

In Search of Zero Beta Assets: Evidence from the Sukuk Market

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Abstract : The financial crises caused a collapse in prices of most asset classes, raising the attention on alternative investments such as Sukuk, a smaller, fast growing but often misunderstood market. We study diversification benefits of Sukuk, their correlation with other asset classes and the effects of their inclusion in investment portfolios of institutional and retail investors, through a comprehensive comparison of their risk/return profiles during and after the financial crisis. We find a beneficial performance adjusted for the specific volatility together with a lower correlation especially during the financial crisis. The distribution of Sukuk returns is positively skewed and leptokurtic, with a risk/return profile similarly to high yield bonds. Overall, our results suggest that Sukuk present diversification opportunities, a significant volatility-adjusted performance and lower correlations especially during the financial crisis. Our findings are relevant for a number of institutional investors. Long term investors, such as life insurers would benefit from Sukuk's protective features during financial crisis yet keeping return and growth opportunities, whereas banks would gain due to their role of placers, advisors, market makers or underwriters.

Keywords : sukuk, zero beta asset, asset allocation, sukuk market

Conference Title : ICIBFI 2015 : International Conference on Islamic Banking, Finance and Investment

Conference Location : Zurich, Switzerland

Conference Dates : January 13-14, 2015