



The Charles Schwab Corporation is a leading provider of financial services. Through its operating subsidiaries, the company provides a full range of wealth management, securities brokerage, banking, money management, custody, and financial advisory services to individual investors and independent investment advisors.

<u>Name</u>	<u>Ticker</u>	<u>Yield</u>	<u>Growth</u>	<u>D + G</u>
Charles Schwab Corp	SCHW	1.06%	11.50%	12.56%

Highlights:

With its high-cost funding largely paid down, we anticipate Schwab will pivot to reinvesting maturing securities at higher yields, which we expect will largely offset NIM headwinds from Fed Funds cuts. Retail trading activity remains robust, as does margin loan utilization. Beyond the improving near-term financial outlook, we're encouraged by solid trends in NNA and account growth and expect Schwab to return substantial capital to shareholders in the coming quarters. All told, we continue to see a path for significant EPS growth in 2026 and see upside to Schwab's current valuation.

Bull Case:

- **Core Metrics Continue Upward Trend** – Schwab generated \$137.5B in core net new assets (NNA) in the quarter, \$7.3B above consensus. This was up 44% YoY as the company continues to move past the headwinds from TD Ameritrade platform integration. The firm's TTM NNA growth rate accelerated 10 bp QoQ to 4.7%; Investor Services accelerated 10 bps QoQ to 4.0% while Advisor Services accelerated 30 bps QoQ to 5.7%. Account growth is also trending higher, with annualized new account growth of 5.5%, up from 5.2% in Q2 '25 and 4.2% in Q3 '24.
- **Shifting to Offense** – After focusing much of its efforts the last few years on integrating TD Ameritrade, Schwab is now more fully able to shift to offense. Going on offense with Gen Z clients (which already comprise ~1/3 of new-to-firm households in 2025) means launching spot crypto trading in Bitcoin and Ethereum in 1H '26; management notes that Schwab's clients currently represent ~20% of spot crypto ETP assets. Another key initiative has been personal lending solutions via pledged asset lines. These balances were up 49% YoY, and Schwab has put interest rate swap hedges in place to convert the loans' floating interest rates to fixed.
- **High-Cost-Of-Funding Continues to Decrease** – Bank sweep deposits grew roughly \$3B organically during the quarter and \$3B via bulk transfers from TD Bank deposit accounts. With additional cash flow from ongoing maturities from Schwab's securities portfolio, Schwab was able to reduce its high-cost funding to \$14.8B at the end of Q3 '25, versus \$27.7B at the end of Q2 '25 and a peak of \$90.2B. Going forward, we anticipate higher-cost funding sources to remain in the \$5 to \$15B range and that Schwab will start to re-invest maturing securities at much higher yields. As a result of these tailwinds, as well as elevated margin loan balances and securities lending revenue, Schwab's net interest margin was 2.86% in Q3 '25, up from 2.08% in the year-ago period.

Bear Case:

- **External Shock or Market Meltdown** – An extended market could cause investors to lose interest in the equity markets, and it is possible that investors could exit their investments in the stock market and move their cash balances to other financial institutions that offer marginally higher rates on interest-bearing products. This would lower Schwab's client assets and earnings power.
- **Hangover From the TD Ameritrade Acquisition** – Anecdotally, it doesn't seem like any investors like the two large oligopoly companies – Schwab and Fidelity. New Entrants could enter the space and take small parts of market share.
- **Increased Regulatory Environments → Payment for Order Flow** – Management isn't comfortable projecting what might happen with payment for order flow on the regulatory front. However, the company did provide a couple of metrics to frame the discussion. First, it noted that clients receive \$6.50 in price improvement for every \$1 in order flow revenue Schwab receives. Second, it noted that 80% of its order flow revenue comes from trades that were executed on exchanges, although given that all options trades are on-exchange, this data point shouldn't come as a big surprise. Nonetheless, increased regulatory scrutiny could cause volatility in the company's expenses.

Overall Thesis:

We view Schwab as well-positioned for healthy net new assets ("NNA") and fee-based revenue growth, a pickup in trading activity, and significant potential upside to more normalized earnings with higher rates (both revenue and margin upside). Furthermore, in recent years, two significant developments have resulted from intense competition within the discount brokerage sector: first, the elimination of trading commissions has increased firms' reliance on cash balance management revenues; and secondly, the industry has consolidated into an oligopoly. We believe the Charles Schwab Corporation (SCHW) is particularly well-positioned to benefit from the continued growth in wealth management assets, a more disciplined industry, synergies from its Ameritrade acquisition, and expected higher margins in the future.



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