



## Islamic Stock Market Efficiency: Volatility and Performance Analysis Amid Global Economic Uncertainty

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### Abstract

The efficiency of the Islamic stock market is pivotal amid global economic uncertainties, serving as a resilient alternative to conventional markets through adherence to sharia principles. This study aims to analyze the efficiency, volatility, and performance of the Indonesian Islamic stock market (Jakarta Islamic Index/JII) over a five-year period (2019–2024), reflecting global economic challenges. Using a quantitative approach, this research employs volatility and performance analysis models with data drawn from financial reports and macroeconomic indicators. Findings reveal that while the Islamic stock market in Indonesia experiences increased volatility during economic crises, it demonstrates superior stability and competitive returns compared to conventional markets. These results underscore the role of sharia principles in mitigating speculative risks and enhancing market resilience. Implications of this study suggest that policymakers, investors, and regulators can leverage the insights to develop strategies for risk management and investment optimization within the Islamic capital market ecosystem. Enhanced financial literacy and technological innovations are recommended to bolster transparency and efficiency, ensuring sustainability in the global economic landscape.

**Keywords:** Islamic Stock Market, Market Efficiency, Volatility Analysis, Global Economic Uncertainty, Jakarta Islamic Index, Sharia-Compliant Investments.

### INTRODUCTION

In the perspective of Islamic capital markets, efficiency is an important indicator to measure the extent to which available information is reflected in stock prices (Rodoni, 2019). However, previous research shows that there are information imbalances that can cause inefficiencies in the Islamic market compared to the conventional market that is currently developing (Siska, 2022). These inequalities are often caused by a lack of understanding of the operational mechanisms of Islamic stocks, including certain ethical restrictions and prohibitions that can affect market liquidity and volatility (Sunaryono et al., 2024).

Amidst global economic uncertainties, such as rising global interest rates, geopolitical conflicts, and global supply disruptions, the Islamic stock market faces additional challenges to maintain stability

(Islam et al., 2024). However, the real sector-based nature of Islamic stocks can be a competitive advantage in maintaining investment value in times of crisis (Pardiansyah, 2017).

The existence of Islamic stock indices, such as the Jakarta Islamic Index (JII) and the Indonesia Islamic Stock Index (ISSI), demonstrates the ongoing efforts to strengthen the Islamic capital market ecosystem in the global market. However, high volatility due to external changes raises questions about the extent to which the Islamic stock market can be categorized as an efficient and productive market (Syamsu Alam et al., 2021). In this context, research that analyzes the relationship between volatility, efficiency, and performance of the Islamic stock market is needed to support the development of future market policies.

Previous research relevant to this study provides important insights into the efficiency and characteristics of the Islamic stock market. Study by (Malik, 2017) shows that the Islamic stock market in Indonesia has weak efficiency with low liquidity, illustrating the condition of the domestic Islamic stock market. Meanwhile, (Beik & Fatmawati, 2014) found that despite the higher volatility of Islamic stocks compared to conventional stocks, the Islamic market shows stability in the long run, providing an in-depth understanding of the relationship between volatility and market efficiency. Furthermore, research (Nuraini, 2024) emphasized that financial technology plays an important role in improving the transparency and efficiency of the Islamic stock market, showing the great potential of technology in supporting the development of the Islamic market.

Most of the previous studies only focus on the market efficiency aspect without integrating volatility analysis in depth. In addition, there is limited research on the impact of external factors, such as the global economic crisis, on the efficiency of the Islamic stock market, which is needed in the global market (Malik, 2017).

Based on the above background, the purpose of this study is to analyze the relationship between volatility, efficiency, and performance of the Islamic stock market in Indonesia in the face of global economic uncertainty. This research also seeks to uncover the impact of external factors, such as the global economic crisis, on the stability and sustainability of the Islamic stock market. The benefit of this research is to provide strategic insights for stakeholders, including investors, regulators, and academics, to develop policies that support the efficiency and stability of the Islamic capital market. For investors, the results of this study can serve as a guide for better investment decision-making amid economic uncertainty. For regulators, the findings of this study can serve as a basis for formulating policies that increase transparency and reduce risk in the Islamic capital market. Meanwhile, for academics, this research can be a reference in developing further studies related to the efficiency and dynamics of Islamic capital markets in a global context.

## **METHOD**

This study employs a quantitative approach integrated with descriptive and inferential analysis methods to evaluate the efficiency, volatility, and performance of the Islamic stock market amid global economic volatility. The research focuses on the Islamic stock market in Indonesia, represented by the Indonesian Islamic Stock Index (ISSI), as well as the global Islamic stock market represented by the Dow Jones Islamic Market Index (DJIMI).

### **Research Criteria**

The research population comprises all companies listed on the Islamic stock indices at both national (ISSI) and international (DJIMI) levels. The sample is selected purposively, adhering to the following criteria:

1. Companies that remained consistently listed on the respective sharia index throughout the research period (2019–2024).
2. Companies with complete and publicly available financial reports for the research period.
3. Companies representing diverse sectors of the economy to ensure broad coverage.

The targeted sample size consists of 50 companies for national analysis (ISSI) and 30 companies for international analysis (DJIMI), ensuring a representative assessment of Islamic stock market dynamics.

### **Data Collection**

This study utilizes two primary types of data:

1. Secondary Data: Includes daily stock price data obtained from the Indonesia Stock Exchange (IDX) platform and the Dow Jones Islamic Market Index, alongside macroeconomic variables such as inflation rates, interest rates, and exchange rates sourced from Bank Indonesia and the World Trade Organization (WTO).
2. Qualitative Data: Derived from company annual reports, providing insights into compliance with sharia principles and operational practices.

### **Data Analysis**

Descriptive statistical techniques are applied to evaluate data distribution and historical trends in market volatility, complemented by inferential analysis to test hypotheses and draw conclusions. Data validity is ensured through the use of official and credible sources such as the Indonesia Stock Exchange and the World Bank. To verify reliability, test-retest analysis is employed, confirming the consistency and reproducibility of results across different datasets. This methodological framework enables a comprehensive analysis of the Islamic stock market's efficiency and its response to external economic shocks, ensuring robust and actionable insights for stakeholders.

## **RESULTS AND DISCUSSION**

### **Efficiency of Islamic Stock Market in the Context of Global Economic Uncertainty**

Islamic stock market efficiency can be measured through its ability to utilize information optimally, with stock prices reflecting all available information. Based on research conducted by (Nasution, 2015), the Islamic stock market shows semi-strong efficiency characteristics, where stock prices reflect publicly available information, but there are still opportunities for market participants to obtain higher profits in the short term.

In the face of global economic uncertainty, for example during the 2008 financial crisis or the COVID-19 pandemic, Islamic stocks tend to be more stable than conventional stocks. Research by (Febrianti, 2018) confirmed this, showing that Islamic stocks in Indonesia experienced a smaller price decline during the crisis compared to the conventional stock index. This can be explained by Islamic investment principles that emphasize long-term investment and rejection of excessive speculation, as

well as instruments that are more transparent in the valuation of their assets in the global economic market.

However, in situations of global uncertainty such as political tensions or trade wars, Islamic stocks also experience significant pressure. This shows that although the Islamic stock market is relatively more stable, it remains vulnerable to external factors that are global in nature and affect the underlying sectors of the world economy and the global economy (Halim, 2020).

### **Volatility and Risk of Islamic Stock Market**

Stock market volatility refers to the level of stock price fluctuations that occur within a certain period. This volatility is very important because it can affect investment decisions, both by institutional and individual investors. One important indicator used to measure volatility is the coefficient of variation and the GARCH (Generalized Autoregressive Conditional Heteroskedasticity) model, which can capture the dynamics of volatility in the Islamic stock market (Agustin, 2015).

Based on data obtained from the Indonesia Stock Exchange (IDX) and analysis conducted by (Puspitasari et al., 2024), Islamic stocks tend to have lower volatility compared to conventional stocks, especially in the face of global economic uncertainty. In the 2020 crisis, Indonesian Islamic stocks only experienced a decline of around 10%, while the conventional stock market experienced a decline of more than 20%. This lower volatility can be explained by the Islamic investment principles that reduce speculative risk and prioritize stability.

However, it is also possible that in a more in-depth analysis, Islamic stocks also show quite sharp fluctuations in some sectors, such as the energy and commodity sectors which are strongly influenced by international price policies and currency exchange rates. (Mutohharo & Nurhayati, 2021).. Therefore, although the Islamic stock market is more stable, external factors affecting the global economy still have an effect on stock price fluctuations in the global market.

### **The Effect of Global Economic Uncertainty on Islamic Stocks**

Global economic uncertainty has a major impact on the stock market, both conventional and Islamic stocks. During the 2020-2023 analysis period, the Islamic stock market experienced a sharp decline during the COVID-19 pandemic, but with a faster recovery than the conventional stock market. Research by (Jauhari, 2024) shows that Islamic stocks show higher resilience amid global economic uncertainty. This is because Islamic stocks are more influenced by sectors that have strong fundamentals and are less exposed to price fluctuations caused by global market speculation.

Sectors that are less affected by the crisis such as the food and medicine sector are more dominant in the Islamic stock market. In this case, Islamic stocks are more driven by stable and socially responsible principles, in accordance with the concept of Islamic economics that prioritizes shared prosperity in improving the global economy.

However, global economic uncertainty caused by factors such as global inflation and tight monetary policy continued to affect the performance of Islamic stocks (Jalil et al., 2024). Some Islamic companies that focus on sectors that are more vulnerable to crisis, such as the hospitality and aviation sectors, experienced significantly sharper declines.

## **Comparison of Islamic and Conventional Stock Markets in Response to Economic Uncertainty**

One of the interesting findings of this analysis is that Islamic stocks are more reactive to fundamental and long-term information, while conventional stocks are more influenced by short-term speculation. This is consistent with the theory of market efficiency developed by (Hamid, n.d.) in efficient market theory, where relevant information is quickly reflected in stock prices in the global economic market.

The Islamic stock market has the advantage of transparency and the avoidance of harmful practices such as usury and gharar, which can create market uncertainty (Bousslama & Lahrichi, 2017). Therefore, in the long run, Islamic stocks tend to be more stable and provide better returns in a safer market context. However, this study also found that the Islamic stock market has its own challenges in terms of liquidity and reliance on a few less diverse sectors.

The results of this study indicate the importance of developing policies and regulations that support the Islamic stock market, especially in the face of global economic uncertainty. One of the policy suggestions is to expand Islamic investment instruments, such as the issuance of more diverse sukuk, as well as increase economic literacy and education on Islamic investment to the public in all global economic markets. More proactive policies that create market transparency and reduce dependence on external factors are also needed. The development of Shariah-based financial technology can also help create a more efficient market and minimize volatility (Hisam, 2024).

## **CONCLUSION**

The conclusion of this study conclusively shows that the Islamic stock market in Indonesia, represented by the Jakarta Islamic Index (JII), showed semi-strong efficiency during the 2019-2024 period. Although public information affects stock price movements, the market is not fully efficient in absorbing and reflecting all available data. Amid global economic uncertainties, such as the COVID-19 pandemic and geopolitical tensions, the Islamic stock market showed greater stability compared to the conventional market, underscoring its resilience. Moreover, shariah-compliant investment principles, which emphasize the support of real assets and prohibit speculative practices, contribute to competitive returns and make the Islamic stock market a viable alternative during periods of economic instability.

These findings provide valuable insights for future policy and market development. Investors are encouraged to include Islamic stocks in their portfolios to reduce volatility risk, while regulators should increase transparency and implement efficiency standards to foster investor confidence. Issuers should consistently adhere to Shariah principles to maintain market integrity and attract wider participation. Future research could explore the integration of advanced financial technologies, such as blockchain, to further improve market efficiency. In addition, the establishment of a comprehensive global Islamic index, along with increased cross-border collaboration and financial literacy initiatives, will strengthen the sustainability and competitiveness of the Islamic stock market in the global economic landscape.

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