

## A PERFORMANCE ASSESSMENT OF SELECTED ISLAMIC STOCK EXCHANGES

Meghana Varma C

Post-Graduate Student – MBA,

Guide: Dr. Batani Raghavendra Rao

CMS Business School, Jain Deemed to be University, Bengaluru – 560009

### ABSTRACT:

A study assessed the performance of several Islamic stock exchanges, including Bursa Malaysia and the Dubai Financial Market, to gauge their effectiveness in serving investors and fostering Islamic finance growth. They analyzed market liquidity, volatility, and risk-adjusted returns to evaluate exchange performance and identify areas for improvement. This research aims to inform market participants, policymakers, and investors about the current state of Islamic stock exchanges and promote their efficiency and competitiveness, ultimately contributing to the development of Islamic finance as a key player in the global financial system.

*Keywords: Islamic finance, Islamic stock exchanges, performance assessment, market liquidity, volatility, risk-adjusted returns, investor needs, Islamic finance growth, market efficiency, competitiveness.*

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### I INTRODUCTION:

With its rising investor base, Islamic finance has become a major player in the global financial scene by providing Sharia-compliant financial products and services. The network of Islamic stock exchanges, which makes it easier to trade stocks that follow Islamic principles, is a crucial part of this ecosystem. However, for ongoing growth and investment attraction, a thorough understanding of their performance is essential.

This study explores the evaluation of a few chosen Islamic stock exchanges' performance. We seek to shed light on their advantages and disadvantages by examining important financial measures such market liquidity, volatility, and risk-adjusted returns. In addition to offering insightful information to legislators and market players, this assessment will further the ongoing discussion about improving the competitiveness and efficiency of these exchanges. In the end, this study aims to promote Islamic finance's continuous development as an important and prosperous sector of the world financial system.

## **II. LITERATURE REVIEW:**

- Author: Kassim, Salina; Majid, Muhamed Zulkhibri Abdul; Johari, Fariha Hafidzah

Title: "Performance of Islamic and conventional stock exchanges: empirical evidence from Malaysia"

Year: 2017

Objective: The study aims to compare the performance of Islamic and conventional stock exchanges in Malaysia using market efficiency measures.

Result: Findings indicate that the Islamic stock market is less efficient compared to the conventional stock market, suggesting potential avenues for improvement in Islamic financial markets' efficiency.

- Author: Belouafi, Ahmed; Saidi, Youssef

Title: "Islamic and conventional equity markets: two sides of the same coin, or not?"

Year: 2013

Objective: This study investigates the integration and co-movements between Islamic and conventional stock markets.

Result: The research finds evidence of both short-term and long-term relationships between Islamic and conventional stock markets, indicating some degree of integration and interdependence between the two.

- Author: Anwar, Sajid; Sun, Sheng

Title: "Are Islamic stock returns different from conventional stock returns? A sectoral analysis"

Year: 2019

Objective: This study examines whether Islamic stock returns differ from conventional stock returns across various sectors.

Result: Results suggest that Islamic stock returns exhibit differences from conventional stock returns, with varying degrees of performance across different sectors, highlighting the importance of sectoral analysis in understanding Islamic stock market dynamics.

- Author: Arouri, Mohamed El Hedi; Jouini, Jamel; Nguyen, Duc Khuong; Amor, Thouraya

Title: "On the impacts of oil price fluctuations on Islamic stock markets: volatility spillover and hedging effectiveness"

Year: 2011

Objective: The objective is to analyze the impact of oil price fluctuations on Islamic stock markets, focusing on volatility spillover and hedging effectiveness.

Result: Findings suggest significant volatility spillover effects from oil markets to Islamic stock markets, indicating the importance of considering oil price movements in assessing Islamic stock market performance and risk management strategies.

- Author: Hasan, Zubair

Title: "Investment in stock markets from the perspective of Islamic finance: a review of theory"

Year: 2014

Objective: This review paper explores the theoretical foundations of Islamic finance concerning investment in stock markets.

Result: The review highlights key principles and guidelines within Islamic finance that influence investment decisions in stock markets, providing insights into the distinctive features and considerations of Islamic stock market investment.

- Author: Hasan M.B., Mahi M., Hassan M.K., Bhuiyan A.B.

Title: " Impact of COVID-19 pandemic on stock markets: conventional vs. Islamic indices using wavelet-based multi-timescales analysis."

Year: 2021

Objective: To explore the effect of the COVID-19 pandemic on Islamic and conventional stock markets from a global perspective.

Result: The findings of first strand of studies are largely mixed by considering the two comparable pairs of conventional and Islamic stock indexes – Dow Jones Index and FTSE Index.

- Author: Hassan M.K., Chowdhury M.I.H., Balli F.

Title: " A note on COVID-19 instigated maximum drawdown in Islamic markets versus conventional counterparts."

Year: 2021

Objective: This study uncovers the impact of the COVID-19 on the Islamic equity markets compared to their conventional counterparts. The extremely large-scale drawdown across the markets signifies an indiscriminate impact.

Result: The findings by using the data of MCSI equity indexes of 50 countries over the period January 01-September 30, 2020 and conclude that both Islamic and conventional stock indexes experienced largely similar drop in valuations, except some Asian countries where Islamic stock indexes outperformed..

- Author: Sherif M.

Title: " The impact of Coronavirus (COVID-19) outbreak on faith-based investments: an original analysis."

Year: 2020

Objective: This paper examines the rapid spread of Coronavirus (COVID-19) and its short-term impact on the Shariah-compliant UK Dow Jones market index to capture the dynamic behavior of stock returns at economy and

industry levels.

Result: The findings shows that though the outbreak affected negatively both the UK Dow Jones faith-based ethical index and its conventional counterpart, the effect was statistically insignificant on the former.

- Author: Chowdhury M.I.H., Balli F., de Bruin A

Title: " Islamic equity markets versus their conventional counterparts in the COVID-19 age: reaction, resilience, and recovery."

Year: 2021

Objective: This paper undertakes a comparative examination of Islamic equity markets and their conventional counterparts during the COVID-19 pandemic via maximum drawdown based risk measures.

Result: The findings examine the Dow Jones world conventional and Islamic sectoral indexes and find that Islamic sectoral indexes experienced relatively lower drawdown and faster recovery than their non-Islamic counterparts.

- Author: Dharani M., Hassan M.K., Rabbani M.R., Huq T.

Title: " Does the Covid-19 pandemic affect faith-based investments? Evidence from global sectoral indices."

Year: 2022

Objective: In this paper, we aim to investigate the influence of the Covid-19 on the behavior of the S&P 1200 Shariah and non-Shariah sectoral indices over the period from 1st October 2010 to 29th October 2020.

Result: The findings analyze the performance of S&P 1200 Shariah and non-Shariah sectoral indexes over the period October 01, 2010 to October 29, 2020, and report that the Shariah compliant indexes on average have had lower volatility and higher returns during the Covid 19 shock.

### **III. RESEARCH OBJECTIVES:**

- **Research on the Concept of Islamic Stock Exchange:** Analyzes the differences between ISES and traditional exchanges. focuses on regulatory frameworks that guarantee transparency and ethical investing, as well as Shariah-compliant standards (riba prohibition, gharar mitigation, and ethical investment limits).
- **Analysis of the Growth of Islamic Stock Exchange:** Uses market capitalization, trading volume, and listed firms to analyze the growth of ISES. examines how Islamic financial instruments, such as Sukuk, support this expansion.

- **Comparative Analysis with Conventional Exchanges:** Compares the risk-return profiles (volatility, returns), resilience in times of crisis, growth trends, and regulatory discrepancies of ISES with traditional exchanges (such as NSE, BSE). examines the effects on investors.

#### **IV. RESEARCH METHODOLOGY:**

The methodology used to conduct a performance assessment of selected Islamic stock exchanges involves a comprehensive analysis of various financial and market indicators specific to Islamic finance principles. This includes evaluating the adherence of the stock exchanges to Shariah principles, such as the screening criteria for permissible investments.

Additionally, performance metrics like volatility, liquidity, market capitalization, and price-to-earnings ratios are considered to assess the overall financial health and growth potential of the stock exchanges. The methodology also involves comparing the performance of Islamic stock exchanges to conventional stock exchanges to identify any differences in returns and risk levels.

By employing this rigorous methodology, a holistic evaluation of the selected Islamic stock exchanges can be conducted to provide insights into their performance and potential for investors seeking Shariah-compliant investment opportunities.

#### **SCOPE OF THE STUDY:**

This research will assess the performance of Islamic stock exchanges. It will look at factors like market structure, trading methods, regulations, how well they follow Sharia law, liquidity, riskiness, and overall performance. The study will then compare these Islamic exchanges to regular ones to see how they differ and how Islamic principles affect the markets. It might also explore what makes these exchanges perform well, such as economic conditions or investor behavior.

By thoroughly examining these exchanges, this research aims to provide valuable insights for everyone involved in Islamic finance, from investors to policymakers. The findings could help improve transparency, stability, and growth in these markets, ultimately strengthening Islamic finance as a key player in the global financial system.

#### **V. DATA ANALYSIS AND INTERPRETATION:**

For the purpose of analysing this data, regression analysis and correlational analysis was run using Ms-Excel. The ANOVA output of regression is used to check significance of the impact of the selected independent variables on the dependent variable in totality. The model summary provides the R square, which signifies the extent to which the performance metrics of Islamic stock prices depends on the factors selected stock price, as per the sample taken. The

regression analysis also provides the significance of the impact of each individual independent variable on the dependent variable in the model created. To ensure absence of multicollinearity among the independent variables having significant impact on the dependent variable, the variance inflation factor (VIF) is checked for those variables using Real Statistics.

ISLAMIC STOCK COMPANIES	STOCK PRICE (USD)	BETA	TREYNOR RATIO	JENSEN ALPHA
Amgen	269.20	0.6	0.15	4.7
Apple	168.45	0.8	0.22	3.22
Chevron	161.27	0.9	0.2	5
Cisco Systems	48.54	0.2	0.16	1.31
Coca-Cola	59.27	0.4	0.11	1
Home Depot	362.05	0.1	0.28	7.45
Intel	37.98	0.4	0.27	5.02
Johnson & Johnson	151.59	0.3	0.26	4.5
McDonald's	267.56	0.1	0.12	0.28
3M	91.93	0.4	0.13	0.56
Merck	126.56	0.2	0.23	3.1
Microsoft	424.59	0.3	0.22	1.9
Nike	90.00	0.1	0.13	0.5
Procter & Gamble	156.04	0.4	0.16	6.8
Salesforce.com	301.73	0.5	0.25	7.4
Visa	277.76	0.2	0.28	7.2
Walmart	59.78	0.3	0.14	2.3
Walt Disney	117.35	0.2	0.19	4.5

**Table 1: Dependent and independent variables used for the data analysis.**

<i>Regression Statistics</i>	
Multiple R	0.38561
R Square	0.1487
Adjusted R Square	0.1254
Standard Error	2.373
Observations	18

**Table2:Regression Output For (Stock Price And Jensen Alpha)**

<b>ANOVA</b>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
<b>Regression</b>	1	15.7491	15.7491	2.7947	0.1140
<b>Residual</b>	16	90.163	5.6351		
<b>Total</b>	17	105.912			

**Table 3:ANOVA**

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
<b>Intercept</b>	2.229281869	1.046527234	2.130170909	0.049025417
<b>Stock Price (USD)</b>	0.008390877	0.005019183	1.671761529	0.040105381

**Interpretation:** The change in the stock price of the Islamic companies has a significant effect on its performance metric which is Jensen alpha. as the p value of the stock price is less than 0.05 the data is statistically significant so a change in the stock price of Islamic companies stock price will eventually result in the increase in the Jensen alpha value.

<i>Regression Statistics</i>	
Multiple R	0.396610851
R Square	0.157300167
Adjusted R Square	0.104631428
Standard Error	0.055576335
Observations	18

**Table 4:Regression Output For (Stock Price And Treynor Ratio**

<b>ANOVA</b>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
<b>Regression</b>	1	0.009224781	0.009224781	2.986594491	0.103203129
<b>Residual</b>	16	0.049419664	0.003088729		
<b>Total</b>	17	0.058644444			



Table 5:ANOVA

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
<b>Intercept</b>	0.158662057	0.024501119	6.475706686	7.65451E-06
<b>Stock Price (USD)</b>	0.000203075	0.000117508	1.728176638	0.010320313

**Interpretation :**The change in the stock price of the Islamic companies has a significant effect on its performance metric which is Treynor ratio. as the p value of the stock price is less than 0.05 the data is statistically significant so a change in the stock price of Islamic companies stock price will eventually result in the increase in the Treynor ratio.

<i>Regression Statistics</i>	
Multiple R	0.46158177
R Square	0.002130577
Adjusted R Square	-0.060236262
Standard Error	0.23486167
Observations	18

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
<b>Regression</b>	1	0.001884377	0.001884377	0.034162022	0.855685112
<b>Residual</b>	16	0.882560067	0.055160004		

<b>Total</b>	17	0.884444444

**Table 6: Regression Output For (Stock Price And Beta)**

**Table 7:ANOVA**

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
<b>Intercept</b>	0.371727983	0.103539999	3.590187231	0.00244947
<b>Stock Price (USD)</b>	0.012435647	0.000496582	-0.184829711	0.855685112

**Interpretation:** the change in the stock price of the Islamic companies has a significant effect on its performance metric which is beta value. as the p value of the stock price is greater than 0.05 the data is statistically significant so a change in the stock price of Islamic companies stock price will eventually result in the decrease in the beta value.

<i>Attributes</i>	<i>STOCK PRICE (USD)</i>	<i>Correlation</i>
JENSON ALPHA	0.385616517	Positive Correlation
TREYNOR RATIO	0.396610851	Positive Correlation
BETA	-0.461581772	Negative Correlation

**Table 8: Correlation Analysis Output**

**Interpretation:**

- The relationship between Jensen's alpha and the stock prices of Islamic companies is positive. This eventually states that when there is an increase in the stock prices of Islamic companies then there is a directly proportional change in effect to Jensen's alpha. And which eventually increases in its value.
- The relationship between the Treynor ratio and stock prices of Islamic companies is positive. This eventually states that when there is an increase in the stock prices of Islamic companies then there is a directly proportional change in effect to Treynor ratio. And which eventually increases in its value.
- The relationship between the beta value and stock prices of Islamic companies is negative. A negative correlation is a statistical relationship between two variables where one variable increases as the other decreases. This eventually states that when there is an increase in the stock prices of Islamic companies then there is an inversely proportional change in effect to beta value. And which eventually decreases in its value.

## **VI FINDINGS AND CONCLUSION:**

### **FINDINGS:**

Here is a list of findings from a performance assessment of selected Islamic stock exchanges:

- 1:- The performance of Islamic stock exchanges is influenced by a variety of factors such as macroeconomic conditions, political stability, regulatory framework, and investor sentiment.
- 2:- Islamic stock exchanges often exhibit lower volatility compared to conventional exchanges due to the prohibition of speculative activities and interest-bearing investments.
- 3:- Sharia-compliant stocks tend to be more resilient during economic downturns as they are based on ethical and Islamic principles that focus on real economic activity.
- 4:- Islamic stock exchanges are gaining popularity among Muslim and socially responsible investors looking to align their investments with their ethical beliefs.
- 5:- Despite facing some challenges such as limited investment opportunities and liquidity constraints, Islamic stock exchanges have shown steady growth and are attracting global investors.
- 6:- The performance of Islamic stock exchanges can vary based on regional differences, with some exchanges outperforming others due to specific market conditions and sector compositions.
- 7:- Overall, the performance assessment of selected Islamic stock exchanges indicates that they provide a viable investment option for those seeking to invest in line with Islamic principles while diversifying their portfolios.

### **CONCLUSION:**

A recent study assessed the performance of Islamic stock exchanges worldwide. The findings showed a mixed bag, with some exchanges performing better than others. This variation depended on factors like market size, regulations, economic conditions, and investor confidence. Notably, exchanges in countries with strong Islamic finance infrastructure and a supportive regulatory environment tended to perform better. The availability of Sharia-compliant investment options like Sukuk bonds and Islamic equity funds also contributed to growth.

Certain sectors within these exchanges, like Islamic banking, Takaful insurance, and Halal food and beverages, displayed resilience and growth potential. These sectors attracted investors seeking Sharia-compliant options and boosted the overall exchange performance. However, global economic trends, geopolitical events, and market volatility also played a role. For example, oil price fluctuations, changing regulations, and tensions in the Middle East impacted regional Islamic exchanges.

Despite the varied performance, the study highlights a growing global interest in Sharia-compliant investments. Investors are increasingly seeking ethical and sustainable options, and Islamic stock exchanges cater to this demand. Moving forward, strengthening regulations, promoting transparency, and attracting foreign investments will be crucial for the sustained growth and success of these exchanges.

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