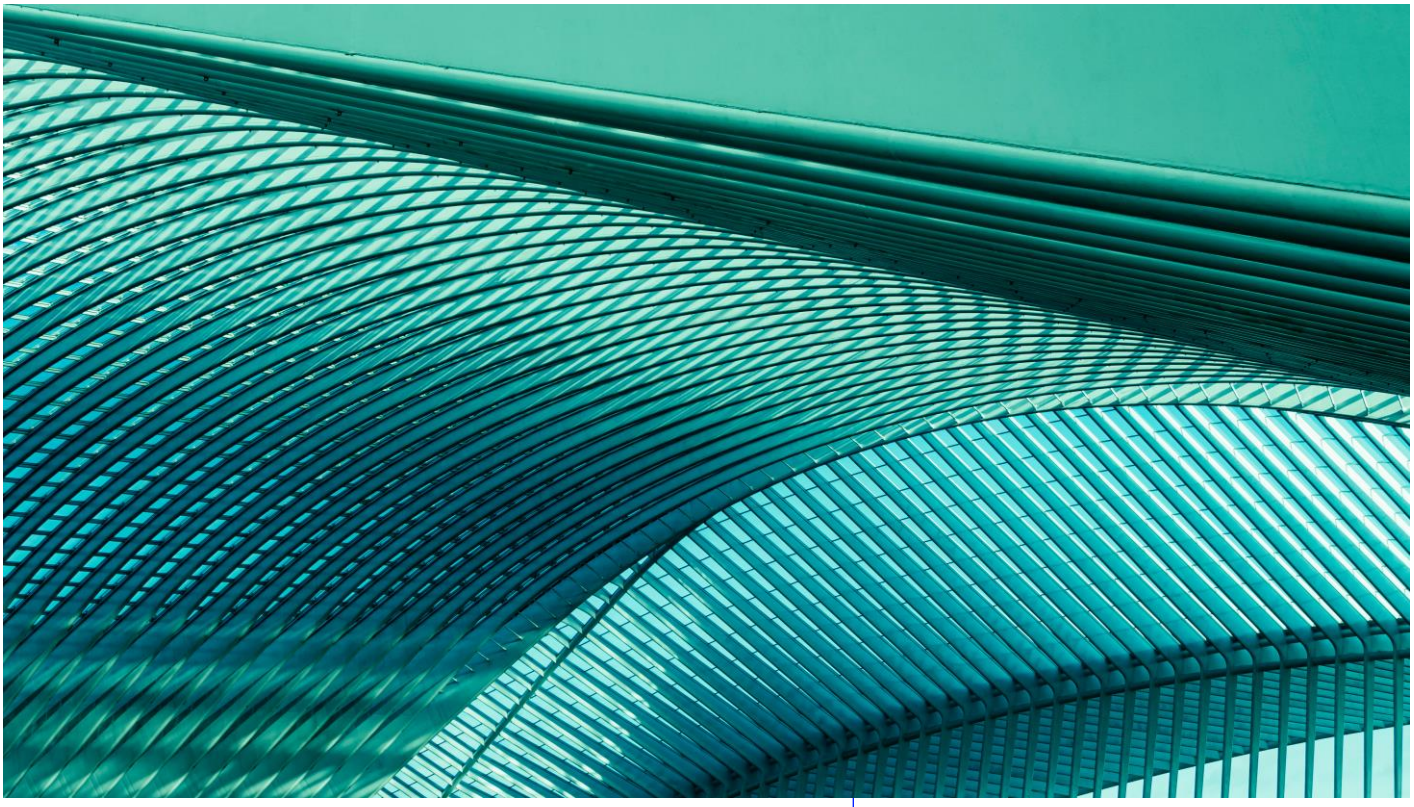

Global Investment Research | Equities

Russell Texas Equity Index: Adding the geographic dimension

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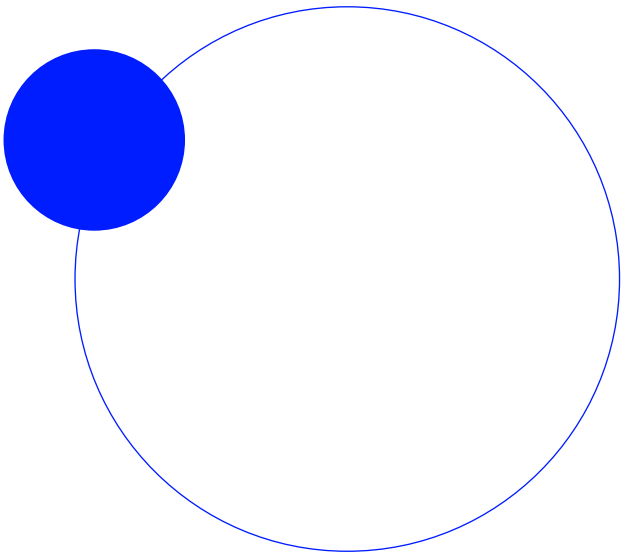


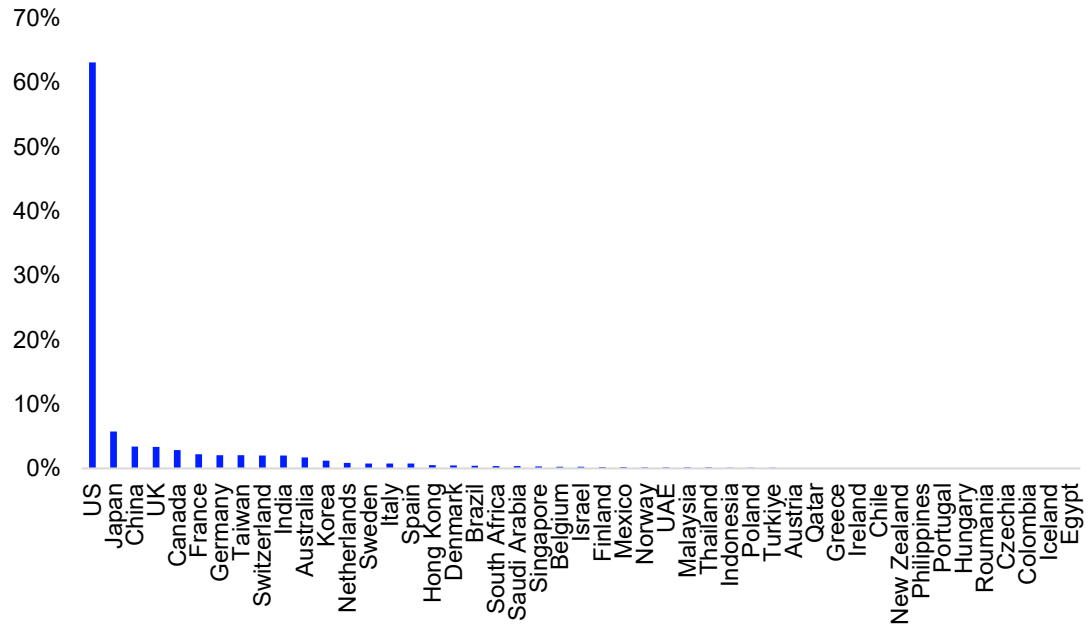
Introduction

FTSE Russell recently launched a new series of US state indices, with the first index being the Russell Texas Equity Index (or simply, the Texas index from here on). This new geographic dimension is a natural extension of the Russell approach to providing US equity indices, which has been to give investors more choice over granular subsets of the entire US equity market. Why might investors consider this investment approach? This research note reviews the need to break the US equity market down into smaller components and presents three use cases for the Texas index for investors who may be interested in a state-based investment approach.

The need to disaggregate the US

The challenge with including the US in a global equity portfolio is illustrated by Exhibit 1. The US's capitalization is approximately 64% that of the FTSE Global All Cap Index, and is almost 11 times as much as the next largest country, Japan. Many regional equities are so small by comparison that they cannot be seen in Exhibit 1. Simply put, the US cannot be treated like just another country. In addition to being large, the US equity market is not monolithic. Its performance is driven by varying fundamental forces across a large number of publicly traded companies in different industries across a very large country. Investors need to disaggregate the US equity market along different dimensions to be able to use the components of the US equity market efficiently.

Exhibit 1: Country index weight in the FTSE All Cap Index (August 2025)



Source: FTSE Russell/LSEG. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

FTSE Russell builds indices along different dimensions to give investors the ability to differentiate between stock characteristics without resorting to stock selection. The best-known- characteristics are:

– Size: While the Russell 1000 and Russell 2000 are well known for dividing the US equity market into large-and small-cap characteristics, there are also Russell Mid-cap, Top 200, Top 50, Top 10, etc., that give investors considerable granular control over how they structure their US equity size exposures.

– Style: The Value and Growth indices are also well known and used widely for investors that want to differentiate, and allocate to, different style segments.

– Stability: Probably less well known are the dimensions of Dynamic and Defensive that splits the Russell universe into different categories based on stock risk.

– Industrial classification: Russell uses a four level Industrial Classification Benchmark (ICB) system to build indices based on the industrial characteristics of the stocks.

In this context, FTSE Russell decided to add another dimension of differentiation within the US equity market, which is the geographic dimension, or specifically the state dimension. Investors can think of states as being composed of several overlapping sets of characteristics, such as geography (e.g., natural resources, climate), economy (e.g., labor force, infrastructure, existing economic capability), and legal / political (e.g., tax laws, regulatory framework, and even educational system). A state-based investment approach requires that the states be differentiated, and that investors have views on this differentiation.

Launched in April 2025, the Texas index's underlying investable universe is the Russell 3000 and so investors have access to both the more globally focused large-cap stocks as well as the more domestically focused small-cap stocks in Texas. Additional size and liquidity screens help ensure liquidity of the index. Critical for the discussion here, stocks are assigned to a state index based on the location of the company headquarters. While many US companies are incorporated in the state of Delaware for legal and tax reasons, the location of the headquarters is usually a good indication of where the companies' operations are concentrated, which is influenced by companies' assessment of the state's business environment. Furthermore, companies' ability to change location gives the state indices a dynamic characteristic that makes it different from many of the other categorical indices.

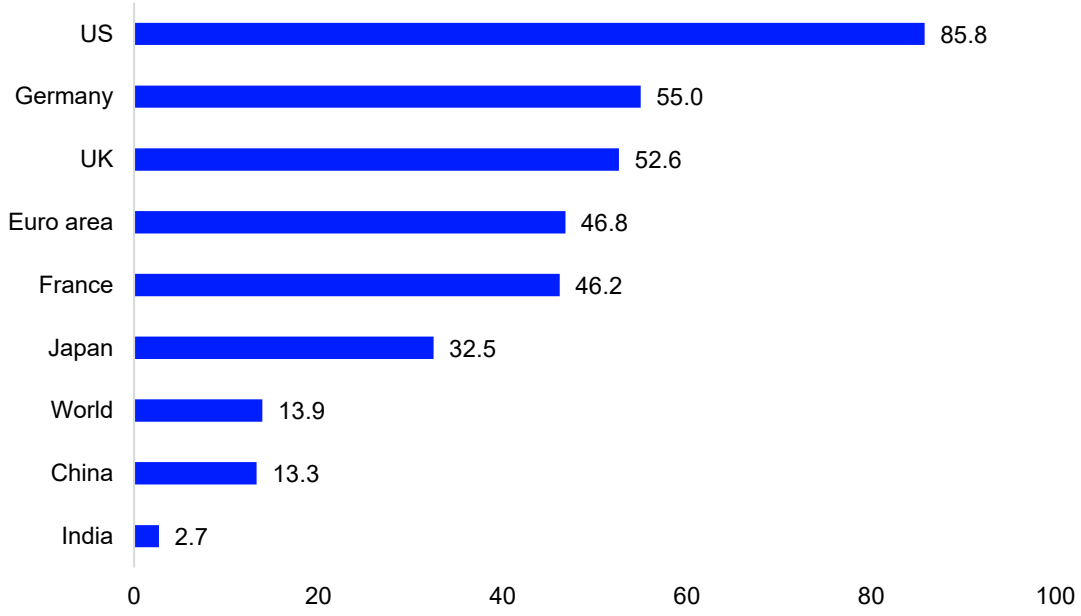
From this perspective, we focus on three investment rationales or use cases that could motivate investors to use a state-based disaggregation of the US equity market. The three are 1) participating in economic growth, 2) industry positioning, and 3) expressing a view on the business environment of specific states.

Use case 1: Participating in economic growth

The US has played an outsized role in the global economy over the past few decades, underpinning the growth of US equities. Since 1980, the US has accounted for about a quarter of world GDP, with periodic variations, even as the European Union and Japan have seen their share of global output decline with the ascent of China and other fast-growing emerging markets (EMs).

What is even more remarkable is that the US has maintained its edge in terms of the efficiency of its economy. Exhibit 2 shows GDP per capita for select countries and regions for 2024, specifically omitting countries with less than 1% of world GDP.[1] It shows not only that the US still has the highest per capita GDP of the larger economies, but the gap with other countries continues to be large. The US's GDP per capita was 56% higher than Germany's which had the next highest.

Exhibit 2: GDP per capita of select countries with > 1% of world GDP (2024, current USD, 1000s)



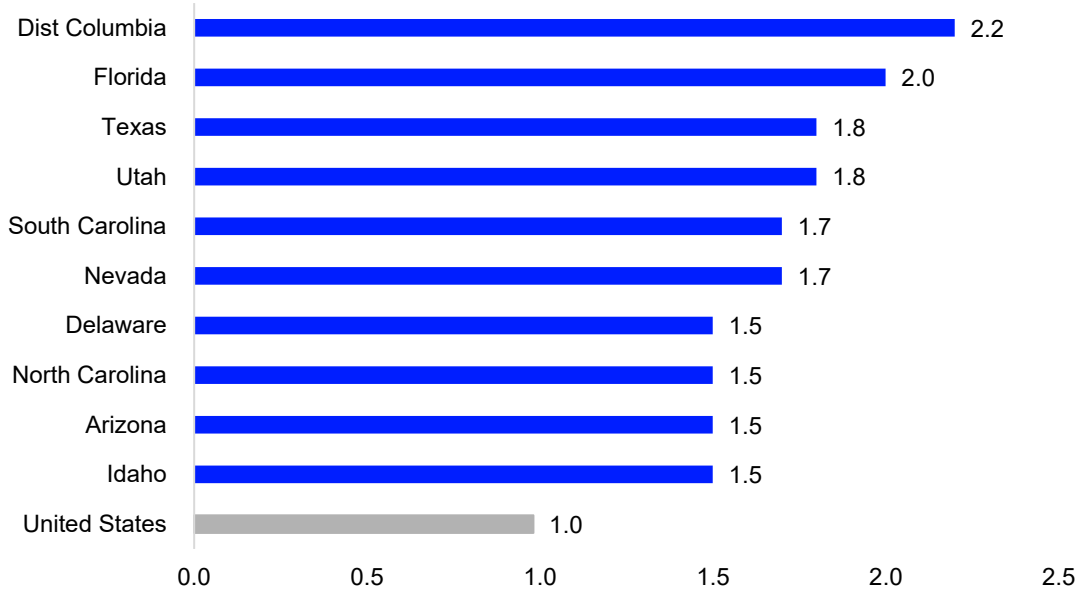
Source: IMF.

In the same way, it is interesting to see how Texas's economy has evolved recently and what role it plays in the broader US economy. While we often analyze the US economy at the national level, there are geographic (both regional and state) differences that may become more important to investors once they have access to convenient geographic investment vehicles.

Population is an important driver of economic growth. Texas had the second largest state population behind California as of 2025. And, of the top ten populous states, only Florida, Texas, and North Carolina were also in the top ten in terms of population growth rates (see Exhibit 3). One driver of population growth in Texas is the ongoing trend of US residents moving away from the northern population centers to the "Sun Belt" states, attracted by the warmer weather and booming economies, many of them anchored by new technologies and lighter regulation.

[1] This selected list omits some countries with higher GDP per capita that tend to be smaller, including Luxembourg, Ireland, Switzerland, Singapore, Iceland, and Norway.

Exhibit 3: Population growth rate, top ten US states and US (2023-2024, %)

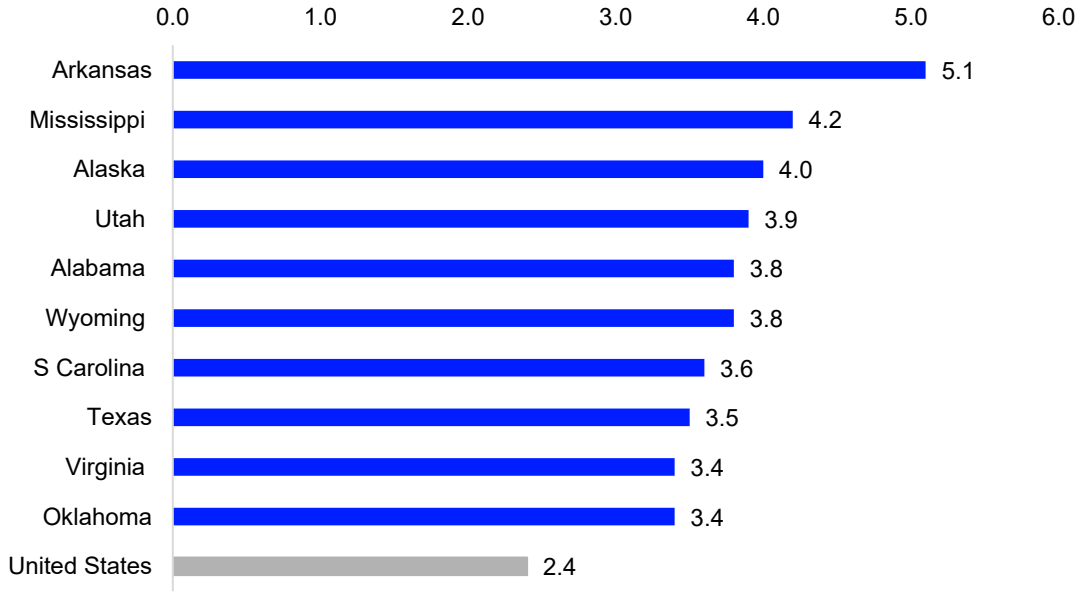


Source: US Bureau of Economic Analysis.

These demographic trends have had an impact on economic growth. Unsurprisingly, the most populous US states also have the largest GDP, with Texas (GDP of US$ 2.71 trn) again being second only to California (GDP of US$ 4.10 trn) as of 2024.

Exhibit 4 shows the top ten states in terms of recent GDP growth rate, and again Texas is unusual in that it is the only top ten GDP state that is also in the top ten by GDP growth rate. The other states with recent high growth rates tend to have smaller populations and smaller GDPs.

Exhibit 4: Percentage change in real GDP, top ten US states and US (2023-2024)



Source: US Bureau of Economic Analysis.

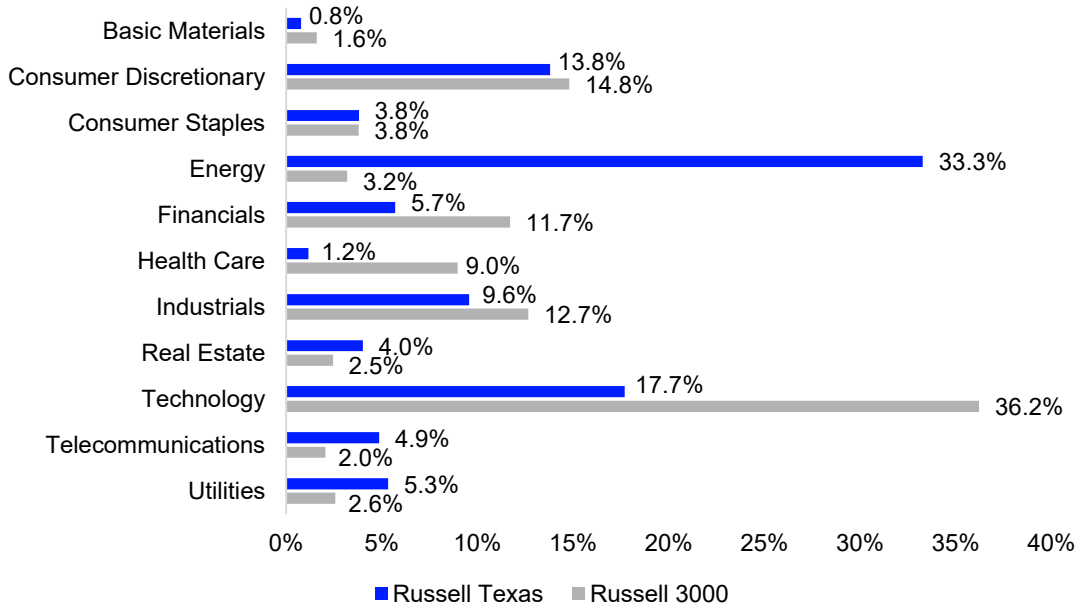
With Texas's GDP per capita at $86.6K per person, it comes in slightly ahead of overall US GDP per capita, and considerably ahead of other countries listed in Exhibit 2. With the US being an enormous and diverse economy, investors may want to tilt their strategic US allocation toward higher growth and higher efficiency parts of the US economy. With a large and growing population, a correspondingly large and growing GDP, and a relatively high GDP per capita, investment based on the Texas index could help investors focus on participating in its economic growth.

Use case 2: Industry positioning

When we think about how the Texas index can be used in portfolio structuring, it is important to understand the industry composition of the index, and how it has changed over time. The index was launched in April 2025, but FTSE Russell has calculated historical data back to December 2014 that allow us to see how the index might have behaved and changed over time.[2]

Exhibit 5 shows the most recent industry weights for the Texas and Russell 3000 indices. The largest differences between the two are in Energy and Technology. A third of Texas index weight is in the Energy industry, which aligns with the historical characterization of Texas as an oil producer. The difference in Technology is also interesting. Technology is currently the second largest industry in the Texas index, but it is still quite a bit smaller than the 36.2% seen in the Russell 3000 index.

Exhibit 5: Industry weights for the Russell Texas Equity and Russell 3000 indices (August 2025)

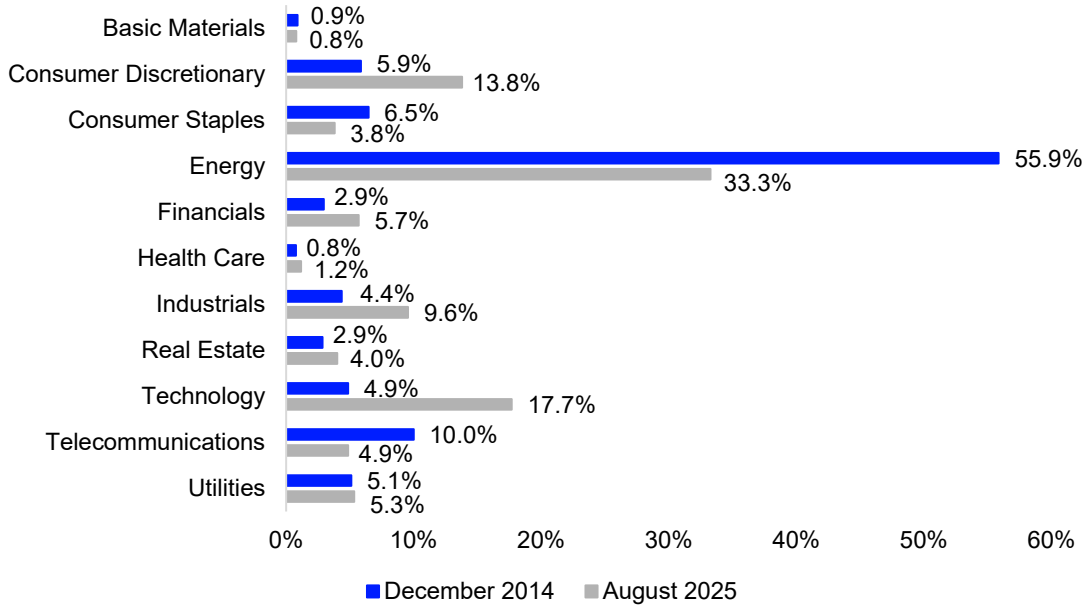


Source: FTSE Russell/LSEG. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

[2] The history is simulated in that historical data was used to follow the ground-rules to build an "as-was" index. As mentioned, the index was launched in April 2025.

More interesting is the evolution of industry weights in the Texas index. Exhibit 6 shows that the weights of Energy and Technology have changed significantly since the beginning of the simulated data in December 2014. Specifically, the Energy industry weight has fallen by about 22.6% pts while the Technology weight has increased by 12.8% pts.

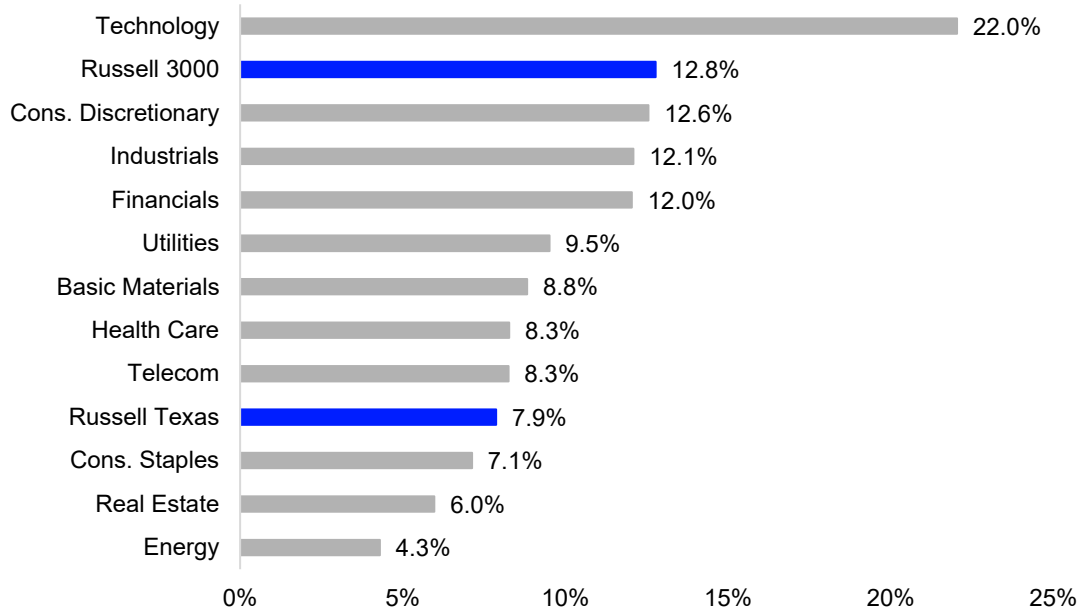
Exhibit 6: Industry weights in Russell Texas Equity Index, December 2014 vs August 2025



Source: FTSE Russell/LSEG. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Given that Technology and Energy are the largest industries by weight in the Russell 3000 and Texas indices, respectively, they are key to understanding the pattern of relative performance. Exhibit 7 shows the annualized returns of Russell 3000 industries and the returns of the Russell 3000 and Texas indices over the period. The immediate observation is that the Texas index has underperformed Russell 3000 (7.9% vs 12.8%), but we also notice that the best performing industry was Technology, which outperformed the Russell 3000 index (22.0% vs 12.8%). In fact, Technology outperformed in all subperiods except during the broad sell-off in 2022 and had a large impact on the Russell 3000's outperformance of the Texas index.

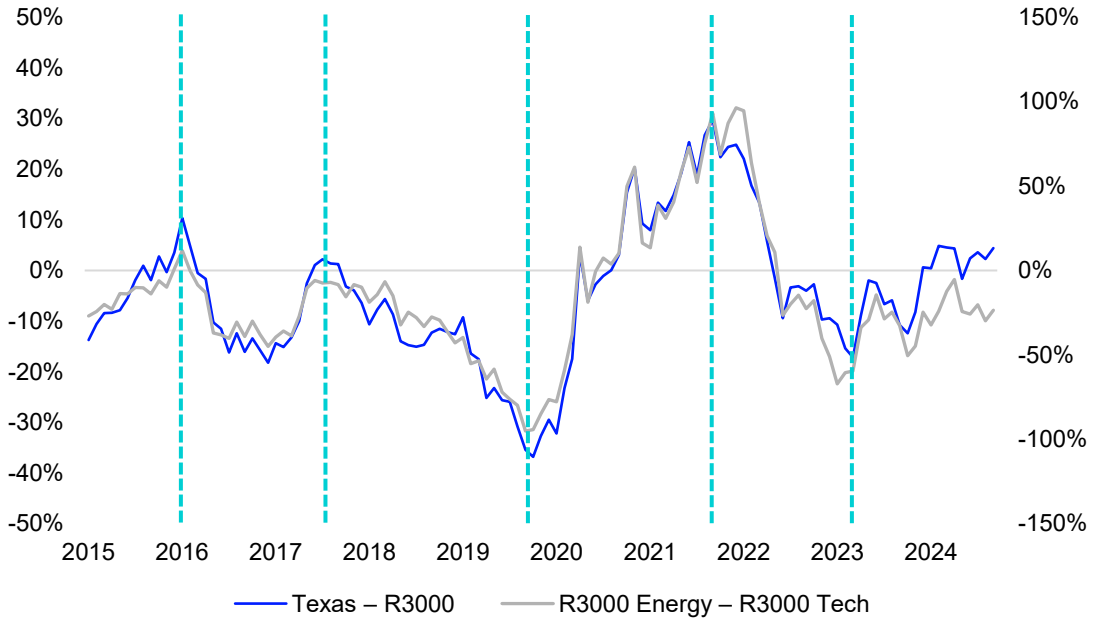
Exhibit 7: Russell 3000 industry annualized returns, with Russell 3000 and Russell Texas (Jan. 2015 – Aug. 2025)



Source: FTSE Russell/LSEG. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

At the other end of the performance range is Energy which had the worst performance over this period. Exhibit 8 shows rolling 12-month return differences between the Texas and Russell 3000 indices (blue line) and the Russell 3000 Energy vs Technology industries (gray line, right-hand axis). For the first four subperiods delineated in the exhibit, the two lines move together very closely: when Energy outperformed Technology, the Texas index outperformed Russell 3000, and vice versa. However, this close relationship eases thereafter, especially after mid-2023 or so when the Texas index's relative performance improved despite Energy underperforming Technology. This pattern may be partly explained by the shift in industry weight within the Texas index from Energy to Technology.

Exhibit 8: 12-month rolling return differences, Texas vs Russell 3000 and Russell 3000 Energy vs. Technology industries

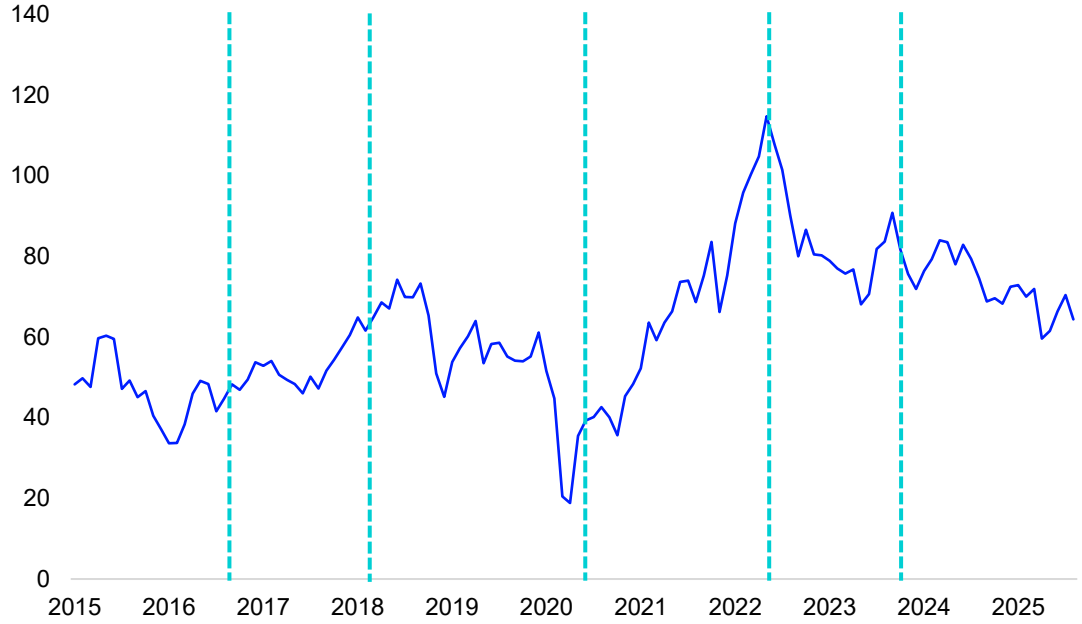


Source: FTSE Russell/LSEG. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

The vertical lines roughly mark performance sub-periods by picking the peaks and troughs of relative performance. If we transfer these breakpoints[3] to a chart of the price of oil, we can see that much of the variability of the outperformance lines up with moves in the price of oil, as shown in Exhibit 9. For example, the period mid-2018 to mid-2020 saw a drop in the price of oil accompanied by underperformance of Energy relative to Tech and underperformance of the Texas index relative to the Russell 3000. That was followed by a run-up in the price of oil through mid-2022 that corresponded to the outperformance of Energy over Tech and the outperformance of the Texas index over the Russell 3000. More recently, with the relative increase in Tech's weight within the Texas index, it has become more diversified and potentially less sensitive to movements in the oil market.

[3] The breakpoint vertical lines in Exhibit 14 are lagged three months from the peak / trough breakpoints in Exhibit 13 because the performance numbers are calculated over a rolling 12-month window.

Exhibit 9: Price of oil (USD, West Texas Intermediate)



Source: FTSE Russell/LSEG. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Currently, Energy and Technology make up over half (51.0%) of the index, and the Consumer Discretionary industry adds another 13.8%. However, the Texas index is less concentrated in Technology than the Russell 3000 and provides more balanced industry exposure while maintaining a significant weight in Technology. This balance between old and new industries could be attractive for some investors for strategic long-term- allocations.

Further, the analysis above shows that the performance of the Texas index relative to that of the Russell 3000 can be tied to the return spread between Energy and Technology. From that standpoint, investors could use tactical investment in Texas to express views on the relative attractiveness of those industries.

Use case 3: Business environment advantages

When thinking about differences in states, investors may focus on purely geographical differences such as those in natural resources, which can drive differences in economic production. For example, Texas is traditionally notable for its agricultural output (e.g. beef) and oil production. However, the ability for some companies to move headquarters means that other differences can be important. In this sense, a state's business environment is key.

In deciding to take on the cost of moving headquarters, companies consider numerous factors that could impact their business. Does the state have the workforce and infrastructure that would allow the company to prosper? Will the living standard (climate, housing prices, income tax rates, and educational system) allow them to attract the talent they need? Is the tax and regulatory environment conducive to growth? Is the regulatory environment too onerous? This decision to move headquarters may be taken as an indication of the company's perception that there is a significant advantage in moving that outweighs the obvious costs.

Exhibit 10 gives some intuition of these advantages in the Texas context. It shows the most recent top ten stocks by weight in the index, compared to those at the beginning of its simulated history. In 2014 there were seven Energy stocks in the top ten making up 35.4% of index weight (or two-thirds of the top 10 stocks by weight.) By August 2025, there were only three Energy stocks in the top ten, accounting for 18.9% of index weight (or a third of the top 10 stocks by weight). Technology went in the other direction, going from only one stock at the beginning of the period to three stocks recently that now account for 14.4% of index weight (or 26% of the weight of the top ten). If we include Tesla, which is a Consumer Discretionary company but has important technology characteristics, those four stocks account for 24.2% of index weight (or 43.7% of the weight of the top ten recently.[4])

Exhibit 10: Russell Texas Index top ten stocks, December 2014 vs August 2025

	December 2014			August 2025			
Rank	**Name**	**Wt.**	**Industry**	**Name**	**Wt.**	**Industry**	**Year moved**
1	Exxon Mobil Corp	10.0%	Energy	Tesla	9.8%	Cons. Discretionary	2021
2	AT&T	10.0%	Telecom	Exxon Mobil Corporation	9.5%	Energy	
3	Schlumberger	6.9%	Energy	Oracle Corp.	8.1%	Technology	2022
4	ConocoPhillips	5.3%	Energy	Chevron	6.7%	Energy	2024
5	Occidental Petroleum	3.9%	Energy	AT&T	4.5%	Telecom	1992
6	Texas Instruments	3.6%	Technology	Caterpillar	4.2%	Industrials	2022
7	Kinder Morgan	3.5%	Energy	Texas Instruments	4.0%	Technology	
8	EOG Resources	3.2%	Energy	Schwab (Charles) Corp	3.6%	Financials	2021
9	Kimberly-Clark	2.7%	Cons. Staples	ConocoPhillips	2.7%	Energy	2002
10	Anadarko Petroleum	2.6%	Energy	CrowdStrike Holdings	2.2%	Technology	2021

Source: FTSE Russell/LSEG. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

This shift in weight toward Technology points out an important characteristic of the Russell state indices: they are based on the location of the company headquarters, which is determined by the company itself. The right most column in exhibit 10 indicates the year in which a company moved its headquarter to Texas. While Texas Instruments was founded in Texas, the other tech-related companies listed here intentionally moved to Texas relatively recently— Oracle in 2020, Tesla in 2021, and CloudStrike in 2021. But this is not just a Technology pattern. Of the remaining six companies, only one was founded in Texas (Exon Mobil), while the rest moved to Texas: Chevron (2024), AT&T (1992), Caterpillar (2022), Schwab (2021), and ConocoPhillips (2002).

[4] The weights for the top ten stocks may not line up with what we know about the market capitalization of these companies This is because this index caps individual stock weights to ensure that the index is not too concentrated. See the FTSE Russell capping guide for details.

This dynamic nature of a state's corporate composition is different from the standard differences in industry composition because it can provide tailwinds to companies that can take advantage of differences in the business environment. Investors may form expectations of state index behavior based on their perception of business environment characteristics, which can allow them to take portfolio positions based on their view.

Summary

There are fundamental differences between US states including economic, demographic, tax, and regulatory aspects. The introduction of Russell state indices provides an opportunity for investors to disaggregate the US equity market along a new geographic dimension. Since Texas is the first state in this new index series, in this note we outline three possible use cases of state-based investing using Texas as an example. In the first, we focus on the ability of investors to gain exposure to economic growth, which can vary across states. In the second, we show how differences in industry composition can drive relative performance, which allows investors to express their views on industry performance to drive investment returns. In the third use case, we consider the implications of companies' ability to change their location to take advantage of differences in business environment. In this last case, investors can use their beliefs of business environment advantages to drive state-based allocations.

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