

**Student Name:** Ziya Batul Rizvi

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**Supervisor 's Name:** Dr. Saif Siddiqui

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**TOP:** Volatility in Sukuks and Portfolio Adjustments: Evidence from Global Capital Market

**Keywords:** Sukuk, Volatility Spillover, Risk Transmission, Causality, and Decoupling

### **Findings**

Concerning Sukuk's Price Discovery and Volatility Spillover aspects, the current study aims to examine the effectiveness of capital markets in developed and emerging nations. Additionally, it attempts to examine the increasing relevance of developing economies, especially in the context of the decoupling outcomes on the transmission of volatility to the rest of the globe. It also examines the correlation between asymmetric variations in equity and bond prices and stock market movements in developed and emerging nations.

The study addressed the subsequent research gaps. *The study analyzed and compared the long and short-term relationships among the Sukuk, Equity, and Bond markets across a sample of developing and developed nations. The research analyzed how the trend of price discovery has changed over time and throughout the sample nations. The research also analyzed how Sukuk has contributed to the volatility of the equity and bond markets. The research investigated the information or risk transfer trends in the developed and developing Sukuk markets.*

Three developed and developing nations were selected as a sample for the study, with their Sukuk, Equity, and Bond indices. With 2501 daily closure observations, the study was conducted from September 1, 2013, to March 31, 2023.

The study found the following evidence. The Sukuk led the price discovery procedure across the whole sample, and the price discovery procedure varied with time. On the other hand, the bond market initially controlled the DJB index's price discovery. Price discovery gained pace in the bond market over time, especially in developed nations like the USA. The bond had a greater causal relationship from equities and Sukuk, but the Sukuk indices showed a bidirectional causal relationship between the equity and the bond. A unidirectional or bidirectional causal relationship has been produced by two indices, namely Sukuk and Bond,

which indicate an increase in short-term efficiency. Throughout the sub-periods, there has been a constant bidirectional causal relationship between the indices.

The majority of the time, there was a positive transmission of volatility from Sukuk to the bond. Still, there was a negative feedback impact from Sukuk to equity, showing that the transmission of the volatility channel was uncovered and that there was not much evidence of Sukuk trade instability.

Variations in stock volatility in one market have a greater effect on that market rather than they do on other markets when it comes to the transmission of volatility spillovers throughout markets throughout the non-COVID-19 period. There were the largest net volatility spillovers to the other markets from all Sukuk markets. While the highest market explains the anticipated error variance of FS and DJS Sukuk, the volatility of other indices explains the least amount of the MENA stock index liquidity prediction error. Own market contribution decreased, and cross-index liquidity spillovers rose throughout the COVID-19 period. During the COVID-19 period, DJE served as a reliable "sender" of liquidity spillovers.