Introducing EGLE and FLAG: An Innovative Approach to U.S. Equity Investing

Jason Anderlik, CFA
janderlik@globalxetfs.com

Date: April 16, 2025
Topic: Core

On April 16, 2025, we listed the Global X S&P 500 U.S. Revenue Leaders ETF (EGLE) and the Global X S&P 500 U.S. Market Leaders Top 50 ETF (FLAG). Both EGLE and FLAG take an innovative approach to U.S. equity investing by seeking to provide exposure to companies that are not only domiciled in the U.S. but also derive the majority of their revenue domestically.

While the S&P 500 has arguably been the most popular way to access broad U.S. equity exposure for decades, the rise of globalization contributed to an increase in international revenue streams for large U.S. companies. With escalating, tit-for-tat trade wars and a broad shift towards global fragmentation, investors may benefit from a narrower approach to U.S. equity investing to provide a potential level of insulation from the disruption stemming from these trends. A more tailored approach to domestic equities may help avoid these pitfalls while simultaneously identifying opportunities in a growing U.S. economy.

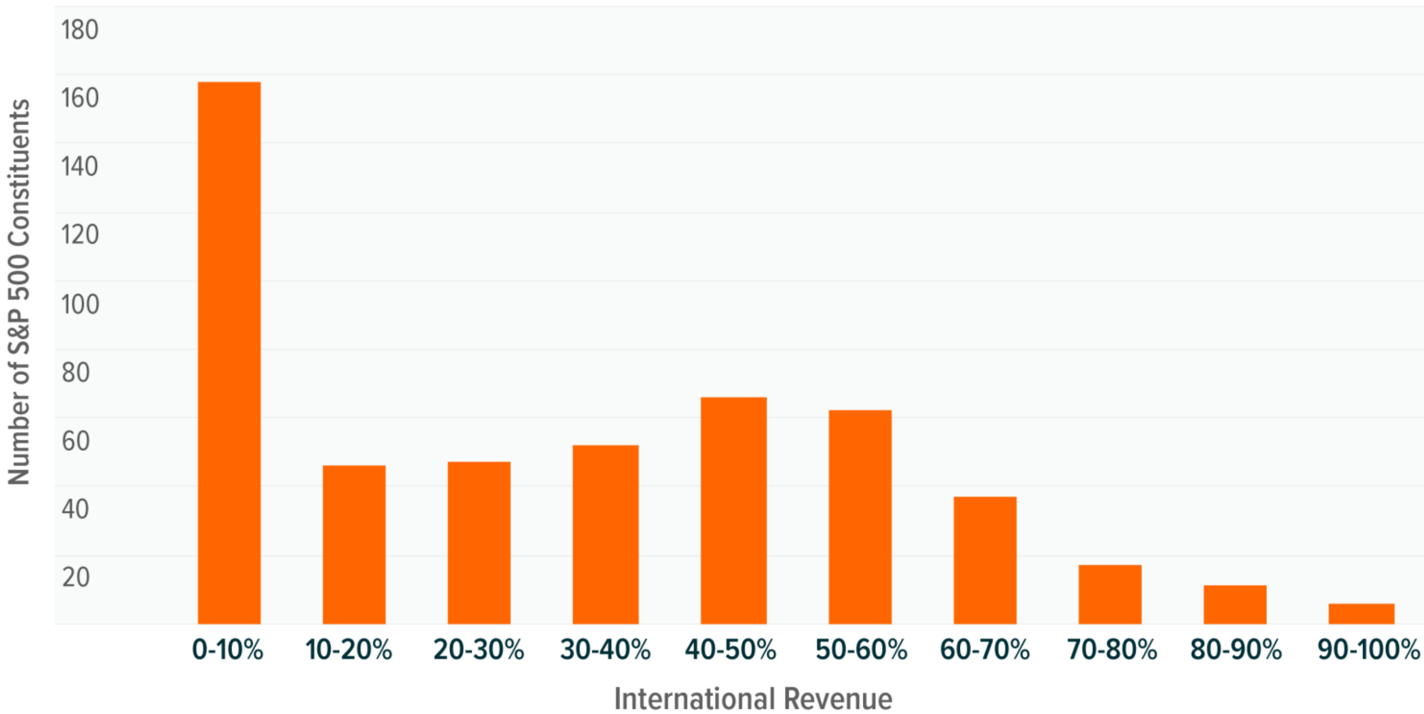
Key Takeaways

- Globalization has contributed to an increase in foreign revenue streams for large U.S. companies, potentially necessitating the reconsideration of what constitutes exposure to the U.S. economy.
- The U.S. has been the fastest growing major advanced economy since COVID, amplifying the arguments for U.S. exposure.[1]
- Pairing a U.S. revenue focus alongside quality screens could potentially reduce portfolio risk while targeting exposure towards companies poised to benefit from U.S. economic growth.

Traditional U.S. Equity Exposure May be Due for a Revamp

The digitization of the economy, growing consumer spending in emerging markets, and a prolonged period of relative global stability have broadly encouraged U.S. companies to invest in international distribution. This shift was reasonable for many companies, as Asia accounts for more than half of the world's consumers, representing a key growth market for U.S.-based companies.[2] The trend in the globalization of revenue has advanced to the point where more than a quarter of the constituents in the S&P 500, the most widely tracked index for large-cap U.S. equities, generate the majority of their revenue outside the United States.

OVER 25% OF S&P 500 CONSTITUENTS GENERATE THE MAJORITY OF THEIR REVENUE OUTSIDE THE UNITED STATES



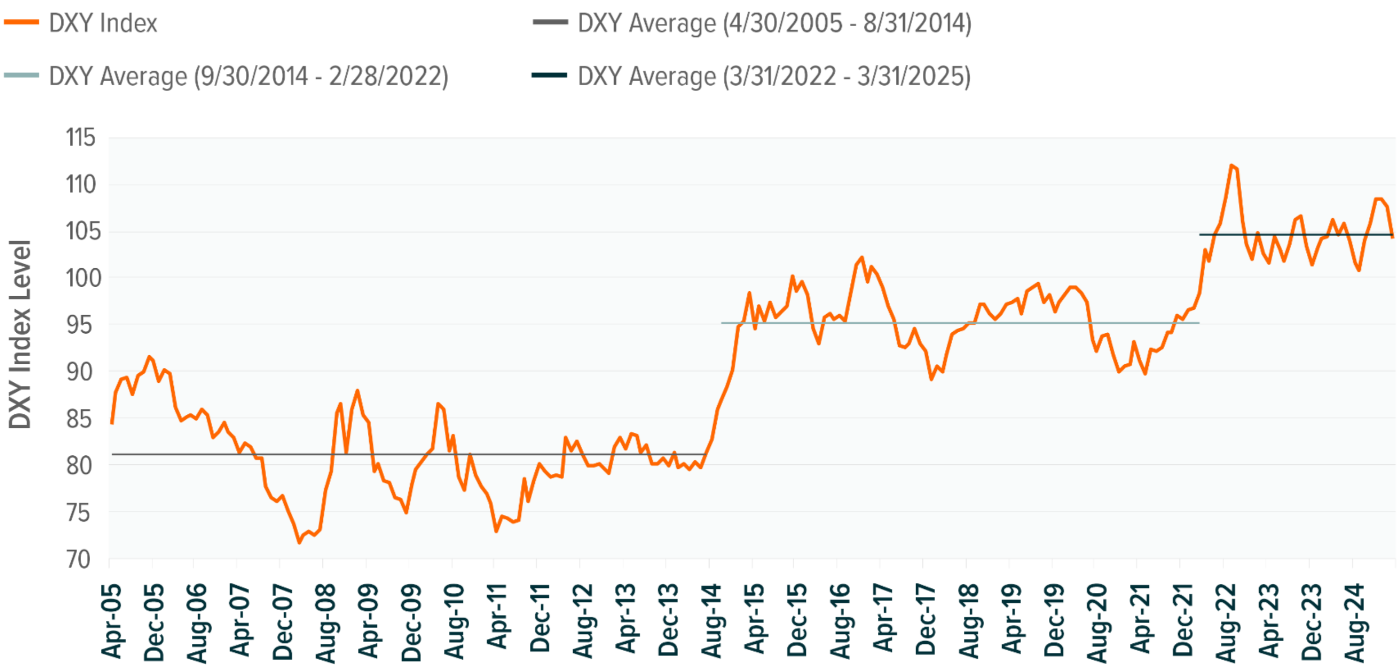
Source: FactSet Research Systems. (n.d.). S&P 500 [United States Revenue Percentage]. Data as of March 31, 2025.

Despite the potential benefits, the globalization of revenue for large U.S. companies can carry risks that investors may not consider. While country and currency risks are generally evaluated based on the domicile of each constituent for an index, revenue exposure may offer a more complete view. For example, investments domiciled in Emerging Markets are often subject to heightened risks from political instability, reduced liquidity, and elevated volatility. U.S. domiciled companies with substantial Emerging Market revenue may carry many of the same risks, as they face the possibility of unpredictable regulatory burdens as well as hurdles with disposing of assets or repatriating earnings.

The risk of currency fluctuations are often considered short-term in nature, as economic theory suggests that currency valuations mean revert over time.[3] While this is true in theory, in practice currency trends can persist for longer than the investment horizon for many individuals, which is ultimately the time frame that matters most. These risks can affect U.S.-domiciled companies, as revenue outside the United States generally leads to the receipt of foreign currency. If U.S. dollars appreciate relative to those foreign currency receipts, companies may have to recognize a translation loss on their income statement, reducing their earnings. If the trend in U.S. dollar appreciation persists over time, investors may be forced to reevaluate the worth of the company.

This is salient for investors today, as the primary measure of dollar strength, the U.S. Dollar Index (DXY), has seen substantial appreciation over the past 20 years.[4] Over that timeframe, three distinct time periods can be observed where there is some degree of reversion back to a local mean, but there has not been a trend back towards some time-period agnostic value. While the past may not offer any direct insight into future currency movements, the last 20 years demonstrate that trends can persist beyond an investor’s time horizon. This suggests that considering revenue exposure, in addition to domicile, may benefit investors seeking U.S.-centric exposure.

TRENDS IN DOLLAR STRENGTH CAN PERSIST FOR YEARS WITHOUT REVERSION

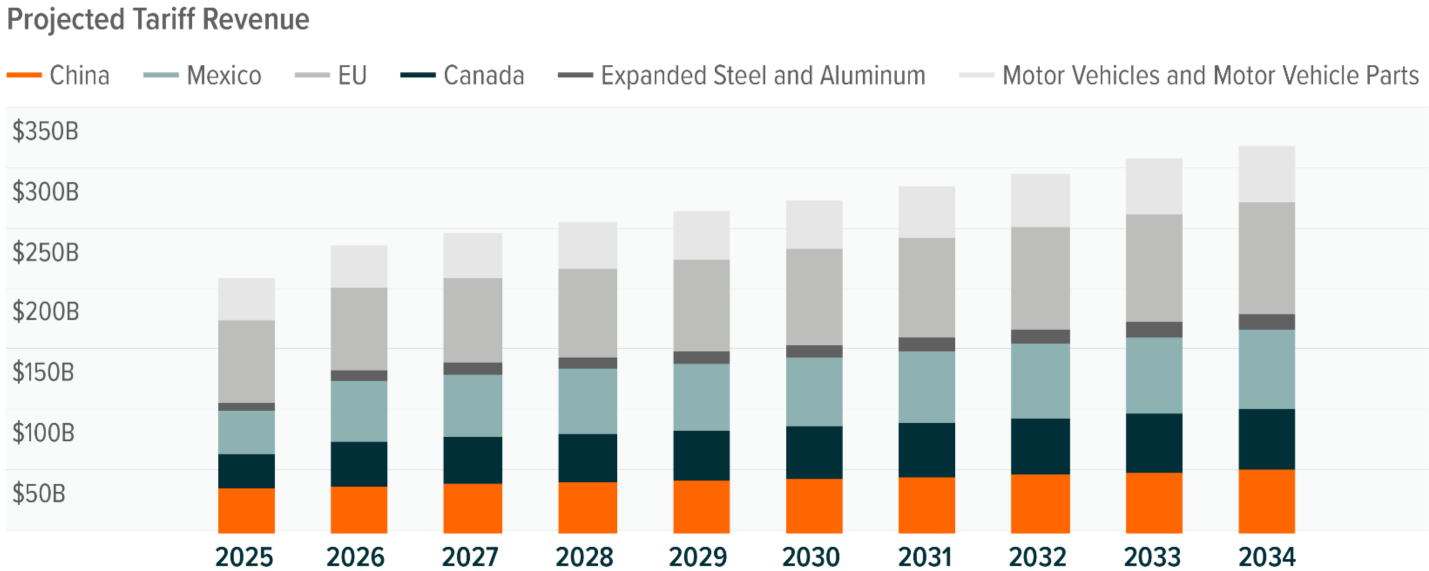


Source: Bloomberg LP. Price data from 4/1/2005 through 3/31/2025.

Past performance is not a guarantee of future performance.

As we move into a period that may be less defined by globalization and instead by global fragmentation, companies with global customer bases may be at more risk in an escalating tariff environment. In 2024, the U.S. federal government collected approximately $83b from customs duties.[5] Since his inauguration, President Trump has promised to substantially increase that figure and has either proposed or implemented substantial tariff increases across top U.S. trade partners and products. The value of these additional tariffs is expected to reach over $200b in 2025 and increase to over $320b over the next decade.[6] This marks a shift away from the promotion of free global trade that has proliferated since the founding of the World Trade Organization in 1995 and represents a potential risk for companies with global revenue exposures.

REVENUE EFFECTS OF SELECT PRESIDENT TRUMP'S IMPOSED & THREATENED TARIFFS



Source: Tax Foundation. (2025, March 25). Trump Tariffs: Tracking the Economic Impact of the Trump Trade War.

EGLE: A Tailored Approach to U.S. Equities

The Global X S&P 500 U.S. Revenue Leaders ETF (EGLE) targets constituents of the S&P 500 that derive the majority of their revenue from the United States. EGLE's goal is to track, before fees and expenses, the performance of the S&P 500 U.S. Revenue Leaders Index. The initial index universe is composed of S&P 500 constituents, which represent 500 of the largest and most influential U.S. companies, collectively accounting for roughly 80% of the total U.S. market capitalization.

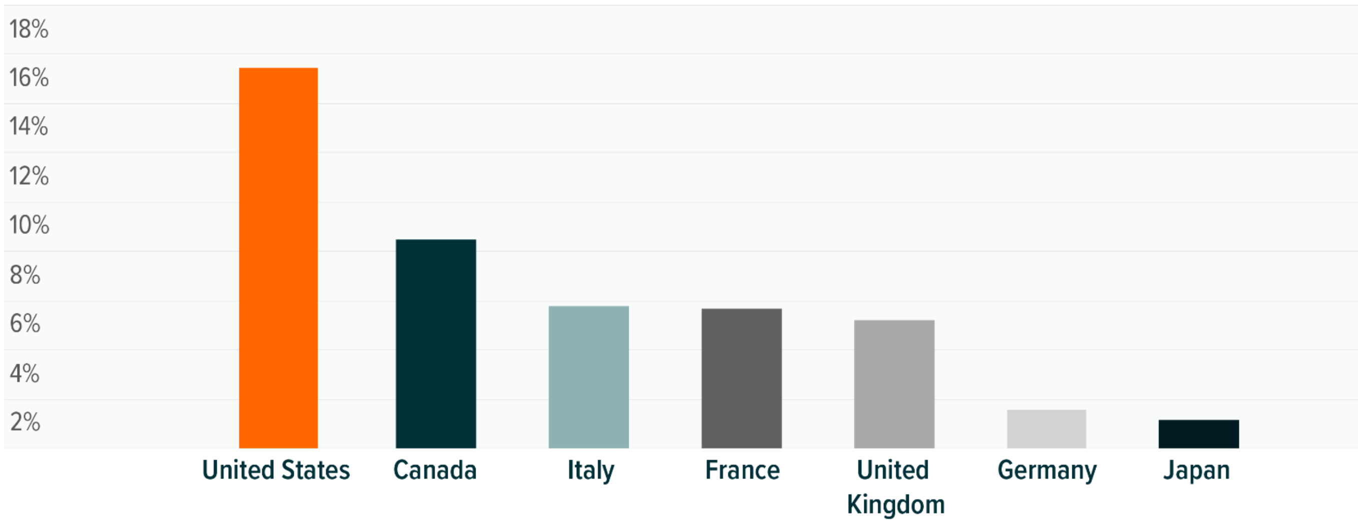
From that initial universe, S&P applies a screen to exclude any company that generates the majority of its revenue from outside the United States. By tracking the resulting index, EGLE offers investors a vehicle to take a selective approach to U.S. equity investing. This approach accounts for not just the trends in globalization that have taken place in recent decades but also offers the potential to reduce some specific risks that can stem from global revenue exposure.

Identifying Quality Opportunities in the U.S.

Companies that have prioritized domestic growth may have benefitted as the U.S. demonstrated stronger economic growth in the last five years than other major developed economies.[7] Relative to Canada, which is ranked second for economic growth in the G7 over the last five years, the U.S. grew its economy more than 1.8 times faster. In Europe, the gap is even more dramatic, ranging from 2.7x more than Italy to 10x faster growth than Germany since 2019. Companies that generate the majority of their revenue in the U.S. may be better positioned to benefit relative to peers with a greater focus on global growth should this trend continue.

U.S. ECONOMIC GROWTH OUTPACED PEERS IN RECENT YEARS

Cumulative Real GDP Growth (2019-2024)



Source: International Monetary Fund. Real (inflation-adjusted) GDP Growth from 1/01/2019 to 12/31/2024. Accessed on 3/11/2025.

While several factors have contributed to the economic growth differential between the U.S. and other major advanced economies, a few catalysts are at the forefront. First are technology investments, as U.S. domiciled hyperscalers have poured over $750b into capital expenditures since 2020.[8] This includes massive data centers and the chips to power them, as well as research and development investments to improve their respective suites of large language models. Outside of the private sphere, federal investments into areas like chip manufacturing and infrastructure through the passage of the Infrastructure Investment and Jobs Act, the CHIPS Act, and the Inflation Reduction Act have helped support U.S. competitiveness on the global stage. Finally, consumer spending, which represents 68% of gross domestic product in the U.S., has remained robust since the recovery from the COVID-19 pandemic.[9] Since January 2021, the month that real personal expenditures recovered to pre-pandemic levels, consumer spending has grown over 15% in the U.S. on an inflation-adjusted basis.[10] Looking ahead, we see the potential for these favorable dynamics to continue.

Introducing FLAG: Quality Delivered from the U.S.A.

The Global X S&P 500 U.S. Market Leaders Top 50 ETF (FLAG) invests in companies that are constituents of the S&P 500 (excluding those in the real estate sector), derive at least 50% of their revenue from the United States, and rank among the top 50 eligible companies by Market Leader Score—a metric based on sustained free cash flow (FCF) margin, sustained return on invested capital (ROIC), and market share. FLAG seeks to track, before fees and expenses, the S&P 500 U.S. Revenue Market Leaders 50 Index.

Sustained ROIC and FCF are empirically supported quality metrics that help identify companies that consistently generate shareholder value while maintaining resilient earnings. Quality as a factor is often employed within a portfolio in an effort to reduce the impact of bear markets, as companies with strong internal cash flow generation and strong balance sheets can often better withstand poor economic conditions than peers. The addition of market share into the Market Leader Score and the heightened U.S. focus may also position FLAG differently than traditional quality investments. Companies with a higher Market Leader Score should generally generate strong internal cash flows and have a high market share in their respective businesses. This may assist in identifying companies that are positioned to capitalize on a potential continuation of outsized growth in the U.S.

Conclusion: A New Lens for Domestic Equity Investing

When the first S&P 500 ETF was launched in 1993, it represented the height of financial innovation. More than 30 years later, the world looks dramatically different than it did back then. Compared to 1993, the rising consumer class in Emerging Markets coupled with relatively free trade following the founding of the World Trade Organization incentivized companies to look outside the U.S. for growth. Today, the paradigm appears to have shifted once again, with tariffs potentially penalizing globally exposed companies. In an increasingly fragmented world, companies that generate the majority of their revenue within the U.S. may not just be more insulated from certain risks, they may also be poised to capitalize on the potential continuation of strong economic growth and technological innovation in the U.S.

Related ETFs

EGLE – Global X S&P 500 U.S. Revenue Leaders ETF

FLAG – Global X S&P 500 U.S. Market Leaders Top 50 ETF

Click the fund name above to view current performance and holdings. Holdings are subject to change. Current and future holdings are subject to risk.

Footnotes

1. Global X ETFs with information derived from the International Monetary Fund. Real (inflation-adjusted) GDP Growth from 12/31/2019 to 12/31/2024. Accessed on 3/11/2025.
2. Brookings. (2023, April 14). China and India: The future of the global consumer market.
3. SVB. (2021, March). With cross-border investments, realize that currencies will mean revert.
4. Bloomberg LP. DXY Index price data from 3/1/2015 through 2/28/2025. Accessed on 3/11/2025.
5. FRED. (n.d.). Federal government current tax receipts: Taxes on production and imports: Customs duties. Data as of December 31, 2024.
6. Tax Foundation. (2025, March 25). Trump Tariffs: Tracking the Economic Impact of the Trump Trade War.
7. Global X ETFs with information derived from the International Monetary Fund. Real (inflation-adjusted) GDP Growth from 12/31/2019 to 12/31/2024. Accessed on 3/11/2025.
8. Global X ETFs with information derived from: FactSet. (n.d.). Amazon (AMZN), Alphabet (GOOGL), Microsoft (MSFT), and META Financial Data. Accessed on Feb 10, 2025.
9. FRED. (n.d.). Shares of gross domestic product: Personal consumption expenditures. Data as of December 31, 2024.
10. FRED. (n.d.). Real Personal Consumption Expenditures. Data as of December 31, 2024.

Glossary

1. Free Cash Flow Margin: The ratio of free cash flow generated over a period divided by sales. Free cash flows are calculated as operating cash flow less capital expenditures.
2. Return on Invested Capital: The ratio of net operating profit after taxes divided by invested capital.
3. G7: A grouping of the seven major developed economies: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.
4. Hyperscalers: Large cloud service providers with substantial computing power and infrastructure to support major applications and services.
