull back into a recession, health care has been pretty resilient.

**What are you staying away from?**

Maybe consumer discretionary. Americans have been flushed with cash and then we've been spending it. If we do hit a recession, consumers will pull back on some of the discretionary spending and the staples will do well as folks prepare for something that could be bad on the horizon.

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