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ANALYSIS OF FACTORS AFFECTING THE S&P/OIC COMCEC 50 SHARIAH STOCK INDEX

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ABSTRACT

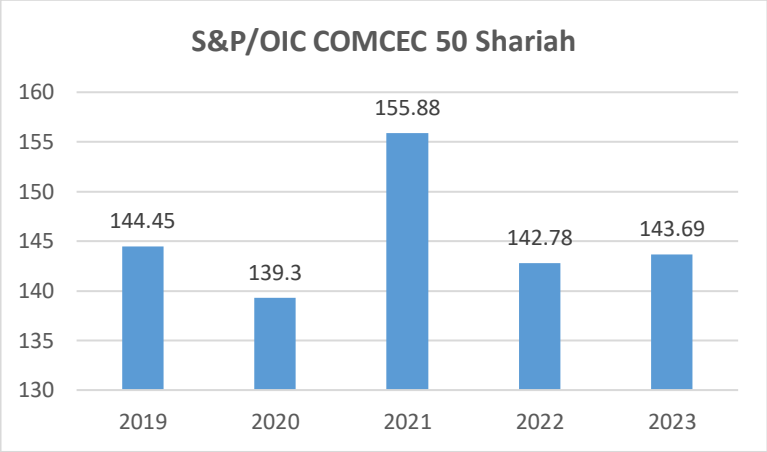
Investors and policymakers in Islamic financial markets are expected to comprehend variables impacting the performance of Standard and Poor (S and P)/Organization of Islamic Cooperation (OIC) COMCEC 50 Islamic Stock Index. Therefore, this research aims to analyze the effects of S&P/OIC COMCEC 50 Islamic Stock Index on inflation, West Texas Intermediate (WTI) oil prices, United States Economic Policy Uncertainty (US EPU), and geopolitical risk (GPR). Autoregressive Distributed Lag (ARDL) model is used in the quantitative monthly data analysis spanning 2019-2023. The analysis estimates the adjustment rate toward long-term equilibrium using Error Correction Term (ECT). Furthermore, the short and long term links between global variables and S&P/OIC COMCEC 50 Index are analyzed. The results show that Islamic stock index benefits greatly from WTI oil prices over the long and short terms. Even though inflation and US EPU have no direct effects on the index, GPR shows a strong positive influence over the periods. However, the considerable ECT coefficient points to a quick adjustment process toward long-term equilibrium after external shocks. The significance of oil prices and geopolitical dynamics as major drivers of changes in Islamic financial markets is supported even though US EPU and worldwide inflation have a less significant effect. Based on the description, this research aimed to offer strategic recommendations for Islamic financial markets' external risk management. Future research should incorporate other macroeconomic factors such as exchange rates, Islamic interest rates, and fiscal stability to understand the durability of Islamic financial index.

INTRODUCTION

Shariah-compliant stocks are an essential alternative for investors according to Islamic finance principles, which forbid riba (interest), gharar (undue uncertainty), and immoral investments (Putra, 2023). In contrast to traditional equities, the pricing is affected by Shariah screening procedures removing businesses engaged in forbidden industries. Before investing, investors use stock price changes as a primary indicator to evaluate market circumstances (Aizsa et al., 2020). Stock indexes, which monitor the performance of the entire market, including Islamic indexes such as Standard and Poor (S and P)/Organization of Islamic Cooperation (OIC) COMCEC 50 Shariah Index, represent price changes.

Several research showed that Shariah-compliant stocks might give higher returns and lower volatility than conventional equities. However, traditional indexes are more volatile than Islamic counterparts (Saleem et al., 2021). The COVID-19 pandemic and other macroeconomic shocks have a significant effect on Islamic stock markets, with variations in Bahrain, Association of Southeast Asian Nations (ASEAN), Qatar, United Arab Emirates (UAE), Middle East and North Africa (MENA), and Middle East, North Africa, and South Asia (MENASA). Several Islamic financial institutions experienced asset depreciation due to the pandemic, which made non-performing financing worse. This showed the necessity of strong asset management to increase revenue and cut expenses (Suhartini & Nurul Awaliah, 2024).

The volatility of Islamic indexes increased after World Health Organization (WHO) declared a global pandemic crisis, and the tendency continued for a long time. This emphasizes the importance of comprehending macroeconomic risks and the effect on Shariah-compliant stocks in financial markets of OIC member nations. S&P/OIC COMCEC 50 Shariah Index's historical performance data is shown below.



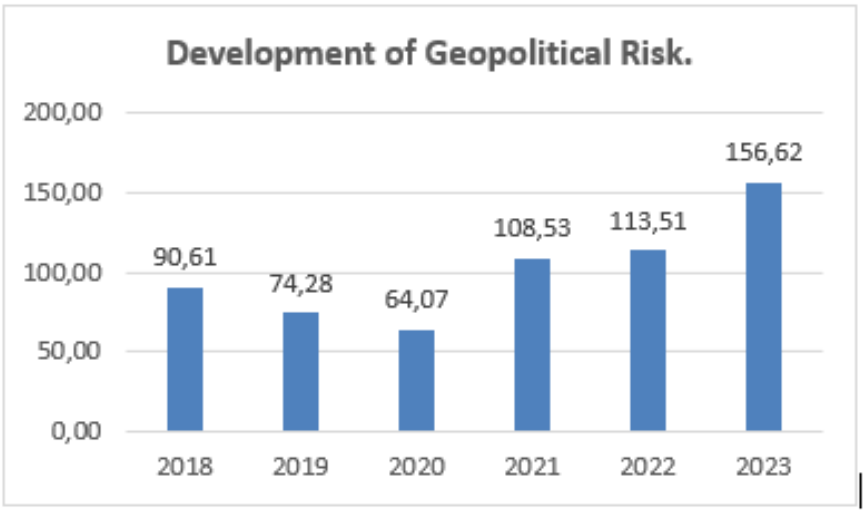
Source: S and P Dow Jones Index (data processed, 2023).

Figure 1. Performance of S&P/OIC COMCEC 50 Shariah Stock Price Index (2019–2023)

S&P/OIC COMCEC 50 Shariah Index fluctuated between 2019 and 2023, with the most significant growth in 2021 (155.88 points) and a steep decrease in 2020 (139.3 points) (S and P Dow Jones Index, 2023). These swings raise concerns over the variables

impacting the performance of Shariah-compliant stocks. Geopolitical risk (GPR) is represented by tensions from wars, terrorism, and political instability that sabotage international economic interactions (Caldara & Iacoviello, 2022). Stock market synchronization and investor sentiment are impacted by high levels of geopolitical uncertainty to increase investment risk (Sohag et al., 2022; Yang et al., 2021). For example, GPR index spiked to 152.62 in response to global geopolitical shocks in 2021–2023, signaling increased investor concern. Investment choices in traditional and Islamic financial markets are significantly impacted by GPR swings (Oanh & Hoang, 2020).

In addition to GPR, economic policy uncertainty (EPU) particularly from United States (US) plays a significant role in the movement of Islamic stock markets. US EPU Index, which measures uncertainty through media reports, reflects the effects of policy changes on investor behavior (Royhana & Warninda, 2021). Historical data show that US EPU index peaked at 284.14 in 2018 due to US-China trade war, triggering uncertainty in developing markets, including OIC member countries. Several research shows that rising US EPU leads to stock market declines in Malaysia, Singapore, and Indonesia since investors defer investments due to uncertainty (Tsai, 2017; Prasetyo, 2020; Setiastuti, 2017). However, few research specifically examined the impact on Islamic capital markets, creating a research gap. The historical trends in GPR from 2018 to 2023 are presented in Figure 2.



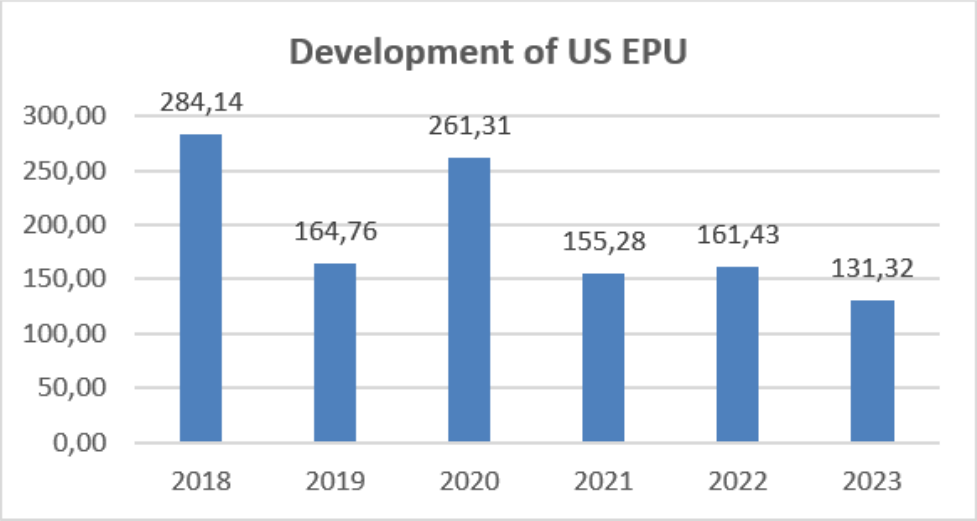
Source: www.policyuncertainty.com (data processed, 2024)

Figure 2. Development of GPR for the Period 2018-2023

The data show annual fluctuations in GPR index. In 2018, GPR index was at 90.61, declining to 64.07 by 2020. This trend indicates relatively low levels of GPR terms of war threats and international tensions. However, a sharp increase in GPR index was observed in 2021 and 2023, reaching 152.62. This volatility in GPR significantly influences stock market movements, serving as a primary signal for investor decision-making in financial markets (Yang et al., 2021). Elevated geopolitical

shocks have been identified as a determining factor for Shariah-compliant stock prices (Oanh & Hoang, 2020).

Another crucial macroeconomic factor affecting Islamic stock indexes is the fluctuation of global crude oil prices. Oil plays an important role in economic activities, with price changes impacting inflation, production costs, and market stability (Abdulkarim et al., 2020). Previous research showed that rising global oil prices increased inflationary pressures, affecting investor confidence and stock prices (Sahrani, 2022; Setiawan & Satrianto, 2021). In 2022, peak oil prices were recorded at US$76.58 per barrel, creating inflationary pressures. OIC member states are heavily dependent on oil exports and imports, and oil price volatility plays a significant role in shaping the performance of Islamic stock markets. Figure 3 shows the historical data on US EPU for 2018-2023.



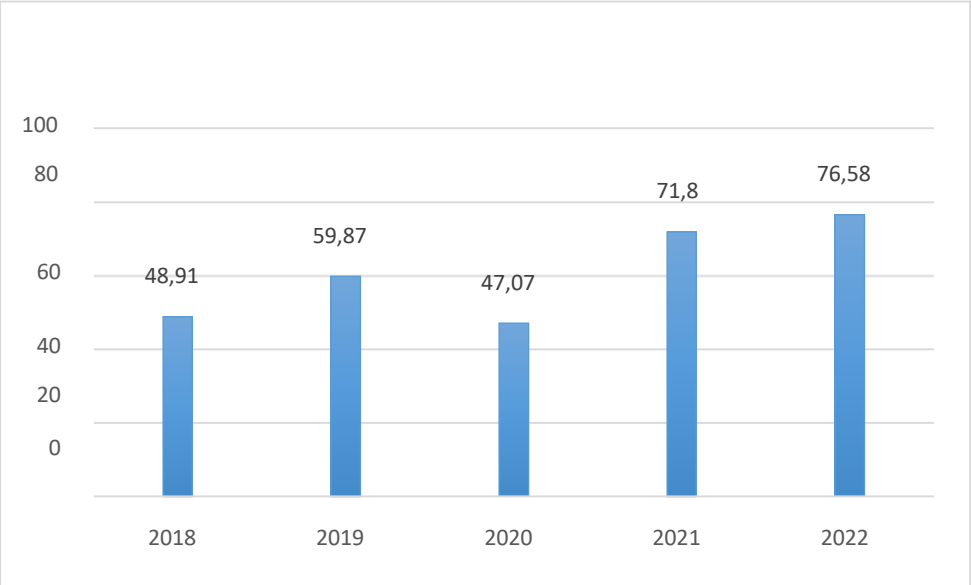
Source: www.policyuncertainty.com (processed data)

Figure 3. Development of US EPU for the Period 2018-2023

Historical data show significant year-to-year fluctuations in US EPU. The index peaked in 2018 at 284.14, primarily driven by economic tensions from US-China trade war. EPU movements substantially affect equity markets since investors tend to withhold capital during policy instability, leading to stock price depreciation (Prasetyo, 2020). This result is consistent with Tsai (2017) research showing downward pressure on Malaysian and Singaporean equities due to US policy uncertainty. Indonesian stock market experiences adverse effects from US EPU volatility (Prasetyo, 2020). According to Setiastuti (2017), investors are aware that EPU increases investment risk and causes stock market declines.

Global oil price fluctuations are important in shaping international economic structures, including Islamic capital markets. As an important commodity in the global economy, oil influences the energy sector and broader macroeconomic variables such as inflation, monetary policy, and geopolitical stability. S&P/OIC COMCEC 50 Shariah Index, representing major Shariah-compliant equities from member countries of OIC is

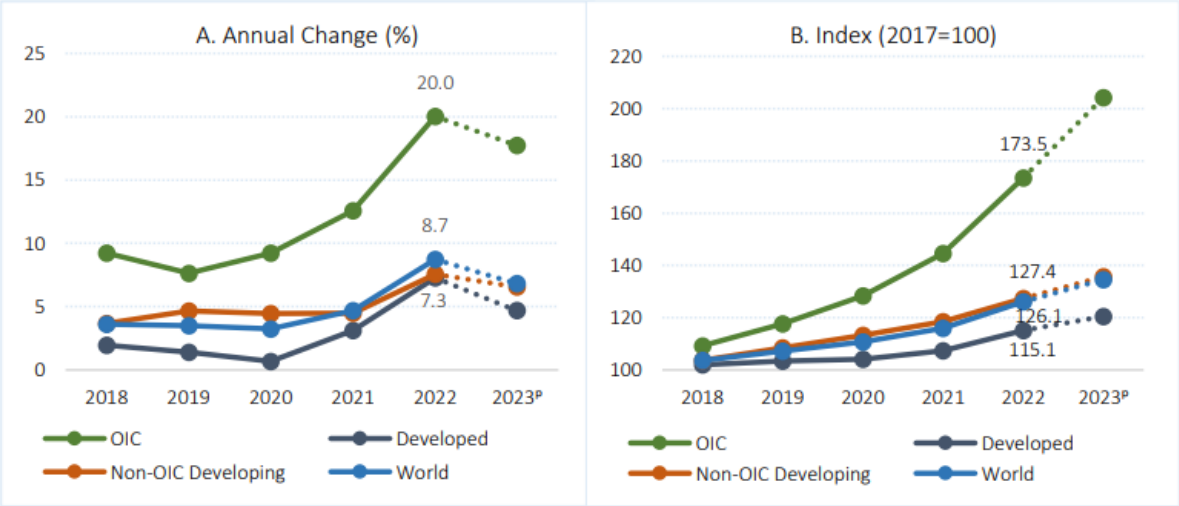
exceptionally responsive to changes in oil prices due to the energy export reliance of many OIC nations. Previous literature showed the relationship, where Narayan et al. (2010) reported the significant effect of oil prices on global equity markets. Widiatmojo (2015) reported a similar impact on Islamic financial markets. Meanwhile, Noval and Nadia (2020) explored the interplay between oil price volatility, geopolitical tensions, and Shariah-compliant asset performance. Considering the results, this present research investigates the influence of global oil price dynamics with GPR and EPU, on the performance of S&P/OIC COMCEC 50 Shariah Index.



Source: www.fred.stlouisfed.org (data processed)

Figure 4. Development of World Oil Prices for the Period 2018-2022

Based on the data, the development of world oil prices has fluctuated from year to year. A reasonably high increase in world oil prices occurred in 2022 at 76.58 US dollars per barrel. This increase in world oil prices was caused by the high demand for oil (Prasetyo, 2020) (Suhartini, 2024). Stock trading activities in the capital market are vulnerable to fluctuations in global crude oil prices. Inflationary pressures increase due to rising world oil prices, which drive up the prices of other goods globally (Sahrani, 2022). Increased inflation can cause investors to liquidate shares. Investors will be more careful when inflation shows excessive and uncontrolled figures (Astuti, 2021). Figure 5 shows data on inflation developments for the period 2018–2023.



Source: SESRIC

Figure 5. Inflation Development of OIC Countries for the Period 2018-2023

Consumer price inflation, as measured by Consumer Price Index (CPI), increased in most countries in 2022. On average, the increase was higher in OIC group of countries (7.4 percentage points) compared to non-OIC developing countries and advanced economies at 7.4 and 4.2 percentage points. Inflation in OIC countries increased sharply to 20.0% in 2022, compared to 12.6% in 2021. Since inflation increased to 7.3% and 7.6% in advanced and non-OIC developing economies, higher inflation rates are experienced on average in 2022. This trend is expected to continue in 2023 with a global decline in inflation. From the annual inflation rate over the 5 years from 2018 to 2022, average consumer prices in OIC countries were recorded at 73.5% higher in 2022 compared to 2017. This is above the world average price increase of 26.1%. In the same period, average prices increased by 27.4% and 15.1% in non-OIC developing and developed countries, respectively. Fluctuations in inflation can affect stock price movements. High inflation increases the risk of stock investment, decreasing the prices (Yuniarti & Litriani, 2017).

This research is particularly relevant for OIC countries, where economic stability is often tested by external macroeconomic risks. To improve risk mitigation and increase the resilience of financial markets, policymakers must have a better knowledge of inflation, GPR, and EPU. Investors in Islamic stock market can also use the results to properly control risk exposure and optimize portfolio strategies. Therefore, this research aimed to ascertain the effects of inflation, GPR, EPU, and global oil prices on S&P/OIC COMCEC 50 Shariah index. Widiatmojo (2015) and Noval and Nadia (2020) reported that Islamic capital market might be impacted by inflation caused by shifts in global oil prices and GPR indicators.

Based on the description, this research is distinguished from previous research by incorporating GPR, EPU, and inflation as key variables from January 2019 to December 2023. The result emphasizes contemporary global macroeconomic conditions that influence international financial markets. The effects of GPR and

inflation on Islamic capital markets in OIC member states remain under-explored in the existing literature. Therefore, this research fills the gap by examining the effects of recent macroeconomic developments on the performance of Sharia-compliant equity markets.

This research is innovative since the concept thoroughly examines the effects of inflation, oil prices, geopolitical threats, economic policy uncertainties, and global macroeconomic factors on Islamic capital markets. An integrated perspective is offered concerning the combined influence of factors on Islamic stocks in OIC nations. This is in contrast to previous research conducted to investigate the elements separately. The impact of pandemic disruptions, geopolitical tensions, and inflationary pressures is captured by the focus on the current economic volatility (2019–2023). This offered a more acute and pertinent understanding in relation to the effects of macroeconomic risks on Islamic stock markets in contrast to conventional markets.

LITERATURE REVIEW

Islamic Capital Markets, Shariah-Compliant Stocks, and Stock Indexes in OIC Countries

Shariah compliance rules, which forbid interest (riba) and emphasize risk-sharing and moral investing, have propelled Islamic capital market's expansion and development in recent decades. The growing amount of scholarly research and publications in the field is proof of the expansion (Mohamad et al., 2024). Shariah-compliant stocks are subject to stringent screening procedures removing companies engaged in manufacturing non-halal food, alcohol, and gambling in contrast to traditional stocks (Rahman et al., 2021).

Islamic stock indexes are specifically appealing to risk-averse investors since lower volatility is shown than conventional counterparts (Hassan et al., 2020). They perform differently under various market conditions. However, some research show traditional indexes are beaten, while others present contradictory results (Hassan et al., 2022; Delle Foglie & Panetta, 2020). The top 50 Shariah-compliant businesses from OIC member nations comprise S&P/OIC COMCEC 50 Shariah Index, a crucial benchmark for Islamic financial markets. Compared to traditional indexes, unique risk-return characteristics are reported, concerning the reaction to macroeconomic shocks (Mollah et al., 2017).

The gap caused by the lack of literature is filled by examining the effects of GPR and global economic concerns on Islamic indexes. To add to the expanding analysis of Islamic finance, this current research presents empirical data on the robustness of Sharia-compliant indexes in the face of global financial instability.

Theoretical Framework: Modern Portfolio Theory & Efficient Market Hypothesis

This research is consistent with Modern Portfolio Theory (MPT) as introduced by Markowitz (1952), where investors maximize returns relative to risk through diversified asset allocation. MPT stated that macroeconomic risks such as geopolitical instability and EPU played a significant role in shaping investor behavior by influencing

risk assessments. Complementing the framework, Efficient Market Hypothesis (EMH) proposed by Fama (1970) maintains that asset prices fully reflect all publicly available information. In this context, external shocks, including fluctuations in oil prices and inflation expectations, should be promptly integrated into the pricing of Shariah-compliant equities. However, Islamic financial instruments are subject to specific ethical and legal constraints in responding differently to macroeconomic volatility than conventional assets (Alam et al., 2017). Analyzing the interaction is essential for investors and policymakers in OIC member countries. This enhances the understanding of the risk-return behavior of Islamic equity portfolios in the face of global economic uncertainty.

Geopolitical Risk and Its Impact on Financial Markets

Geopolitics analyzes the effects of geography on domestic and international politics (Caldara & Iacoviello, 2022). According to Rogers' Dictionary of Human Geography, Castree and Kitchin (2013) stated that the media frequently framed geopolitical concerns regarding the effects of global crises. Drakos (2004) and Godil et al. (2020) showed that GPR was a systemic, irreversible risk, necessitating compensation. GPR is defined by Bremmer and Keat (2009) as a danger to political and economic stability due to interactions between countries and global political forces. The impact of geopolitical uncertainty on financial markets and economic activity is measured by GPR index created by Caldara and Iacoviello (2018) and published in Federal Reserve Board papers. In this context, higher financial market volatility as well as decreased investment and industrial output are typically caused by elevated GPR. Bekaert, Hoerova, and Duca (2013) showed that political risk significantly increased stock market volatility and reflected investor anxiety using a GARCH model.

Bekaert et al. (2014) argued in the Spread of Political Risk (Journal of International Business Studies) that disseminating political risk could be used to assess cross-country investment risk. In Terrorism and Stock Market (International Review of Applied Financial Issues and Economics), Karolyi and Martell (2010) reported the influence of geopolitical events on the perceptions of financial risk. This research showed the importance of GPR to market stability, economic performance, and investment choices. The importance of measuring and reducing these risks is also emphasized using organized, data-driven methods.

H1: Geopolitical risk exerts a statistically significant influence on S&P/OIC COMCEC 50 Shariah stock price index.

US Economic Policy Uncertainty

Uncertainty and other unpredictable changes can impact business operations and economic activity due to monetary and fiscal policies (Wulandari, 2020). Investors and decision-makers are globally very concerned about EPU (Ashiru & Oladele, 2023). Economic actors will adjust strategies and implement new regulations in response to policies experiencing ambiguity or change (Urakhma & Muharram, 2020). Media coverage is the basis for creating an EPU index. The aim is to determine the level of

uncertainty regarding economic policy issues, actions taken, time of implementation, and economic impact of no policy action (Baker et al., 2016). EPU index is derived from various factors, including the frequency of policy uncertainty in newspapers. According to Al-Taqeb and Algharabali (2019), this index is correlated with events associated with periods of major policy uncertainty, namely spikes during elections, wars, debt ceiling debates, the European crisis, and financial assistance programs such as TARP.

H2: Economic policy uncertainty has a significant effect on S&P/OIC COMCEC 50 Shariah stock price index.

World Oil Prices

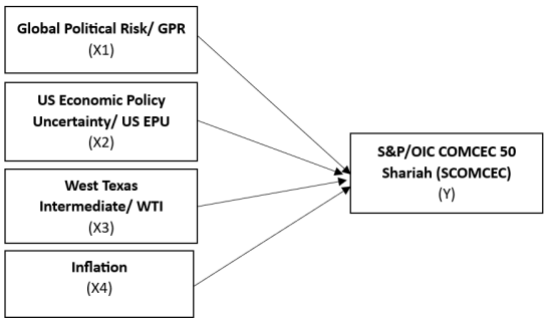
The Cambridge Dictionary defines crude oil as oil yet to be refined into a finished product. Crude oil is an important commodity for developing a country and the end products include Energy sources such as gasoline and diesel (Handiani, 2014). World oil prices refer to the spot price of Brent and West Texas Intermediate (WTI) oils traded on the Intercontinental Exchange (ICE) and New York Mercantile Exchange (NYMEX), respectively. Texas produces premium oil known as WTI (Setiawan & Satrianto, 2021). The oil is light and has a low sulfur content suitable for use as fuel (Ida, 2012). The world oil price per barrel depends on several factors, such as specific gravity, sulfur content, and location (Sahrani, 2022).

H3: World oil prices have a significant effect on S&P/OIC COMCEC 50 Shariah stock price index.

Inflation

According to Utari et al. (2015), inflation in the context of macroeconomics is a general and continuous increase in the price of goods and services. Ivo and Laksmiwati (2017) added that inflation was interpreted as an increase in the price of commodities. The Central Bureau of Statistics (BPS) defines inflation as a continuous increase in the price of goods and services to reduce the purchasing power of money. In the perspective of Islamic economic history, Al-Maqrizi, as quoted by Amsi (2020), stated that inflation was a natural phenomenon in socio-economic dynamics with a broad impact globally. Furthermore, Kusuma (2016) explained that inflation reflected the weak condition of purchasing power and the decline in the intrinsic value of currency.

H4: Inflation has a significant effect S&P/OIC COMCEC 50 Shariah stock price index.



Source: By Author

Figure 6. Conceptual Framework of This Research

RESEARCH METHODS

Model Specification

This research is based on literature showing that the relationship between Islamic stock indexes and global variables such as GPR, EPU, and oil prices can be unidirectional or bidirectional. The flow-oriented model states that external macroeconomic variables such as oil prices and inflation affect stock market. In another approach, market sentiment towards risk and policy uncertainty can exert pressure on macroeconomic conditions. Ndako et al. (2021), Abuzayed and Al-Fayoumi (2021), and Javaheri et al. (2022) showed that Islamic stock indexes were more susceptible to external changes such as oil prices and geopolitical tensions than directly influencing the variables. Even though Islamic stock indexes had internal dynamics, global variables reported a dominant influence in the context of OIC countries' markets. Therefore, this research model adopted Autoregressive Distributed Lag (ARDL) approach to test short-term and long-term relationships of the variables.

$$\textit{SCOMCEC 50 Shariah} = f(\textit{GPR, US EPU, WTI, INFLATION}) \quad (1)$$

The empirical mode to be estimated is as follows:

$$\textit{SCOMCEC 50 Shariah}_t = \alpha + \beta_1\, \textit{GPR}_t + \beta_2\, \textit{US EPU}_t + \beta_3\, \textit{WTI}_t + \beta_4\, \textit{INFLATION} + \varepsilon_t \quad (2)$$

Where SCOMCEC 50 Shariah is stock market index, GPR is geopolitical tensions, US EPU is US Policy, WTI is oil price, and inflation is measured as the year-on-year percentage change in Consumer Price Index (CPI)

Data

Monthly data over 5 years (2019 to 2023) from S&P/OIC COMCEC 50 Shariah Index were collected from S and P Dow Jones database. This index reflects the performance of the 50 most liquid and largest Shariah-compliant stocks from member countries of OIC. Monthly data are used to analyze the global Islamic stock market dynamics and the linkage to domestic or cross-country economic and financial variables. The 50 most significant and liquid firms from OIC member countries make up S&P/OIC COMCEC 50 Shariah Index, which reflects the global Islamic stock market. Volatility transmission, market integration, and external influences on domestic economies have been observed using the index, representing the global Islamic financial market (Misman et al., 2020; Arifin et al., 2021). The degree of market integration, sensitivity to global emotion, and financial openness of the individual nation all affect the effect of the global index on local stock markets. Detail of operational variables explained in Table 1.

Table 1
Operational Definition

Endogenous Variable	Operational Definition	Indicator	Scala	Reference
Stock Index S&P/OIC COMCEC 50 Shariah	An index consisting of the 50 largest shares of leading Sharia-compliant companies from various countries and regions, whose exchanges are members of the OIC Exchange (S and P Dow Jones) https://www.spglobal.com/	Closing price (closing price monthly) for five years (2019-2023)	Price	(Bekri & Kim, 2015) (Dharani et al., 2022)
Exogenous Variable	**Operational Definition**	**Indicator**	**Scala**	
Geopolitical Risk	GPR is a threat, realization, and exaggeration of adverse events or occurrences related to the event of war, terrorism, or tensions between countries influencing international relations (Caldara & Iacoviell, 2022). https://www.policyuncertainty.com/	GPR measurement indicator is seen from the frequency of newspaper coverage that contains the words "risk", "threat", and "war".	Nominal	(Lamine & Zribi., 2024)
US EPU	Uncertainty is an unpredictable change that influences economic activity as well as financial and monetary policies (Wulandari, 2020). https://www.policyuncertainty.com/	US EPU indicator based on the frequency of coverage media uncertainty economics regarding policy.	Nominal	(Prüser & Schlösser, 2020)
WTI Oil Price	World oil prices are the price set for world oil (Ida, 2012). https://fred.stlouisfed.org/	Price measurement of world oil based on the spot oil market world namely WTI.	Ratio	(James, 2020). (Sioofy Khoojine et al., 2022)
Inflation	Inflation in macroeconomic concepts is defined as an increase in the prices of goods and services in general and occurs consistently (Utari et al., 2015). https://www.sesric.org/	$Infl = \frac{CPIt - CPIt-1}{CPIt-1}$	Ratio	(Begum et al., 2025)

Cointegration Test Using Autoregressive Distributed Lag (ARDL) Model

This research uses the analytical approach of ARDL model. Before implementing the model, formal and informal tests were conducted to examine the time series properties of each variable and determine the order of integration. Even

though ARDL does not require all variables to be stationary at the same level, no variable is integrated at order two (2). This is consistent with the results of several research that show the adaptability of ARDL model in managing a combination of I(0) and I(1) variables, including Khan and Khan (2018), Takawira and Motseta (2021), Motseta and Takawira (2021), Raza and Jawaid (2014), Bouri et al. (2018), and Luqman and Kouser (2018).

ARDL model, first presented by Pesaran and Pesaran (1997) and subsequently improved by Pesaran and Shin (1999) and Pesaran et al. (2001), is a limits-testing method for cointegration. This method is used to investigate the long-term effects of inflation, oil prices, GPR, and uncertainty surrounding US economic policy on the performance of S&P/OIC COMCEC 50 Shariah stock index. ARDL has several benefits compared to previous cointegration testing. In contrast to the Johansen cointegration, trustworthy results can be obtained with comparatively small sample sizes (Khan & Khan, 2018). The Johansen and Engle-Granger methods reported that all series were integrated in the same order I(1). In contrast, ARDL model allows data to be integrated in multiple orders. Since the data are integrated at orders 0 and 1, ARDL is a suitable method for examining long-term correlations between variables. Nkoro and Uko (2016) stated that the endogeneity problem was avoided because a different equation represented each variable in the ARDL model. Additionally, Khan and Khan (2018) showed that the capacity of ARDL to recognize a distinct cointegrating vector in the presence of several cointegrating vectors was a primary feature. The method assumes that the dependent and exogenous variables have a single reduced-form equation relationship. The general form of ARDL model according to Pesaran and Pesaran (1997) has dependent and independent variable delays in model 3.

$$Y_t = \beta_0 + \beta_1 Y_{t-1} + \ldots\ldots\ldots \beta_k \gamma_{t-p} + \alpha_0 X_t + \alpha_1 X_{t-1} + \alpha_2 X_{t-2} \ldots\ldots\ldots\ldots + \alpha_q X_{q-1} + \varepsilon_t \quad (3)$$

The conventional Error Correction Model (ECM) is given as follows:

$$\Delta Y_t = \beta_0 + \sum_{i=1}^{p} \beta_1 \Delta Y_{t-1} + \sum_{j=0}^{q1} \gamma_j \Delta X_{1t-j} + \sum_{k=0}^{q2} \delta_k \Delta X_{2t-k} + \varphi Z_{t-1} + e_t \quad (4)$$

In equation 4, Z is the error correction that connects the long and short terms.

The unrestricted ARDL model of the research is given by equation 5 as follows:

$$SCOMCEC_t = \alpha_0 + \sum_{i=1}^{p} \alpha_1 SCOMCEC_{t-1} + \sum_{j=0}^{q1} \beta_j GPR_{t-j} + \sum_{k=0}^{q2} \delta_k US\ EPU_{t-k} + \sum_{l=0}^{q3} \theta_l WTI_{t-l} + \sum_{m=0}^{q4} \emptyset_m INFLATION_{t-m} + \varepsilon_t \quad (5)$$

Where:

1. $SCOMCEC_t$ = S&P/OIC COMCEC 50 Shariah Index at time t
2. GPR_t = Geopolitical Risk Index
3. US EPU_t = US Economic Policy Uncertainty Index
4. WTI_t = West Texas Intermediate Oil Price
5. $INFLATION_t$ = Inflation rate
6. ε_t = error term

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7. p, q_1, q_2, q_3, q_4 = optimal lag lengths, typically selected using AIC, BIC, or HQ criteria

The null hypothesis to be tested is:

$$\mathbf{H_0: \delta_1 = \delta_2 = \delta_3 = \delta_4 = 0}$$

The following provides the alternative hypothesis of cointegration:

$$\mathbf{H1: At\ least\ one\ \delta_i \neq 0}$$

The F-statistic is computed and compared with the lower and higher bounds to ascertain the existence of cointegration. In this context, cointegration is present when the calculated F-statistic is higher than the upper bound value. In contrast, the absence of cointegration is shown when the F-statistic is below the lower bound. According to Khan and Khan (2018), the outcome is inconclusive when the F-statistic falls between the lower and higher bounds. The presence of cointegration in the ARDL model was determined by Error Correction Term (ECT) significance. ECT term to be estimated in the model takes the following form:

$$\Delta SCOMCEC_t = \gamma_0 + \sum_{i=1}^{p-1} \gamma_l \Delta SCOMCEC_{t-1} + \sum_{j=0}^{q1-1} \beta_j \Delta GPR_{t-j} + \sum_{k=0}^{q2-1} \delta_k \Delta US\ EPU_{t-k} + \sum_{l=0}^{q3-1} \theta_l \Delta WTI_{t-l} + \sum_{m=0}^{q4-1} \emptyset_m \Delta INFLATION_{t-m} + \varepsilon_t + \lambda ECT_{t-1} + u_t \quad (6)$$

Where:

1. $\Delta SCOMCEC_t$: *change in the SCOMCEC index*
2. $\Delta GPR_t, \Delta US\ EPU_t, \Delta WTI_t, \Delta INFLATION_t$: Changes in the independent variables (in the short term)
3. ECT_{t-1}: error correction term, delivered from the residual of the long term relationship among variables in the ARDL model
4. λ: error correction coefficient, expected to be negative and significant to indicate that the system returns to long term equilibrium
5. u_t : error term

Masih and Masih (1997) stated that ECT component in the model reflected the influence of short-term and long-term variables on the dependent variable. Khan and Khan (2018) explained that the component showed the extent to which the disequilibrium from the previous period was corrected by the current value of the dependent variable. A positive coefficient suggests a deviation from equilibrium, while a negative coefficient reflects an adjustment or convergence process toward equilibrium. The closer the coefficient is to -1, the faster the adjustment to the disequilibrium.

RESULT

Descriptive Statistics

The descriptive statistics are presented in Table 2.

Table 2
Descriptive Statistics

	SCOMCEC	GPR	US EPU	WTI	*INFLATION*
Mean	144.3610	107.4692	204.4317	67.32433	14.00000
Median	143.8950	97.32000	181.3500	68.99000	12.90000
Maximum	176.3700	324.2300	503.9000	114.8400	20.00000
Minimum	109.4600	60.60000	76.80000	16.55000	7.700000
Std. Dev.	11.93784	44.35474	83.35681	20.70230	5.221728
Skewness	0.015508	2.467449	1.628787	0.037576	0.119980
Kurtosis	4.305612	11.36419	5.675734	2.864398	1.284355
Jarque-Bera	4.263962	235.7822	44.42836	0.060089	7.502549
Probability	0.118602	0.000000	0.000000	0.970402	0.023488
Sum	8661.660	6448.150	12265.90	4039.460	840.0000
Sum Sq. Dev.	8408.208	116073.2	409953.1	25286.53	1608.720
Observations	60	60	60	60	60

Source: By Author

The average value of S&P/OIC COMCEC 50 Shariah Index (SCOMCEC) is 144.36, with maximum and minimum of 176.37 and 109.46, indicating a positive performance during the observation period. The distribution is approximately normal, as reported by a very low skewness (0.0155) and a non-significant Jarque-Bera test result ($p = 0.118$). The average value of GPR index is 107.47, ranging from 60.60 to 324.23 and reflecting high geopolitical fluctuations. However, this variable is not normally distributed (skewness = 2.47; kurtosis = 11.36; $p < 0.01$). US EPU index shows high levels of economic uncertainty, with normally distributed ($p < 0.01$) average and maximum values of 204.43 and 503.90. Crude oil prices (WTI) have an average of 67.32 and follow a normal distribution ($p = 0.97$). Inflation averages 14.00 and shows a slight deviation from normality ($p \approx 0.02$) but remains acceptable for econometric analysis purposes.

Unit Root Test /Stationary

The unit root test results using Augmented Dickey-Fuller (ADF) method show that all variables in OICCOMCEC, GPR, US EPU, WTI, and global inflation (INFLATION) become stationary after first differencing. This is evidenced by ADF test statistics for each variable being significantly lower than the critical values at the 1%, 5%, and 10% significance levels, with p-values of 0.0000. This shows that all variables are integrated in order one or I(1). The results from the combined panel tests ADF Fisher and Choi Z-stat support the conclusion that all variables become stationary after differencing. This is a key prerequisite for conducting ARDL analysis and cointegration testing.

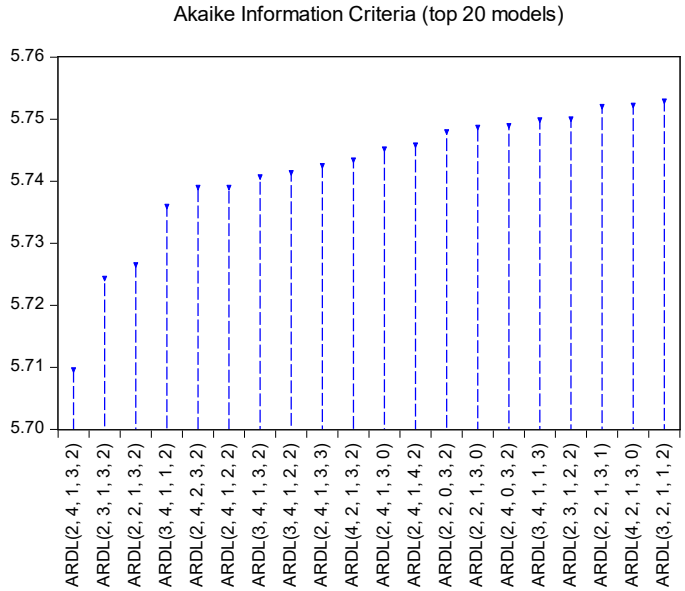
Table 3
Unit Root Test Results Using Augmented Dickey-Fuller (ADF) Method.

Variable	ADF t-Statistic	p-value	Critical Value 1%	Critical Value 5%	Critical Value 10%	Description
D(OICCOMCEC)	-6.950785	0.0000	-3.548208	-2.912631	-2.594027	Stationary at I(1)
D(GPR)	-8.321736	0.0000	-3.548208	-2.912631	-2.594027	Stationary at I(1)
D(US EPU)	-11.91630	0.0000	-3.548208	-2.912631	-2.594027	Stationary at I(1)
D(WTI)	-5.760931	0.0000	-3.548208	-2.912631	-2.594027	Stationary at I(1)
D(*INFLATION*)	-7.800142	0.0000	-3.548208	-2.912631	-2.594027	Stationary at I(1)

Source: By Author

Lag Length Selection Criteria

After determining the order of integration for each variable, the next step is to identify the optimal lag length used in ARDL model. Based on the estimation results using Akaike Information Criterion (AIC), 20 model combinations were compared. ARDL(2,4,1,3,2) model was selected as the most appropriate, yielding the lowest AIC value. Therefore, this lag configuration is used in the long term model estimation to examine the relationship between Shariah stock index (SCOMCEC) and the independent variables, namely GPR, US EPU, oil prices (WTI), and inflation.



Source: By Author

Figure 7. Lag Length Selection Criteria.

ARDL Bounds Cointegration Test Results

The results of F-Bounds Test show that the calculated F-statistic is 18.87178 compared to the upper bound (I(1)) values at various significance levels. The significance levels of 10%, 5%, and 1% can test the null hypothesis, stating that there is no long term relationship. At the 10%, 1%, and 5% significance levels, the upper bound values (I(1)) are 3.09, 3.49, and 4.37, respectively. Since the calculated F-statistic (18.87178) is greater than the upper bound value (I(1)) at all significance levels, the

null hypothesis (H_o) is rejected, stating no long term relationship. Therefore, there is a significant long term relationship between the variables. These results suggest that the variables in the model are cointegrated due to a stable long term relationship.

In line with Khan and Khan (2018) and Alqahtani et al. (2017), global variables have a significant long term impact on Islamic financial markets. The F-Bounds Test results show a long term relationship between Shariah stock index (SCOMCEC) and global variables such as GPR, US EPU, oil prices (WTI), and inflation. This research is in line with Bouri et al. (2021), who reported the importance of oil prices and GPR in determining the long-term success of Islamic financial indexes. However, the results are not entirely in line with Arouri et al. (2012), where the correlation between oil prices and Shariah stock indexes varies by sector and geographical area. Baele et al. (2014) stated that the long-term effects of EPU on stock markets were not substantial. Therefore, the results strengthen the literature supporting the existence of a long term relationship between global variables and Islamic financial markets, specifically in the context of geopolitics and energy.

Table 4
ARDL Bounds Cointegration Test Result

F-Bounds Test		**Null Hypothesis: No levels relationship**		
Test Statistic	**Value**	**Signif.**	**I(0)**	**I(1)**
			Asymptotic: n=1000	
F-statistic	18.87178	10%	2.2	3.09
k	4	5%	2.56	3.49
		2.5%	2.88	3.87
		1%	3.29	4.37

*significant at 10%
**significant at 5%
***significant at 1%
I(0) show lower critical bound value and I(1) represent upper critical bound value
***k is the number of independent variables for the explained variable in ARDL model
Source: By Author

Table 5
Long Term Linear ARDL Model Estimates

Dependent Variable: SCOMCEC				
Selected Model: ARDL (2,4,1,3,2)				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
D(GPR)	0.087867	0.033725	2.605376	0.0130**
D(US EPU)	-0.015503	0.010147	-1.527792	0.1348
D(WTI)	0.510544	0.097604	5.230747	0.0000***
D(*INFLATION*)	-1.035628	0.648228	-1.597628	0.1184
C	-0.252591	0.295032	-0.856149	0.3973

*significant at 10%
**significant at 5%
***significant at 1%
Source: By Author

Based on the long term cointegration estimation results, a significant relationship was found between SCOMCEC index and several global variables. The long

term coefficient for GPR is 0.0879 (p = 0.0130), indicating that an increase in global GPR is associated with a rise in Islamic financial index. This can reflect the perception of Islamic financial instruments as a stable and ethical alternative when global uncertainty increases.

The oil price variable (WTI) shows a significant positive effect in the long term, with a coefficient of 0.5105 (p = 0.0000). Therefore, an increase in global oil prices tends to drive the growth of SCOMCEC index since most of the members are oil-producing countries. In contrast, US EPU and INFLATION variables have negative coefficients of −0.0155 and −1.0356 but are not statistically significant (p > 0.1). Even though US EPU and INFLATION pressures may theoretically lower performance, the empirical evidence does not support a strong long term relationship during the research period.

This research shows that GPR, US EPU, global oil prices, and inflation affect S&P/OIC COMCEC 50 Shariah index of OIC countries. The Efficient Market Hypothesis (Fama, 1970) shows that stock prices reflect all information, including macroeconomic shocks, and the Modern Portfolio Theory (Markowitz, 1952). The results were consistent with Arouri et al. (2012), where oil prices were not stable. Meanwhile, Baele et al. (2014) stated that EPU did not affect Shariah stock market. These results support Islamic Finance Theory, which emphasizes stability and ethics in Shariah capital market.

Table 6

Short Term Model Estimates

ECM Demonstrations of ARDL (2,4,1,3,2) model
Dependent Variable: SCOMCEC

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
D(OICCOMCEC(-1))	-0.370052	0.120860	-3.061829	0.0040***
D(OICCOMCEC(-2))	-0.511351	0.118655	-4.309565	0.0001***
D(GPR)	0.044141**	0.020510	2.152168	0.0378**
D(GPR(-1))	0.034134	0.018911	1.804959	0.0790*
D(GPR(-2))	0.093577	0.018142	5.158112	0.0000***
D(GPR(-3))	0.021360	0.021127	1.010999	0.3184
D(GPR(-4))	-0.027899	0.019763	-1.411715	0.1662
D(US EPU)	-0.010865	0.011133	-0.975880	0.3353
D(US EPU(-1))	-0.018302	0.010585	-1.729079	0.0919*
D(WTI)	0.370668**	0.095213	3.893045	0.0004***
D(WTI(-1))	0.321058	0.095644	3.356805	0.0018***
D(WTI(-2))	0.134885	0.095154	1.417551	0.1645
D(WTI(-3))	0.133927	0.083309	1.607595	0.1162
D(*INFLATION*)	0.054592	0.525831	0.103821	0.9179
D(*INFLATION* (-1))	-0.837305	0.548477	-1.526600	0.1351
D(*INFLATION* (-2))	-1.165720	0.654276	-1.781695	0.0828*
C	-0.475226	0.560682	-0.847586	0.4020
D(OICCOMCEC(-1)) (ECT)	**-1.881403**	0.183310	-10.26350	0.0000
R-squared	0.729279	Mean dependent var		-0.143818
Adjusted R-squared	0.615292	S.D. dependent var		5.985116
S.E. of regression	3.712259	Akaike info criterion		5.709593
Sum squared resid	523.6729	Schwarz criterion		6.330041

Log-likelihood	-140.0138	Hannan-Quinn criteria.	5.949525
F-statistic	6.397885	Durbin-Watson stat	1.922617
Prob(F-statistic)	0.000001		

*significant at 10%
**significant at 5%
***significant at 1%
Source: By Author

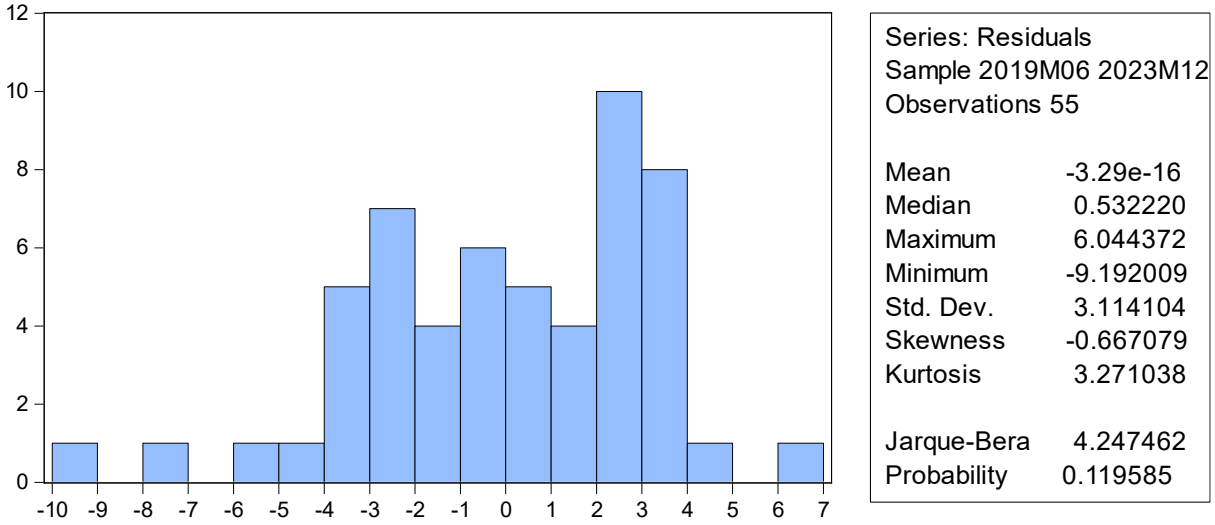
In the short term, GPR positively and significantly impacts SCOMCEC index. The coefficients of D(GPR) at lag 0 and 2 are 0.0441 (p = 0.0378) and 0.0936 (p = 0.0000), indicating that an increase in GPR and the following 2 months can enhance the index. This is consistent with the long term results and strengthens the view that Islamic finance is a secure holding in the face of geopolitical tensions. WTI variable consistently shows a significant impact in the short term. The coefficients at lag 0 and 1 are 0.3707 (p = 0.0004) and 0.3211 (p = 0.0018), indicating that an increase in oil prices is positively responded to by Islamic financial index. INFLATION variables and US EPU do not show significant effects in the short term. US EPU has an insignificant negative direction (p > 0.3), while inflation shows volatility without statistical significance. The coefficient of ECT is −1.881 (p < 0.01) since the system adjusts the imbalance toward long-term equilibrium very quickly. Approximately 188% of the deviation from the previous period will be corrected. This value shows a high adjustment strength, reinforcing the validity of the long term relationship between the variables.

The results suggest that the dynamics of SCOMCEC index are heavily influenced by geopolitical conditions and energy prices in the short and long terms. The significant role of GPR and WTI provides an understanding that Islamic financial market is sensitive to external conditions and offers certain resilience amid global turbulence. The absence of significant influence from US EPU and INFLATION also shows that Islamic finance may be relatively independent of inevitable macroeconomic fluctuations. Shariah stock indexes such as SCOMCEC show resilience in global tensions due to geopolitical issues and energy price fluctuations. Islamic financial instruments are seen as a stable and ethical choice during periods of uncertainty. This result is consistent with Khan and Khan (2018) and Bouri et al. (2021), where Shariah indexes function as a secure holding. Theoretically, this research supports the Modern Portfolio Theory and the Efficient Market Hypothesis, positioning Shariah stocks as hedge assets in global uncertainty.

Classical Assumption Test

The classical assumption test shows that the data meets the criteria for further analysis. The normality test shows a Jarque-Bera value with a probability of 0.8695 since the residuals are normally distributed because the probability value is greater than 0.05. The Breusch-Godfrey Serial Correlation LM Test results in an Obs R-squared of 1.537118 with a probability of 0.4637, indicating no autocorrelation in the model because the probability is greater than 0.05. The Heteroskedasticity Test: Breusch-Pagan-Godfrey shows an Obs R-squared of 4.803634 with a probability of 0.4405 since

there is no heteroskedasticity in the model. Therefore, ARDL regression model meets the classical assumption requirements, and the results can be interpreted reliably.



Source: By Author

Figure 8. The Normality Graph.

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.310283	Prob. F(2,36)	0.7352
Obs*R-squared	0.932020	Prob. Chi-Square(2)	0.6275

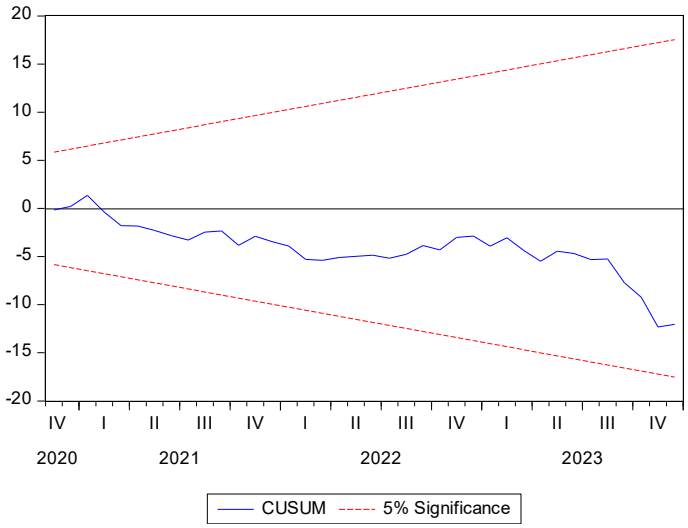
Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.770951	Prob. F(16,38)	0.7062
Obs*R-squared	13.47837	Prob. Chi-Square(16)	0.6375
Scaled explained SS	7.305900	Prob. Chi-Square(16)	0.9669

Source: By Author

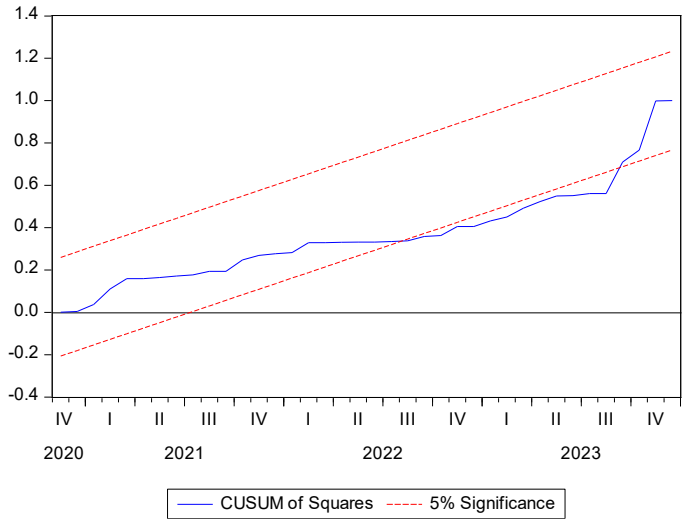
Model Stability Test

The model stability test using CUSUM (Cumulative Sum) and CUSUM of Squares has been conducted to ensure the stability of the coefficients in the estimated ARDL. The graphs detect any structural breaks in the model during the observation period. The test results show that CUSUM and CUSUM of Squares lines remain in the 5% confidence limits since the model is structurally stable in the analysis period. Therefore, there is no evidence of significant parameter changes, and the ARDL(2,4,1,3,2) model used is considered stable and reliable for drawing empirical conclusions in the short and long term.



Source: By Author

Figure 9. CUSUM Graph.



Source: By Author

Figure 10. CUSUM of Square Graph.

DISCUSSION

Geopolitical Risk and Its Impact on Financial Markets

This research investigates the impact of GPR on the performance of S&P/OIC COMCEC 50 Shariah Index using ARDL estimation. The results show that GPR has a positive and statistically significant effect on the index in the short (coefficient: 0.086941) and long terms (coefficient: 0.317980) at the 1% level. During periods of increased geopolitical uncertainty, investors may reallocate portfolios toward Sharia-compliant instruments perceived as more stable due to emphasis on prudence, ethical investing, and sustainability.

The Modern Portfolio Theory (Markowitz, 1952) shows the importance of diversification during market stress. The Efficient Market Hypothesis (Fama, 1970) states that asset prices reflect available information, including geopolitical

developments. Ndako et al. (2021) and Bouri et al. (2021) reported that Sharia-compliant equities markets were more resilient than conventional markets, regardless of the possibility of volatility in response to GPR.

Karolyi and Martell (2010) showed that GPR typically had a negative effect on traditional equities markets because of increased investor pessimism and capital flight. However, Islamic equity markets are immune to the reactions since guiding principles forbid excessive speculation and leverage. Kazak et al. (2024) stated that GPR had a comparatively minor effect on Islamic stock markets since Sharia-compliant financial products possessed built-in structural resilience. The idea that some sectors of Islamic finance ecosystem are appealing during global instability is supported by Hasan et al. (2023). In this context, DJIM World and sectoral Shariah indexes particularly in the consumer goods, energy, and financial sectors show a positive correlation with GPR. Furthermore, Shariah indexes are valuable instruments for risk management and diversification due to escalating geopolitical tensions, according to Essayem et al. (2024). The results support the expanding belief that Islamic financial markets are a refuge during emergencies and show resilience to geopolitical shocks.

US EPU and Its Impact on Financial Markets

The results of ARDL estimation show that US EPU has no statistically significant impact on S&P/OIC COMCEC 50 Shariah Index in the short (coefficient: –0.008523) or long term (coefficient: –0.020258). Markets adhering to Shariah appear to be immune to changes in economic policies of developed countries such as US. The core tenets of Islamic finance forbid interest (riba), speculation (gharar), and excessive risk in favor of asset-backed, moral, and stability-focused investments (Alam et al., 2017; El-Gamal, 2006). These traits might protect Islamic stock markets from short term policy-driven volatility of traditional markets.

The results are in contrast to Tsai (2017) and Setiastuti (2017), where EPU had a significant impact on stock markets of Southeast Asia. Meanwhile, Li and Peng (2017) and Balli et al. (2021) found that EPU had a strong spillover effect from US to other international equity markets. Ghani and Ghani (2024) found that US EPU was a reliable indicator of stock market volatility in developing countries such as Pakistan. Al-Thaqeb and Algharabali (2019) and Hsieh et al. (2019) stated that EPU had a major impact on foreign direct investment (FDI) flows, company expansion decisions, and investment behavior at the microeconomic level. The results show the potential of Islamic equities markets as solid portfolio components, particularly during times of increased global economic instability, given the impact of US EPU on Shariah index. These results provide empirical support for the distinctive resilience of Islamic financial markets as a defensive investment strategy due to increased uncertainty in conventional financial systems.

World Oil Prices and Its Impact on Financial Markets

Global crude oil prices, particularly WTI, exert a positive and statistically significant influence on S&P/OIC COMCEC 50 Shariah Index in the short (coefficient: 0.093191) and long terms (coefficient: 0.298319) at a 1% significant level. These results show the strategic role of oil price movements as a key global commodity in shaping the dynamics of Islamic equity markets, particularly in OIC member countries. The positive impact of rising oil prices can be attributed to the improved performance of energy-related sectors, increased government revenues, and subsequent fiscal spending, stimulating economic activity and enhancing stock market performance in Shariah-compliant markets. These results are in line with the Modern Portfolio Theory (Markowitz, 1952), which emphasizes the significance of diversification based on systematic economic factors. Investors tend to integrate oil price dynamics into the decision-making, specifically in Islamic capital markets closely tied to the real economy and asset-backed activities.

The results are consistent with Abdulkarim et al. (2020), Mishra et al. (2019), and Arouri & Rault (2012), where oil prices significantly influence Islamic equity indexes, particularly in energy-exporting Islamic economies. Similarly, Zaighum et al. (2021) documented a strong and positive correlation between WTI oil prices and the Dow Jones Islamic Market Index (DJIMI), specifically during bullish market phases, where investor optimism amplifies the responsiveness of Islamic stocks to oil price gains. However, the literature also shows some sectoral nuances. The overall correlation between oil prices and Islamic equity indexes may appear weak in some cases. Meo et al. (2022) and Badeeb & Lean (2018) show that specific sectors, such as technology and telecommunications, show a positive and differentiated sensitivity, to oil price movements. Therefore, the industry structure and sectoral composition of Islamic indexes significantly shape the responsiveness to global oil shocks. In the long term, Hadhri (2021) found that sharp declines in oil prices (negative oil shocks) might paradoxically lead to increased Islamic stock prices. This counterintuitive outcome reflects investor reallocation behavior, shifts in monetary policy responses, or market overreactions.

From an investment perspective, the results show the importance of understanding oil price dynamics as a component of risk management and portfolio diversification in Islamic finance. Even though increased oil prices support Shariah-compliant stocks during growth phases, declining prices may adversely affect certain sectors, requiring adaptive and sector-specific strategies (Zaighum et al., 2021; Hadhri, 2021). Global oil prices are among the most significant exogenous variables affecting the performance of Islamic equity markets. The role of oil in the macroeconomic frameworks of OIC countries contributes to the resilience and strategic orientation of global Islamic capital markets, particularly amid increasing volatility in energy markets.

Inflation and Its Impact on Financial Markets

Contrary to general expectations, the results of ARDL estimation indicate that global inflation does not have a statistically significant impact on S&P/OIC COMCEC 50 Shariah Index in the short (coefficient: –0.003906) and long terms (coefficient: –0.025493). Therefore, Shariah-compliant equity markets show resilience to inflationary pressures that decrease purchasing power and increase economic uncertainty in conventional financial systems. Yuniarti & Litriani (2017) and Begum et al. (2025) reported a negative correlation between inflation and stock market performance, specifically in developing countries. In this context, Shariah-compliant stock markets are protected from inflationary shocks by a structure defined by minimal leverage, actual economic activity, and the avoidance of speculative instruments. Rjoub et al. (2009) stated that the composition and structural features of the market and stocks could work as a hedge against inflation. Similarly, Suriani et al. (2022) stated that Islamic and traditional stock markets were considerably impacted by inflation.

Bahloul et al. (2017) and Marashdeh et al. (2020) suggested that the dynamics of Islamic equity market were more susceptible to changes in the exchange rate, real-sector performance, and fundamental economic indicators. Shariah-based financial products are more resistant to macroeconomic volatility such as inflation because of the inherent asset-backing and moral screening procedures. This analysis shows that the performance of Islamic stock market is not influenced by inflation. In the context of inflationary volatility and macroeconomic uncertainty, Islamic equities markets are positioned as a feasible and reliable investment alternative due to the structural characteristics of Shariah-compliant investments.

CONCLUSION

In conclusion, this research used ARDL approach to examine the effect of global influence on Islamic financial indexes in OIC (OIC-COMCEC) countries from 2019 to 2023. According to the estimation, OIC-COMCEC index had a significant long term relationship with variables such as WTI and GPR. However, the short and long-term effects of US EPU or global inflation (INFLATION) were insignificant. GPR and WTI had short-term benefits since Islamic financial indexes were sensitive to shifts in the geopolitical landscape and the price of energy. The rapid modifications towards long term equilibrium were reflected in the large and significant ECT coefficient. These results suggested that Islamic financial markets had strong characteristics and responded favorably to global changes related to energy and geopolitics.

OIC countries strengthened the resilience of Islamic financial systems against external risks through proactive risk management. The result reported the importance of diversifying Islamic financial products based on real assets and integrating regional Islamic financial markets to enhance market stability and attractiveness. Global economic dynamics were monitored even though US EPU was insignificant. The limitations of this research included the short period considered and the focus on a

few global factors. Future research expanded the result by considering other variables, such as global financial crises, and applying different methodological methods to explore Islamic financial market dynamics in greater depth.

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AUTHOR CONTRIBUTION

Nani Suhartini: research idea, analysis, method, collecting data, discussion, conclusion, result and final review

Ririn Tri Ratnasari: research idea, analysis, method, collecting data, discussion, conclusion, result and final review

Shafinar Ismail: result and final review

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