

## **SHARIA-COMPLIANT STOCKS AND MARKET RESILIENCE: EVIDENCE FROM THE 2025–2026 CORRECTION OF THE INDONESIA COMPOSITE INDEX**

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### ***Abstract***

This study examines the resilience of Sharia-compliant equities during the 2025–2026 correction of the Indonesian stock market. The research aims to analyse whether Sharia-compliant stocks demonstrate greater stability and resistance to market turbulence compared with conventional equities. Employing a quantitative comparative approach, the study focuses on the performance of the Indonesia Sharia Stock Index (ISSI) and Jakarta Islamic Index 70 (JII70) relative to the Indonesia Composite Index (IHSG) during a period characterised by heightened market uncertainty, global monetary tightening, geopolitical tensions, and volatile investor sentiment. The analysis is based on the concepts of market resilience, volatility, downside risk, and recovery performance. The findings indicate that Sharia-compliant equities possess structural characteristics that potentially enhance their resilience during market corrections. Lower leverage, restrictions on speculative activities, and stronger links to real economic sectors contribute to reduced downside exposure and relatively greater stability under adverse market conditions. Although Sharia-compliant stocks remain affected by macroeconomic and global market shocks, they appear to demonstrate stronger defensive characteristics and recovery capacity than conventional equities. The study contributes to the growing literature on Islamic capital markets by providing evidence on the role of Sharia screening in promoting financial resilience. The findings also offer practical implications for investors, regulators, and policymakers in strengthening sustainable and resilient investment strategies within the Indonesian capital market.

**Keywords:** sharia-compliant equities; market resilience; Islamic capital market; stock market correction; Indonesia Composite Index (IHSG)

### **A. INTRODUCTION**

The capital market plays a fundamental role in contemporary financial systems by facilitating the mobilisation and allocation of capital between investors and corporations. As a vital component of economic development, capital markets provide financing opportunities for businesses while simultaneously offering investment alternatives for individuals and institutions. Nevertheless, capital markets are inherently exposed to various forms of uncertainty arising from macroeconomic fluctuations, geopolitical tensions, monetary policy adjustments, and shifts in investor

sentiment. Consequently, market volatility remains an unavoidable characteristic of equity markets worldwide (Bodie et al., 2022; Reilly & Brown, 2019).

During the period of 2025–2026, the Indonesian capital market experienced substantial turbulence, reflected in several corrective movements of the Indonesia Composite Index (IHSG). The market correction was influenced by a combination of external and domestic factors, including the persistence of high global interest rates, geopolitical conflicts, economic slowdown concerns in major economies, and changing patterns of international capital flows. Such conditions generated heightened uncertainty among investors and intensified volatility across various sectors of the Indonesian stock market. These developments have raised concerns regarding the resilience of investment instruments under adverse market conditions and highlighted the importance of identifying assets capable of withstanding prolonged market stress (Fabozzi, 2021).

From the perspective of modern portfolio theory, periods of market correction provide an important context for evaluating the resilience of financial assets. While traditional investment analysis primarily focuses on expected returns, increasing attention has been directed towards the ability of investment instruments to preserve value and recover from market downturns. Resilience has therefore emerged as a critical concept in investment management, referring to the capacity of an asset or portfolio to absorb shocks, maintain stability, and recover efficiently following adverse events (Markowitz, 1952; Sharpe, 1964). In an environment characterised by uncertainty, resilient assets become increasingly attractive to investors seeking sustainable long-term performance.

Within this context, Sharia-compliant equities represent a distinctive segment of the capital market that warrants further investigation. Unlike conventional stocks, Sharia-compliant shares are subject to a screening mechanism based on Islamic principles. This process excludes companies involved in prohibited activities and imposes financial restrictions, particularly regarding excessive leverage and interest-based financing. In Indonesia, the classification of Sharia-compliant securities is regulated through the Sharia Securities List (Daftar Efek Syariah), which serves as the foundation for Islamic stock indices such as the Jakarta Islamic Index (JII), Jakarta Islamic Index 70 (JII70), and the Indonesia Sharia Stock Index (ISSI) (Soemitra, 2017; OJK, 2025).

The theoretical rationale underpinning Islamic equity investment suggests that Sharia screening may contribute to greater financial stability. By limiting excessive debt financing and discouraging speculative activities, Sharia-compliant firms are expected to possess stronger financial fundamentals and lower exposure to systemic risks. Furthermore, Islamic finance emphasises asset-backed economic activities, transparency, ethical conduct, and risk-sharing principles, all of which may contribute to a more sustainable financial structure (Iqbal & Mirakhor, 2011; Hassan & Lewis, 2007). Consequently, Sharia-compliant equities may exhibit different risk-return characteristics from conventional stocks, particularly during periods of financial distress.

The resilience of Islamic equity markets has attracted considerable scholarly attention over the past two decades. A growing body of international literature has

documented that Islamic stock indices often demonstrate lower volatility and stronger downside protection during episodes of market turmoil. Studies conducted across both developed and emerging markets suggest that the screening mechanisms embedded within Islamic finance may reduce exposure to highly leveraged firms and speculative sectors, thereby enhancing market stability (Ho et al., 2014; Ashraf & Mohammad, 2014; Al-Yahyaee et al., 2020). These findings have positioned Islamic equities as a potentially defensive asset class within diversified investment portfolios.

Empirical evidence from previous financial crises further supports the resilience hypothesis of Islamic stocks. During periods of heightened uncertainty, including the Global Financial Crisis and the COVID-19 pandemic, several studies reported that Islamic equity indices experienced lower drawdowns and demonstrated faster recovery compared with their conventional counterparts (Rizvi et al., 2015; Shahzad et al., 2017; Mensi et al., 2020). Such evidence suggests that Islamic equities may provide an additional layer of protection against extreme market fluctuations, particularly during periods characterised by elevated financial stress.

In the Indonesian context, the rapid growth of the Islamic capital market has generated increasing interest in evaluating the performance and resilience of Sharia-compliant equities. Over the last decade, the number of Sharia-compliant listed companies, Islamic investors, and market capitalisation has expanded considerably, reinforcing the strategic role of Islamic finance within the national financial system (OJK, 2025). As a result, understanding the behaviour of Islamic equities during periods of market instability has become increasingly relevant for investors, regulators, and policymakers.

Despite the growing literature on Islamic capital markets, empirical findings remain inconclusive regarding the extent to which Sharia-compliant stocks are more resilient than conventional equities. Whilst some studies conclude that Islamic stocks outperform conventional stocks during periods of crisis, others report that both asset classes remain vulnerable to macroeconomic shocks, exchange rate volatility, inflationary pressures, and global financial uncertainty (Majdoub et al., 2016; Umar et al., 2020). These mixed findings indicate that the resilience of Islamic equities remains an open empirical question requiring further investigation.

Moreover, the correction of the Indonesia Composite Index during 2025–2026 presents a unique and contemporary research setting. Unlike previous crises driven by health emergencies or financial system failures, the recent market correction emerged from a complex interaction of global monetary tightening, geopolitical instability, and structural economic uncertainty. Consequently, examining the performance of Sharia-compliant equities during this period offers an opportunity to reassess the resilience of Islamic investments under modern market conditions.

Against this background, the present study seeks to investigate the resilience of Sharia-compliant stocks during the 2025–2026 correction of the Indonesia Composite Index (IHSG). Specifically, the study aims to examine whether Sharia-compliant equities demonstrate greater stability, lower volatility, and stronger resistance to market shocks compared with conventional stocks. By addressing this issue, the study contributes to the growing body of literature on Islamic capital markets

and provides practical insights for investors, regulators, and policymakers seeking to enhance the sustainability and resilience of Indonesia's financial system.

## **B. LITERATURE REVIEW**

### **1. Modern Portfolio Theory and the Concept of Market Resilience**

The theoretical foundation of investment resilience can be traced to Modern Portfolio Theory (MPT), which emphasises the optimisation of risk and return through diversification. According to Markowitz (1952), investors should evaluate securities not as isolated assets but as components of a portfolio whose overall risk can be reduced through appropriate diversification strategies. This perspective was further refined by Sharpe (1964) through the Capital Asset Pricing Model (CAPM), which explains the relationship between systematic risk and expected return. Within this framework, investors continuously seek assets capable of generating optimal returns while maintaining acceptable levels of risk, particularly during periods of market instability (Markowitz, 1952; Sharpe, 1964).

The increasing frequency of financial crises and market disruptions has led scholars to expand traditional portfolio theory by incorporating the concept of resilience. Financial resilience refers to the ability of an asset, institution, or market to absorb shocks, maintain functional stability, and recover efficiently following adverse events. Unlike conventional risk measures that primarily focus on volatility, resilience emphasises the capacity of financial assets to withstand prolonged uncertainty and rapidly return to equilibrium after market disturbances (Fabozzi, 2021; Bodie et al., 2022). Consequently, resilience has become an increasingly important criterion for evaluating investment performance in modern financial markets.

Recent developments in financial economics suggest that resilience is particularly relevant in periods characterised by economic uncertainty, geopolitical tensions, and market corrections. Investors are no longer solely concerned with maximising returns but are increasingly interested in identifying assets capable of preserving value under adverse conditions. This shift in investor behaviour has encouraged researchers to investigate alternative investment instruments that may exhibit stronger resilience than conventional assets during periods of financial stress (Reilly & Brown, 2019; Malkiel, 2020).

### **2. Islamic Finance Theory and Sharia-Compliant Investments**

Islamic finance represents an alternative financial system founded upon ethical, moral, and economic principles derived from Islamic law. Unlike conventional finance, Islamic finance prohibits interest-based transactions (*riba*), excessive uncertainty (*gharar*), and speculative activities (*maisir*), while promoting risk-sharing, transparency, and asset-backed transactions. These principles aim to establish a more equitable and sustainable financial system that is closely connected to real economic activities (Chapra, 2000; Iqbal & Mirakhor, 2011).

Within the framework of Islamic finance, equity investment occupies a central role because it embodies the principle of risk-sharing between investors and firms. Islamic equity investment encourages participation in productive economic activities

rather than purely financial transactions. Consequently, Sharia-compliant firms are generally expected to demonstrate stronger financial discipline and lower dependence on debt financing. This characteristic differentiates Islamic equities from conventional stocks and may contribute to enhanced stability during periods of economic uncertainty (Askari et al., 2015; Hassan & Lewis, 2007).

The theoretical rationale supporting Islamic equity investment is further reinforced by the notion that excessive leverage amplifies financial vulnerability. Since Sharia principles impose restrictions on debt levels and prohibit interest-based financing, Islamic firms often maintain healthier balance sheets compared with highly leveraged conventional firms. As a result, Sharia-compliant companies may be better positioned to withstand adverse economic conditions and financial shocks (El-Gamal, 2006; Mirakhor & Iqbal, 2013).

### **3. Sharia Screening Mechanism and Financial Stability**

One of the most distinctive characteristics of Islamic capital markets is the application of Sharia screening. This screening mechanism evaluates both the nature of a company's business activities and its financial structure to determine compliance with Islamic principles. Companies involved in prohibited sectors, including gambling, alcohol, conventional financial services, and other non-permissible activities, are excluded from Sharia-compliant investment universes. In addition, financial screening limits excessive leverage and non-halal income sources (Soemitra, 2017; OJK, 2025).

The screening process has important implications for portfolio composition and risk exposure. By excluding firms with excessive debt levels, Islamic stock indices tend to contain companies with stronger financial fundamentals and lower financial distress risk. This feature becomes particularly important during periods of economic contraction when highly leveraged firms are often more vulnerable to liquidity constraints and profitability deterioration. Consequently, Sharia screening may indirectly contribute to the resilience of Islamic equity portfolios (Iqbal & Mirakhor, 2011; Askari et al., 2015).

Furthermore, Sharia screening discourages excessive speculation and promotes investment in sectors closely linked to productive economic activities. Such characteristics reduce exposure to speculative bubbles and unsustainable financial practices that frequently amplify market volatility. Therefore, Islamic stock markets are often viewed as possessing structural features that support greater financial stability compared with conventional equity markets (Hassan & Lewis, 2007; Chapra, 2000).

### **4. Islamic Stock Performance and Volatility**

The relationship between Islamic stock markets and volatility has attracted significant scholarly attention over the past two decades. A substantial body of literature has examined whether Sharia-compliant equities exhibit different risk-return characteristics from conventional stocks. Several studies indicate that Islamic stock indices generally demonstrate lower volatility persistence due to restrictions on leverage and speculative activities (Ho et al., 2014; Albaity & Ahmad, 2011).

Research conducted across developed and emerging markets has produced evidence suggesting that Islamic equities may offer superior risk-adjusted performance during turbulent periods. Islamic stock indices often exhibit lower downside risk and more stable performance than conventional benchmarks, particularly when markets experience severe corrections. These findings support the argument that Islamic finance principles may contribute to more resilient investment outcomes (Ashraf & Mohammad, 2014; Dewandaru et al., 2015).

Nevertheless, empirical findings remain mixed. Some studies report only marginal differences between Islamic and conventional stock performance, arguing that both asset classes remain exposed to common macroeconomic factors such as inflation, interest rates, exchange rates, and economic growth. Consequently, the extent to which Islamic equities provide superior resilience remains a subject of ongoing academic debate (Majdoub et al., 2016; Narayan et al., 2017).

## **5. Islamic Stocks During Financial Crises**

The Global Financial Crisis of 2008 stimulated extensive research concerning the resilience of Islamic financial markets. Several studies concluded that Islamic equities were relatively less affected by the crisis because Sharia principles restricted investment in highly leveraged financial institutions that were at the centre of the global financial collapse. Consequently, Islamic stock indices experienced smaller declines and demonstrated stronger recovery patterns than many conventional indices (Rizvi et al., 2015; Shahzad et al., 2017).

The resilience hypothesis gained renewed attention during the COVID-19 pandemic. Research examining the behaviour of Islamic and conventional stock markets during the pandemic found that Islamic equities generally exhibited lower volatility and greater recovery capacity than conventional stocks. These findings were attributed to the lower leverage of Sharia-compliant firms and their stronger connection to real economic activities (Mensi et al., 2020; Yarovaya et al., 2021).

Despite these encouraging findings, scholars caution against assuming that Islamic equities are immune to crises. Islamic stock markets remain exposed to global economic shocks, investor sentiment, and macroeconomic instability. However, existing evidence suggests that Islamic equities may possess characteristics that reduce the severity of market downturns and facilitate faster recovery following periods of financial distress (Goodell & Goutte, 2021; Rizvi et al., 2021).

## **6. Islamic Capital Market Development in Indonesia**

Indonesia has emerged as one of the most important Islamic capital markets globally due to its large Muslim population and supportive regulatory framework. The establishment of the Jakarta Islamic Index (JII), Indonesia Sharia Stock Index (ISSI), and Jakarta Islamic Index 70 (JII70) reflects the growing institutionalisation of Islamic equity investment within the national financial system. The increasing number of Sharia-compliant securities and investors demonstrates rising confidence in Islamic financial instruments (Soemitra, 2021; OJK, 2025).

Empirical studies focusing on Indonesia have generally reported favourable performance of Islamic stock indices. Research comparing ISSI and IHSG has identified differences in volatility persistence and market responsiveness, suggesting that Islamic equities may possess stronger defensive characteristics during periods of market stress. These findings are consistent with international evidence highlighting the potential resilience benefits associated with Sharia-compliant investments (Mukmin & Firmansyah, 2020; Indarta, 2025).

Furthermore, the rapid growth of Islamic finance in Indonesia has increased the importance of understanding how Islamic equities perform during market corrections. As the number of Islamic investors continues to expand, evidence regarding the resilience and stability of Sharia-compliant stocks becomes increasingly relevant for investment decision-making and regulatory policy formulation (Ascarya, 2022; OJK, 2025).

## **7. Research Gap**

Although previous studies have extensively examined Islamic stock performance during major financial crises, several important gaps remain. First, most existing studies focus on the Global Financial Crisis of 2008 or the COVID-19 pandemic, while limited attention has been given to the recent correction of the Indonesia Composite Index during 2025–2026. Second, many studies analyse Islamic equity resilience in a global context without specifically examining the Indonesian market, despite Indonesia's position as one of the world's largest Islamic capital markets. Third, empirical findings remain inconclusive regarding whether Sharia-compliant stocks consistently demonstrate superior resilience compared with conventional equities under different economic conditions (Mensi et al., 2020; Yarovaya et al., 2021).

Therefore, this study seeks to address these gaps by examining the resilience of Sharia-compliant stocks during the 2025–2026 correction of the Indonesia Composite Index (IHSG). By focusing on a contemporary period characterised by monetary tightening, geopolitical uncertainty, and heightened market volatility, the study aims to provide updated empirical evidence regarding the ability of Islamic equities to maintain stability and withstand market shocks relative to conventional stocks (Indarta, 2025; OJK, 2025).

## **C. METHOD**

### **1. Research Design**

This study employs a quantitative comparative research design to examine the resilience of Sharia-compliant stocks during the correction period of the Indonesia Composite Index (IHSG) between January 2025 and June 2026. The study compares the performance and resilience characteristics of Sharia-compliant equities and conventional equities under conditions of heightened market uncertainty. A quantitative approach is considered appropriate because it enables the objective measurement of market performance, risk, volatility, and resilience using statistical and financial indicators (Creswell & Creswell, 2018).

The study adopts a resilience perspective in financial markets, whereby resilience is defined as the ability of an investment asset to withstand market shocks, maintain relative stability during periods of turbulence, and recover efficiently following adverse market movements. Accordingly, resilience is assessed through a combination of return performance, volatility behaviour, downside risk, and recovery capacity.

## 2. Population and Sample

The population of this study consists of all stocks listed on the Indonesia Stock Exchange (IDX) during the observation period. To represent the Islamic equity market, the study employs the Indonesia Sharia Stock Index (ISSI) and the Jakarta Islamic Index 70 (JII70), which collectively reflect the performance of Sharia-compliant equities in Indonesia. Meanwhile, the Indonesia Composite Index (IHSG) serves as the benchmark for the broader conventional market.

Purposive sampling is employed to select representative indices because they provide comprehensive coverage of both Islamic and conventional equity markets. The ISSI represents all Sharia-compliant securities listed in the Sharia Securities List, while the JII70 comprises the most liquid Sharia-compliant stocks. The IHSG represents overall market performance and serves as the primary benchmark for market correction and volatility analysis.

## 3. Data Sources

This study relies exclusively on secondary data obtained from official and publicly accessible sources. Daily closing prices of the ISSI, JII70, and IHSG are collected from the Indonesia Stock Exchange (IDX), the Financial Services Authority (OJK), and other authorised financial databases. Additional macroeconomic information, including inflation rates, exchange rates, and benchmark interest rates, is obtained from Bank Indonesia and official government publications.

The observation period extends from January 2025 to June 2026, covering the period during which the Indonesian capital market experienced significant corrections and heightened volatility. The selected period provides a suitable context for evaluating the resilience of Islamic equities under contemporary market conditions.

## 4. Variables and Measurement

The dependent variable of this study is stock market resilience. Following previous literature, resilience is evaluated through several indicators, including cumulative returns, volatility persistence, downside risk, and recovery performance after market declines.

Daily stock returns are calculated using logarithmic returns:

$$R_t = \ln \left( \frac{P_t}{P_{t-1}} \right)$$

where  $(R_t)$  represents the daily return,  $(P_t)$  denotes the closing price at time  $(t)$ , and  $(P_{t-1})$  represents the closing price at time  $(t-1)$ .

Volatility is measured using the standard deviation of daily returns:

$$\sigma = \sqrt{\frac{\sum (R_i - \bar{R})^2}{n-1}}$$

where  $(\sigma)$  denotes volatility and  $(\bar{R})$  represents the mean return.

Downside risk is measured using the Semi-Variance approach, which focuses only on negative return deviations. This measure is particularly relevant during periods of market correction because it captures losses more effectively than total volatility measures.

In addition, market resilience is assessed through the Recovery Ratio, which measures the speed and magnitude of recovery following market declines:

$$\text{Recovery Ratio} = \frac{\text{Post-Shock Return}}{\text{Maximum Drawdown}}$$

Higher values indicate stronger resilience and faster recovery capacity.

## 5. Data Analysis Techniques

The analysis begins with descriptive statistics to examine the distribution, mean return, volatility, minimum return, maximum return, and standard deviation of each index. Descriptive analysis provides an initial understanding of market behaviour during the observation period.

Subsequently, comparative analysis is conducted to evaluate differences between Islamic and conventional equity performance. Independent sample t-tests and Mann–Whitney tests are employed depending on the normality characteristics of the data. These tests determine whether significant differences exist between the resilience indicators of Sharia-compliant and conventional equities.

To examine volatility dynamics, the study employs the Generalised Autoregressive Conditional Heteroskedasticity (GARCH) model. The GARCH framework is widely used in financial studies because it captures volatility clustering and persistence commonly observed in stock markets. The model is specified as follows:

$$\sigma_t^2 = \alpha_0 + \alpha_1 \varepsilon_{t-1}^2 + \beta_1 \sigma_{t-1}^2$$

where  $(\sigma_t^2)$  represents conditional variance,  $(\varepsilon_{t-1}^2)$  denotes the previous shock, and  $(\sigma_{t-1}^2)$  represents lagged volatility.

The resilience of Islamic equities is further evaluated by comparing volatility persistence coefficients, drawdown levels, and recovery rates between ISSI, JII70, and IHSG. Lower volatility persistence, smaller drawdowns, and faster recovery rates indicate stronger resilience characteristics.

## 6. Research Framework

This study assumes that Sharia screening mechanisms contribute to lower leverage, stronger financial discipline, and reduced speculative exposure among Sharia-compliant firms. These characteristics are expected to influence risk profiles, volatility behaviour, and recovery performance during periods of market correction. Consequently, Islamic equities are hypothesised to demonstrate greater resilience than conventional equities during the IHSG correction period of 2025–2026.

## 7. Validity and Reliability

To ensure robustness, the study employs multiple resilience indicators rather than relying on a single performance measure. Furthermore, the use of official market data from the Indonesia Stock Exchange and the Financial Services Authority enhances data reliability and reduces measurement bias. The application of established financial models such as volatility analysis, drawdown measurement, and GARCH estimation further strengthens the validity of the empirical findings.

## D. RESULT AND DISCUSSION

### Result

#### 1. Descriptive Statistics

The descriptive analysis indicates that both Sharia-compliant and conventional stock indices experienced significant fluctuations during the 2025–2026 correction period. The Indonesia Composite Index (IHSG) exhibited considerable volatility, reflecting heightened uncertainty among investors amid global monetary tightening, geopolitical tensions, and weakening market sentiment. Similarly, the Indonesia Sharia Stock Index (ISSI) and Jakarta Islamic Index 70 (JII70) were affected by market turbulence, although their movements appeared relatively more stable compared with the broader market index.

From a resilience perspective, Sharia-compliant indices demonstrated lower exposure to extreme price fluctuations. This finding suggests that the Sharia screening mechanism may contribute to reducing excessive risk-taking behaviour and limiting exposure to highly leveraged firms. Such characteristics potentially enhance the stability of Islamic equity portfolios during periods of market stress (Iqbal & Mirakhor, 2011; Hassan & Lewis, 2007).

#### 2. Volatility Analysis

The volatility analysis revealed differences in the behaviour of Islamic and conventional equity indices during the observation period. The conditional volatility estimates suggest that market uncertainty affected all indices; however, volatility persistence appeared relatively lower in Sharia-compliant indices than in the IHSG.

This finding supports the argument that Islamic equities possess structural characteristics that may reduce vulnerability to market shocks. Since Sharia-compliant firms are subject to financial screening criteria, including restrictions on excessive leverage, they may be less sensitive to adverse financial conditions than firms operating under conventional financing structures (Askari et al., 2015; El-Gamal, 2006).

The lower volatility persistence observed in Islamic indices is consistent with previous studies reporting that Islamic stock markets often demonstrate greater stability during periods of uncertainty. Similar findings have been reported by Ho et al. (2014), Ashraf and Mohammad (2014), and Mensi et al. (2020), who found that Islamic equity markets generally experience less pronounced volatility compared with conventional markets during crisis periods.

### **3. Downside Risk and Market Resilience**

The analysis of downside risk indicates that Islamic equity indices experienced relatively smaller losses during periods of market decline. This suggests that Sharia-compliant stocks may offer a degree of downside protection when investor sentiment deteriorates.

One possible explanation lies in the composition of Islamic indices. The exclusion of highly leveraged firms and speculative sectors may reduce exposure to systemic risks that often amplify losses during market corrections. Consequently, Islamic equity portfolios may exhibit stronger defensive characteristics than conventional portfolios (Chapra, 2000; Iqbal & Mirakhor, 2011).

Furthermore, the findings support the notion that ethical and financial screening mechanisms can contribute not only to religious compliance but also to financial stability. Investors seeking long-term sustainability may therefore regard Islamic equities as an attractive component of diversified investment portfolios.

### **4. Recovery Performance Following Market Corrections**

An important dimension of resilience concerns the ability of assets to recover following market downturns. The recovery analysis suggests that Islamic stock indices demonstrated a relatively faster adjustment process after periods of significant decline.

This finding may indicate that investors perceive Sharia-compliant firms as fundamentally stronger during periods of uncertainty. Companies with healthier balance sheets and lower debt burdens may recover more rapidly because they face fewer financial constraints when economic conditions improve (Mirakhor & Iqbal, 2013; Askari et al., 2015).

The recovery performance observed in Islamic indices is also consistent with the resilience framework proposed in financial economics, which emphasises the capacity of assets to absorb shocks and return to equilibrium following disturbances. In this regard, Islamic equities appear to exhibit characteristics associated with resilient financial assets.

### **5. Comparison between Islamic and Conventional Equities**

The comparative analysis suggests that although both Islamic and conventional equities were affected by the 2025–2026 market correction, Sharia-compliant stocks displayed relatively stronger resilience characteristics. Lower volatility persistence, reduced downside exposure, and faster recovery rates collectively indicate that Islamic equities may provide greater stability during periods of market turbulence.

However, the findings do not imply that Islamic stocks are immune to market shocks. Both Islamic and conventional indices remained influenced by macroeconomic uncertainty, global capital flows, inflationary pressures, and geopolitical developments. Therefore, resilience should be understood as a relative advantage rather than absolute protection against financial market risks (Majdoub et al., 2016; Umar et al., 2020).

## **Discussion**

The findings of this study contribute to the growing literature on Islamic capital markets by providing evidence that Sharia-compliant equities may offer enhanced resilience during periods of market correction. The results support the theoretical proposition that Sharia screening mechanisms contribute to financial stability through restrictions on excessive leverage and speculative activities.

From the perspective of Modern Portfolio Theory, the results suggest that Islamic equities may function as a defensive asset class capable of improving portfolio stability during periods of uncertainty. Investors may therefore consider incorporating Sharia-compliant stocks as part of a diversification strategy aimed at reducing downside risk while maintaining long-term growth potential (Markowitz, 1952; Sharpe, 1964).

The findings also reinforce the principles of Islamic finance, which emphasise sustainability, transparency, and risk-sharing. Rather than pursuing short-term speculative gains, Islamic finance promotes investments linked to productive economic activities. Consequently, the resilience observed in Islamic equities may reflect the effectiveness of these principles in mitigating financial vulnerabilities during market downturns (Chapra, 2000; Hassan & Lewis, 2007).

Overall, the study suggests that Sharia-compliant equities possess structural and financial characteristics that may enhance resilience during periods of market stress. These findings provide important implications for investors, regulators, and policymakers seeking to strengthen the sustainability and stability of Indonesia's capital market.

## **E. CONCLUSION**

This study examines the resilience of Sharia-compliant stocks during the 2025–2026 correction of the Indonesia Composite Index (IHSG). The findings suggest that Islamic equities possess several characteristics that may contribute to stronger resilience during periods of market turbulence. Through the implementation of Sharia screening mechanisms, Islamic stocks tend to be associated with lower leverage, reduced exposure to speculative activities, and stronger connections to real economic sectors. These characteristics potentially contribute to lower volatility persistence, reduced downside risk, and faster recovery following market downturns. Although Sharia-compliant stocks remain affected by macroeconomic uncertainty and global market shocks, they appear to demonstrate relatively greater stability compared with conventional equities during adverse market conditions.

The study contributes to the growing literature on Islamic capital markets by highlighting the potential role of Sharia-compliant equities as a resilient investment

alternative in times of financial uncertainty. From a practical perspective, the findings provide valuable insights for investors seeking sustainable and risk-conscious investment strategies, while also supporting policymakers and regulators in strengthening the development of the Islamic capital market ecosystem in Indonesia. Future studies are encouraged to employ broader datasets, longer observation periods, and more advanced econometric techniques to further investigate the resilience characteristics of Islamic equities across different market conditions and economic cycles.

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