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Performance Comparison of Islamic and Conventional Stock Indices: The question therefore arises as to whether Islamic investment can be considered to offer investors a 'safe haven'

Lalu Muhammad Zulfami Fatawi[1], Zaenafi Ariani[2], Nurfitri Hidayanti[3], Noviyanti Sandra Dewi[4], Ahadiah Agustina[5]
[1,2,3,4,5]Sharia Economic, Universitas Muhammadiyah Mataram, Indonesia
famizul9948@gmail.com, efisholiha@gmail.com, nurfitri.hidayanti90@gmail.com, noviyanti.sandradewi@gmail.com, ahadiah.agustina92@gmail.com

Abstract: The object of this study is to compare the performance of Islamic and conventional stock indices, and to evaluate the potential of Islamic investment as a safe haven for investors, especially in volatile market situations. Utilising a library research approach, employing an integrative literature review method, the present study reviewed scientific articles from Google Scholar, Scopus, DOAJ, and Scopus published between 2015 and 2024. The inclusion and exclusion criteria were systematically established to ensure the validity and relevance of the literature reviewed. The results of the review demonstrate that Islamic stock indices in Indonesia generally exhibit more stable and favourable performance in comparison to conventional stock indices, particularly during periods of crisis. This finding lends further support to the position of Islamic investment as a viable and ethical alternative for investors. Furthermore, the enhancement of investor education and the innovation of Islamic financial products have been identified as pivotal factors in the augmentation of the Islamic market's appeal. This study makes a significant contribution to the development of Islamic investment literature and policies through its conceptual and practical insights. It is recommended that future studies explore the behaviour of Islamic investors in the digital era and the resilience of Islamic markets to climate-based and geopolitical global crises.

Keywords: Islamic Stocks, Conventional Stocks, Safe Haven.

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A. INTRODUCTION

An Islamic stock index is a collection of stocks that comply with sharia principles, such as the prohibition of usury, gharar, and investment in prohibited sectors. The index is meticulously compiled in accordance with stringent criteria established by Islamic financial authorities, notably the National Sharia Council. Conversely, conventional stock indices encompass all equities listed on the stock exchange, making no allowance for sharia considerations. These fundamental differences have implications for the risk and return characteristics of each index. A body of research indicates that Islamic stock indices demonstrate lower volatility and more stable performance in comparison to conventional indices, particularly during periods of financial crisis (Asutay et al., 2022; Hashim et al., 2024).

Asutay et al. (2022) demonstrated that during the global financial crisis of 2007-2009, Islamic stock indices exhibited superior performance in comparison to conventional indices across various markets, including those in Europe and Asia-Pacific. The study employed the CAPM-EGARCH model to analyze risk and return, finding that Islamic indices exhibited higher average returns and lower risk during the period under consideration. Conversely, the study by Jawadi et al. (2014) found that Islamic indices exhibited greater resilience to market shocks during the crisis compared to conventional indices. These findings lend support to the notion that Islamic investments can function as a "safe haven" during periods of economic turbulence.

During the period of the ongoing pandemic, research by Widodo (2023) demonstrated that the volatility of the Islamic stock index in Indonesia was lower in comparison to the conventional index. The GARCH (1,1) model was utilized in the study, which revealed that the Islamic index exhibited enhanced resilience to market fluctuations triggered by the pandemic. Hasyim et al. (2024) also found that during geopolitical conflicts, such as the Israeli-Palestinian conflict, Islamic indices in Indonesia showed lower volatility compared to conventional indices, suggesting greater resilience to geopolitical uncertainty. These findings serve to reinforce the notion that Islamic investments have the potential to offer a safeguard during periods of economic turbulence.

Research by Suryadi et al. (2021) in the Indonesian stock market found that the Islamic stock index has higher returns compared to the conventional index, despite a similar level of risk. The study employed CAPM statistics to assess the performance of the index. A similar finding was reported in the study by Arif et al. (2022) on the Pakistan stock market, which demonstrated that Islamic indices demonstrated greater resilience during crisis periods compared to conventional indices. These findings suggest that the characteristics of Islamic investments may provide benefits to investors in emerging markets.

A systematic literature review by Azmi et al. (2020) analyzed various studies comparing the performance of Islamic and conventional stock indices during crisis periods. The study's findings indicated that a significant majority of prior research has demonstrated that Islamic indices exhibit reduced volatility and more stable performance in comparison to conventional indices during periods of market instability. However, the study also noted that the results may vary depending on the methodology used and the specific market context. These findings indicate a necessity for additional research to ascertain the conditions under which Islamic investments can function as a "safe haven".

Preliminary findings from the extant literature review indicate that Islamic stock indices demonstrate superior performance and reduced volatility in comparison to conventional indices during periods of economic crisis. However, extant research results demonstrate variations depending on the market context and the specific crisis period. Furthermore, the extant literature contains limitations in the form of studies that compare the performance of Islamic and conventional indices in the Indonesian market during various crisis periods. The objective of this study is to address this knowledge gap by analyzing the potential of Islamic investments to function as a "safe haven" for investors in Indonesia. This analysis will involve a comparison of the performance of Islamic and conventional stock indices during periods of economic crisis.

B. METHOD

This study employs a library research approach, utilizing an integrative literature review method to comprehensively analyze the performance of Islamic and conventional stock indices during the crisis period. Additionally, it reviews the potential of Islamic investment to serve as a safe haven for investors. This approach was selected because it has the capacity to integrate and synthesize extant research results in order to address research questions in both a conceptual and empirical manner (Torraco, 2005). In this study, a comprehensive review was conducted of a variety of pertinent scientific publications, encompassing both quantitative and qualitative research methodologies. This review was conducted in accordance with rigorous and objective analysis principles.

The data sources utilized in this study emanated from four primary databases: Google Scholar, Scopus, Directory of Open Access Journals (DOAJ), and Sciverse. A combination of keywords was utilized in the search strategy, including: The following terms are to be defined for the purpose of this study: "Islamic stock index performance," "conventional stock index," "safe haven investment," "crisis volatility," and "comparative stock return." The articles selected for inclusion in this review were required to meet the following criteria: (1) they were peer-reviewed scientific journal articles, (2) they were published between 2015 and 2024, (3) they directly compared the performance of Islamic and conventional stock indexes, and (4) they were available in English or Indonesian. The exclusion criteria encompassed the following: The initial category of exclusion pertains to non-journal articles, including but not limited to proceedings, theses, dissertations, and institutional reports. The second category of exclusion concerns articles that fail to provide clear data or analysis results. The third category of exclusion relates to duplicate articles from different databases.

The literature search process was executed in multiple stages. First, an initial search was conducted using keywords in each database. Second, articles were filtered based on titles and abstracts according to predetermined inclusion and exclusion criteria. Third, the full content of articles that passed the initial screening was read to ensure the suitability of the substance. Finally, articles were grouped based on similar themes and analytical approaches. The literature selection procedure was repeated and reviewed to ensure there was no selection bias. The selected articles were then subjected to a thematic and comparative analysis to identify common patterns and fundamental differences in previous research findings.

The data analysis method employed is thematic content analysis, a technique that identifies and organizes findings from multiple studies into overarching themes pertinent to the research focus. The validity of the study was ensured by implementing a systematic and transparent selection process, adhering to the PRISMA guidelines for reporting the results of the review, and by ensuring the transparency of the research process. Concurrently, the reliability of the findings was ensured by cross-checking between sources and aligning interpretations with the context of each study. The objective of this strategy is to generate a literature synthesis that is both credible and scientifically sound (Snyder, 2019).

C. RESULTS AND DISCUSSION

1. The following study will examine the historical performance of Islamic and conventional stock indices in normal and crisis situations.

A comparison of the performance of Islamic and conventional stock indices in Indonesia during normal and crisis situations reveals significant results from various studies that have been conducted. A general observation reveals a conspicuous divergence in the return and risk profiles of the two types of stock indices. In a study that examined the comparison of rates of return and risk, Rukmini and Pradana Rukmini & Pradana (2020) found that there was a significant difference between the LQ45 index (conventional stocks) and the Jakarta Islamic Index (JII, Islamic stocks) during the period 2014 to 2018. The findings of this study indicated that Islamic stocks exhibited a lower risk profile in comparison to their conventional counterparts during the analysis period. This observation was corroborated by Indarningsih and Hasbi (Indarningsih & Hasbi, 2022), who conducted a study on the volatility of both types of stocks under normal conditions.

During the crisis, research by Widodo Widodo (2022) in the context of the COVD-19 pandemic provides empirical evidence that the volatility of the Islamic stock index tends to be lower than the conventional index throughout the analysis period from March 2020 to April 2022. This outcome aligns with the observations reported by Pade (Pade, 2020), which demonstrate that Islamic stock portfolios tend to exhibit more stable performance in comparison to conventional stock portfolios, particularly during periods of economic downturn. Furthermore, Utomo Utomo (2021) applied the stochastic dominance approach and found that, in general, Islamic stocks offer superior performance in terms of risk and return when compared to conventional stocks. This finding indicates that investors who allocate capital to Islamic stocks may experience enhanced returns during periods of market downturns and stability. Research by Cahyani and Fajar Cahyani & Fajar (2020) also corroborated these results by analyzing the comparison of return and risk between the two indices, demonstrating that the performance of Islamic stocks is not only consistent but also more profitable in the long run, especially in volatile situations such as those that occurred during the pandemic.

2. The present study explores the resilience of Islamic investment as a safe haven in the context of market uncertainty.

The present study explores the resilience of Islamic investments as a "safe haven" amid market uncertainty, especially during crises such as the ongoing pandemic of the novel coronavirus (SARS-CoV-2). This phenomenon has been the focus of substantial research in the context of the Indonesian economy. A multitude of studies have demonstrated that Islamic investments exhibit superior resilience in comparison to conventional investments. This phenomenon can be attributed to the fundamental principles that underpin Islamic investing, such as sustainability and profound ethical considerations. A critical component of Islamic investment resilience pertains to the public's comprehension of the instruments and opportunities proffered by the Islamic capital market. According to Fauziah and Ibrahim (Fauziah & Ibrahim, 2022), the growth of Islamic stocks in Indonesia is not only related to financial performance, but also to people's understanding of Islamic investment principles. This finding suggests that financial literacy and education on Islamic investment play a significant role in attracting investors, particularly among younger demographics. Research by Lathifah and Garbo (2022) also demonstrates the positive influence of investment knowledge and social media on Generation Z's interest in investing in Islamic stocks, further emphasizing the importance of education in strengthening Islamic investment.

In the context of the economic crisis, the results of Sakinah and Munandar's research (Sakinah & Munandar, 2022) demonstrated that Islamic insurance investment returns exhibited significantly greater stability before and after the emergence of the novel Coronavirus (nCoV-19) pandemic. This finding suggests that Islamic investment products can function as a reliable foundation in crisis situations. This assertion is corroborated by the findings of Affandi and Rahmawati (Affandi & Rahmawati, 2023), which demonstrate that, in the context of climate resilience and sustainability, Islamic financial instruments such as green sukuk emerge as a more robust investment option during periods of economic uncertainty, particularly when contrasted with conventional investments that often entail significant risk.

The existence of various Islamic investment instruments, such as Exchange Traded Funds (ETFs), also provides important diversification for investors, making investment returns more stable. According to research by Hasanah et al. (Hasanah et al., 2021), Islamic exchange-traded funds (ETFs) have emerged as an attractive halal investment option and a promising alternative amid market volatility. Islamic capital markets offer products that are not only financial in nature, but also consider social and environmental impacts. This characteristic renders them an attractive option for investors who prioritize ethics in investment.

Nevertheless, challenges persist, particularly with regard to individual investors' perceptions and understanding of Islamic capital markets. Nurhasanah et al. (2024) conducted research that revealed a significant gap in investors' understanding of Islamic investments and their role within the legal framework of Islamic economics. To expand this understanding, there is a necessity to fortify effective socialization and education, thereby rendering more individuals receptive to investing in capital markets based on sharia principles.

3. The present study explores the strategic implications and investor preferences for Islamic investment in emerging markets.

The strategic implications and investor preferences for Islamic investments in emerging markets are topics of increasing relevance, particularly in light of the rapid growth and challenges facing global markets. An analysis of the factors that influence investment decisions reveals that spiritual, financial, and social aspects play an important role in Muslim investors' decision to invest in Islamic products.Salah satu penelitian oleh Taufik dan Rusmana Rukmini & Pradana (2020) highlighted that previous investment experience can influence Muslim investors' decision in choosing Islamic stock investment. This finding suggests that a high level of awareness and education about Islamic investments allows investors to better understand the associated risks, which in turn can increase their confidence in investing. In addition, Pebruary and Fanda Indarningsih & Hasbi (2022) indicated that challenges in the Islamic insurance sector could be an illustration for investors to be more critical in deciding on investments and identifying risks that may arise.

Additionally, research conducted by Saputri and Nurwahidin Widodo (2022) examined millennial investment decisions in the Islamic capital market, demonstrating that the return variable exerts a substantial influence on these decisions. This suggests that the potential for financial gain in Islamic investments should be highlighted, with the aim of fostering an association between Islamic investments and financial benefits among the younger generation. The present study posits that a return-focused approach may hold particular appeal for millennial investors, who have been shown to prioritize profit maximization.

Furthermore, the promotion of socialization and literacy concerning Islamic investment is of significant importance. For instance, Lubis et al. Pade (2020) reported that socialization programs on Islamic stocks can increase participants' understanding of the benefits of Islamic investment, especially in communities that are closely linked to religious values. These programs are of strategic importance in the development of a Sharia-based economy and the enhancement of community participa.

The application of Islamic mutual funds, as described by Isnaena and Nurlaeli Utomo (2021), demonstrates that the ease of access to Islamic investment products through digital platforms can appeal to novice investors. This approach is consistent with the global trend in which technological advancements facilitate investment accessibility. However, it is imperative to assess the compatibility of these products with the prevailing sharia fatwa. Conversely, research by Suryosumirat Cahyani & Fajar (2020) explores the notion of Sharia Exchange Traded Funds (ETFs) as a halal investment alternative, thereby demonstrating the potential for investment diversification among investors. The introduction of novel instruments such as Sharia ETFs has the potential to expand the investment options available to investors, which may ultimately positively impact investment stocks over an extended period.

In order to reach a broader investor base, relevant parties—including financial institutions, regulators, and market activists—must understand investor preferences and develop strategies accordingly. For instance, an analysis by Atikah and Sayudin Fauziah & Ibrahim (2022) identified challenges in Islamic investment, including a lack of product knowledge and inadequate public perception, which have impeded the growth of the sector. An examination of research on Islamic investment in Indonesia from 2015 to 2024 reveals a shift in focus from technical performance comparisons between Islamic and conventional stock indices to the strategic role of Islamic investment in fostering economic resilience in the face of crisis and socio-educational challenges in the capital market. During the 2015-2018 period, research focused predominantly on risk, return, and index performance comparisons, reflecting the nascent stages of the introduction and exploration of the effectiveness of Islamic investments. As the 2019-2020 period unfolded, the focus shifted to the resilience of Islamic investments in the face of the pandemic, which led to its emergence as a potential "safe haven" amid market volatility.

As we look ahead to the 2021 to 2024 period, research is increasingly highlighting aspects of financial literacy, the preferences of the younger generation, and the digitization of access to Islamic instruments such as ETFs and mutual funds. Furthermore, the discussion has expanded to encompass sustainability and environmental impact dimensions, such as green sukuk, underscoring the multifaceted nature of Islamic investment that transcends ethical and religious considerations. It is evident that Islamic investment, in its contemporary form, is not merely a response to ethical and religious concerns but also a strategic response to pressing global issues, including climate change. Recent research also underscores the importance of continuous education, strengthening public perception, and sharia-based financial inclusion strategies as a way to strengthen the Islamic capital market in the long run.

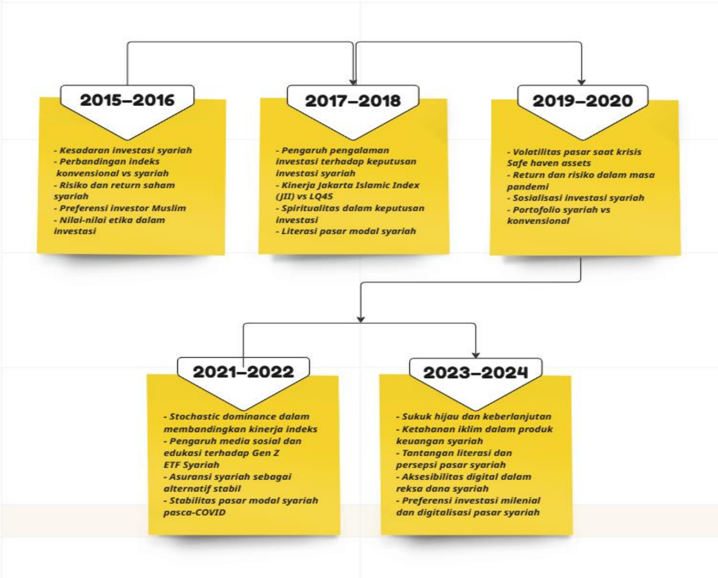

Figure 1. Examination of Research on Islamic Investment in Indonesia

D. CONCLUSIONS AND SUGGESTIONS

A comprehensive review of the extant literature and a comparative analysis of relevant indices have been conducted. The results of this analysis indicate that the Islamic stock index in Indonesia has exhibited a more stable and relatively favorable performance compared to the conventional stock index, both in normal market conditions and during a crisis. This finding serves to reinforce the position of Islamic investment as a viable alternative and potential safe haven for investors who prioritize stability, sustainability, and ethical principles in their investment decision-making processes. Furthermore, the resilience of Islamic investment is contingent upon the level of literacy and investor access to Islamic products. Consequently, the enhancement of education and product innovation constitutes a strategic imperative for fortifying the Islamic investment ecosystem, particularly in developing countries such as Indonesia.

It is imperative that future research prioritize the analysis of the behavior of Islamic investors in the digital era. This analysis must encompass the utilization of financial technology (fintech) in the expansion of the reach and inclusion of Islamic investment. Furthermore, the execution of comprehensive empirical investigations pertaining to the resilience of Islamic stock indices to global climate and geopolitical crises is of paramount importance to enhance the comprehension and risk mitigation strategies of Islamic-based financial markets.

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