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Findings

Since the establishment of Dubai Islamic Bank in 1975, the Islamic financial sector has experienced rapid expansion, becoming a significant avenue in Muslim-majority nations and regions with minority Muslim populations. This shift aims to integrate Islamic principles into ethical and sustainable investment products and financial markets. The current research focuses on the relationship of Islamic doctrine with Islamic finance and the return and risk of selected indices, including their long-term and short-term linkages.

Using secondary data from five global regions (the US, Europe, the Arab world, Africa's frontier, and Pan Asia), the study examines the volatility of both Shariah and conventional indices and their co-movements in the short and long terms, as well as their risk and return behavior. The study uses six periods to study, with the first period from 01/09/2013 to 30/12/2019, the second from 01/01/2020 to 29/11/2020, the third from 01/12/2020 to 30/03/2021, the fourth from 01/04/2021 to 30/06/2021, the fifth from 01/07/2021 to 30/08/2023, and the sixth from 01/09/2013 to 30/08/2023.

The study finds that Sharia indices were among the top performing indices with higher returns pre-COVID-19 and both cycles of the crisis, but lower returns in both post-COVID-19 periods. However, conventional indices outperformed shariah indices during both pre- and post-crisis periods.

Volatility is a measure of stock returns' fluctuation, with high or low volatility clustering. GARCH models are a standard method for modeling volatility, providing accurate projections for daily financial returns. The study found persistent volatility in Asia, the Arab world, and Europe during the COVID-19 pandemic, while the US and Africa experienced uncertain volatility. The conventional Arab index and the Arab Shariah market were also volatile.

Investors, policymakers, and financial analysts should consider volatility in their portfolios. Conventional markets had lower volatility and risk than Shariah indices, but the Shariah market showed a higher risk and volatility trend before the pandemic. The research has implications for shariah-based portfolios and investment strategies, as some countries have Islamic capital markets but products do not adhere to Islamic doctrine.

The study's results are indicative rather than definitive, as it is based on a small number of world indices and does not address all potential factors affecting market integrations. Future research should investigate the influence of Shariah stock price informational efficiency on financial transparency and economic expansion, as well as the actions of investors in Shariah-compliant funds and the impact of weekdays and anomalies in Shariah-compliant indexes.