



Charles Schwab Corporation

Priced for Panic, Not Performance

Charles Schwab is emerging from the 2022 liquidity disruption with improving deposit trends and declining supplemental borrowings, yet the stock continues to trade at a discount that reflects outdated balance-sheet concerns. Recent earnings indicate normalization in client cash behavior and a recovering earnings profile supported by Schwab's scale and diversified revenue mix. **We recommend a BUY rating with a price target of \$119.**

Thesis Point 1 Before the 2022 liquidity shock, Schwab consistently traded at a trailing P/E in the 28–32x range. The current trailing P/E is roughly 22x, and the stock trades at 16.9x forward earnings, which is a 7% discount to the peer median of 18.1x. The valuation suggests the market is still pricing in a level of funding and balance-sheet risk that no longer aligns with the firm's current position.

In Q3 2025, sweep cash increased \$17 billion and total cash balances rose 3%, signaling deposit normalization. Supplemental borrowings declined to \$14.8 billion, placing Schwab back within its \$5–15 billion target range for the first time since 2022. Operating results reinforce this recovery: revenue grew 27% year-over-year, EPS increased 70%, and the firm added 1.1 million new accounts and \$138 billion in net new assets. This is one of the strongest quarters the company has reported in recent years. Despite this improvement, the stock's valuation still reflects conditions from the dislocation period rather than current fundamentals, and as sentiment adjusts to the restored earnings profile, Schwab has meaningful room for a re-rating as the gap between perception and performance closes.

Thesis Point 2 Schwab's competitive position is reinforced by its scale, with \$11.6 trillion in client assets supporting a structural cost advantage across its platform. At this scale, the incremental cost to serve additional accounts is low relative to peers, and fixed technology and service investments are spread across a broad asset base, strengthening client retention and pricing flexibility. The RIA custody franchise continues to consolidate share, supported by the 2020 TD Ameritrade acquisition and steady inflows from independent advisors who rely on Schwab as their primary custodian. Client demographics are also shifting favorably, with Gen Z accounting for roughly 33% of new households and contributing to a longer-duration, higher-engagement client base. These scale dynamics translate directly into superior profitability, with adjusted pre-tax margins above 50% compared with wealth-management peers typically operating between 18–30%. Despite this structural advantage, Schwab trades at a forward earnings discount that does not reflect its competitive positioning.

Thesis Point 3: Schwab's earnings mix is increasingly driven by businesses that scale efficiently and carry high incremental margins, particularly lending, advisory, and fee-based asset-management activities. Pledged Asset Line balances increased 37% year-over-year, and margin balances

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TICKER:	\$SCHW
RATING:	BUY
PRICE:	\$95.44
PRICE TARGET:	\$119.00
MARKET CAP:	\$0bn/m
52-W RANGE:	\$65.88 - \$99.59
P/E:	22.61x
IMPLIED UPSIDE:	9.49%

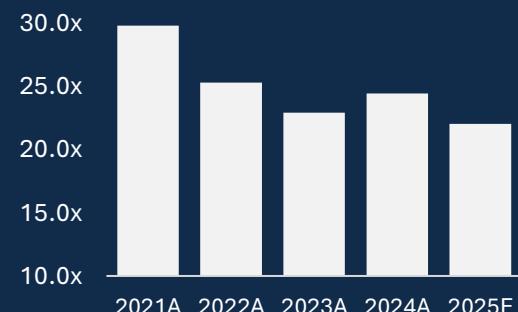
1 Year Price History



Recent Events Timeline



P/E Ratio



reached a record \$97.2 billion, which continues to strengthen net interest revenue. Advisory and asset-management fees rose 13% as clients continued adopting more planning, tax, and alternative-investment solutions that deepen wallet share and expand recurring revenue. At the same time, Schwab also limited expense growth to 5% through targeted process automation and greater operational standardization, helping lift adjusted pre-tax margins to 51% in Q3. The combination of lending growth, advisory expansion, and operating leverage supports a more durable earnings trajectory even in a lower-rate environment, reducing Schwab's dependence on net-interest margins and justifying a valuation materially higher than what the market currently assigns.

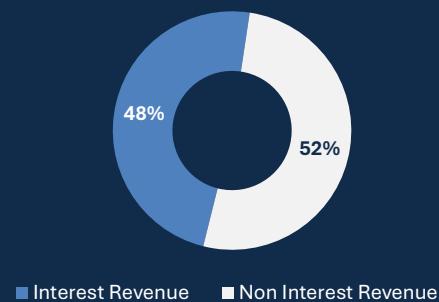
Company Overview: The Charles Schwab Corporation is one of the largest brokerage and wealth-management firms in the United States, serving individual investors and independent registered investment advisors (RIA) through an integrated platform of investing and banking services. The company operates through two primary segments. Investor Services offers retail clients trading, advisory, retirement, and cash-management services. Advisor Services supports independent RIAs through custody, trading, technology infrastructure, and practice-management resources, which has positioned Schwab as the leading custodial platform serving the independent advice channel. Schwab delivers these services through its broker-dealer subsidiary, Charles Schwab & Co., Inc., and its banking subsidiary, Charles Schwab Bank, which provides deposit, lending, and cash-management products within the same client ecosystem.

The company's revenue model is primarily composed of four sources: net interest revenue (~49% YTD), asset-management fees (28%), trading revenue (17%), and bank-deposit account fees (4%). This mix reflects Schwab's position as a leading retail brokerage and the dominant RIA custodian, with products and services spanning trading, cash management, deposits, advisory programs, and investment products. These capabilities position Schwab as one of the most prominent and widely used platforms in the U.S. wealth and retail investing industry.

Catalyst 1: Charles Schwab's recent acquisition of Forge Global for \$660 million serves as a near-term catalyst, the transaction is expected to close in the first half of 2026. Forge is a leading secondary marketplace for private company shares, allowing Schwab to offer accredited clients access to private investments directly within its platform. This acquisition expands Schwab's alternative investment offerings as companies remain private for longer and investor demand for private-market exposure continues to increase.

Catalyst 2: Schwab currently holds approximately 20% share of spot crypto exchange-traded products through ETFs, reflecting meaningful client demand for digital asset exposure within its platform. Building on this foundation, management plans to launch direct cryptocurrency trading in the first half of 2026, enabling clients to buy and sell crypto directly within

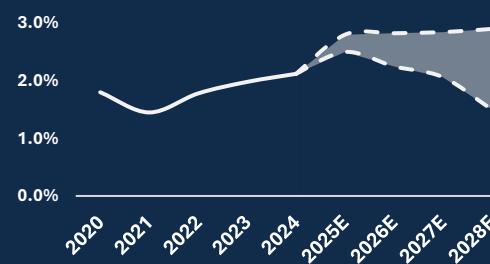
Revenue Segments



Interest Revenue vs Non-Interest Revenue



Net Interest Margin



ROE vs ROTCE Expected



Schwab's platform. This allows Schwab to capture existing client activity that currently sits off platform, increase engagement, and further position the firm as a comprehensive investing platform as digital assets become a more prominent component of portfolios.

Risk 1: Schwab's earnings recovery remains dependent on continued normalization of client cash balances following the 2022 liquidity disruption. While recent quarters have shown improving sweep cash trends and declining supplemental borrowings, client cash behavior remains sensitive to relative yields and market conditions. If cash inflows stall or reverse as money market alternatives remain attractive, Schwab's funding mix would remain impaired, limiting net interest revenue recovery. In this scenario, the market may continue to apply a discounted valuation multiple, undermining the expectations in the thesis.

Risk 2: Even if deposit balances stabilize, Schwab faces the risk that net interest revenue does not return to pre-2022 levels due to a structurally different rate environment and asset repricing dynamics. Schwab's earnings are more exposed to sweeping deposit yields and securities portfolio returns than peers with more diversified lending businesses. Management has acknowledged that margin normalization may be partial rather than a full return to prior peaks. If net interest revenue settles at a lower long-term baseline, earnings growth could underperform expectations, limiting upside to valuation multiples despite balance-sheet stabilization.

Valuation

EPS	P/E Multiple				
	16.9x	18.0x	22.0x	23.0x	24.0x
\$4.30	\$72.67	\$77.40	\$94.60	\$98.90	\$103.20
\$4.60	\$77.74	\$82.80	\$101.20	\$105.80	\$110.40
\$4.75	\$80.28	\$85.50	\$104.50	\$109.25	\$114.00
\$4.85	\$81.97	\$87.30	\$106.70	\$111.55	\$116.40
\$5.00	\$84.50	\$90.00	\$110.00	\$115.00	\$120.00

Our base case valuation applies a 22.0x forward P/E multiple to an estimated NTM EPS of \$4.75, reflecting modest multiple expansion as balance-sheet normalization and earnings visibility continue to improve. This multiple remains below Schwab's pre-2022 trading range but is supported by normalized deposit behavior, improving net interest dynamics, and continued growth in scalable advisory and lending businesses. We assume conservative EPS growth driven by steady net new assets, operating leverage, and incremental contribution from strategic initiatives, including private-market access and crypto expansion. Refer to the appendix for downside and upside case assumptions.

Conclusion: Schwab's shares continue to reflect lingering concerns from the 2022 dislocation rather than the firm's current earnings power. As funding conditions normalize and high-margin businesses continue to scale, the stock offers attractive upside through both earnings' growth and multiple expansion.



Valuation Framework	
Risk-Free Rate	4.15%
Equity Risk Premium	5.00%
Beta	0.96
Cost of Equity	8.95%
Normalized ROE	16.00%
Implied Share Price	\$119.68
Upside/Downside	25.40%



Risk vs. Reward - P/E Multiple Cases



Income Statement (\$mm)	2024A	2025E	2026E	2027E	2028E
Net Interest Revenue	9,144	11,678	12,029	12,330	12,576
Non-Interest Revenue	10,462	12,300	12,669	12,985	13,245
Total Revenue	19,606	23,978	24,697	25,315	25,821
Net Income	5,942	7,265	7,483	7,670	7,824

Margin & Growth Data	2024A	2025E	2026E	2027E	2028E
Pre-Tax Margin	46.2%	49.5%	49.5%	49.5%	49.5%
ROE	16.7%	14.0%	14.7%	15.3%	16.0%
ROTCE	38.3%	17.0%	17.7%	18.3%	19.0%
Net Interest Margin	2.1%	2.7%	2.4%	2.0%	1.7%

Comparable Companies

\$mm

Ticker	Mkt Cap	ROE	ROTCE	Pre Tax Margin	EPS LTM
LPL Financial Holdings Inc. (NasdaqGS:LPLA)	\$28,310	42.26%	(84.17%)	7.21%	\$10.77
Interactive Brokers Group, Inc. (NasdaqGS:IBKR)	\$28,588	19.20%	19.43%	75.23%	\$2.09
Raymond James Financial, Inc. (NYSE:RJF)	\$30,632	19.03%	23.45%	19.36%	\$10.53
Morgan Stanley (NYSE:MS)	\$266,909	14.83%	19.39%	30.79%	\$9.86
Charles Schwab	\$163,123	16.75%	38.28%	46.19%	\$4.27

Ticker	EPS NTM	P/E LTM	P/E NTM	P/B	P/TBV
LPL Financial Holdings Inc. (NasdaqGS:LPLA)	\$17.61	33.1x	20.1x	9.6x	(17.8x)
Interactive Brokers Group, Inc. (NasdaqGS:IBKR)	\$2.28	31.0x	28.1x	24.9x	6.5x
Raymond James Financial, Inc. (NYSE:RJF)	\$12.05	15.1x	12.9x	2.7x	3.5x
Morgan Stanley (NYSE:MS)	\$10.43	17.2x	16.1x	2.9x	3.9x
Charles Schwab	\$4.75	21.5x	22.0x	4.4x	9.1x

High	33.1x	28.1x	24.9x	9.1x
75th Percentile	31.0x	22.0x	9.6x	6.5x
Average	23.6x	19.8x	8.9x	5.7x
Median	21.5x	20.1x	4.4x	3.9x
25th Percentile	17.2x	16.1x	2.9x	3.5x
Low	15.1x	12.9x	2.7x	(17.8x)

Charles Schwab

Implied Share Price (25th Percentile)	\$ 73.44
Implied Share Price (Median)	\$ 91.80
Implied Share Price (75th Percentile)	\$ 132.37

Downside Case: Applies a 16.9x NTM P/E, roughly in line with Schwab's current forward multiple, assuming deposit normalization stalls and earnings recovery remains muted. Persistent cash sorting and elevated funding costs limit net interest margin expansion, keeping investor focus on near-term earnings rather than normalized profitability. This results in a downside price target of \$91.

Upside Case: Applies a 24.0x NTM P/E, reflecting a partial re-rating toward Schwab's historical range as deposit normalization progresses and earnings recovery becomes clearer. Improving sweep economics, operating leverage, and confidence in Schwab's through-cycle earnings power support multiple expansion. This yields an upside price target of \$130.