

Financial Market Turmoil and Performance of Islamic Equity Indices

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Abstract : The Islamic stock market indices are constructed by screening out stocks that are incompatible with Islam's prohibition of interest and certain lines of business. This study examines the effects of Islamic screening on the risk-return characteristics of Islamic vis-a-vis mainstream equity portfolios. We use data on Dow Jones Islamic market indices and FTSE Global Islamic indices over 1993-2013. We observe that Islamic equity indices outperform their mainstream counterparts in both raw and risk-adjusted returns. In addition, Islamic equity indices are more resilient to turbulence in international markets than that of their mainstream counterparts. The findings are robust across a variety of portfolio performance measures.

Keywords : Dow Jones Islamic market index, FTSE global Islamic index, ethical investment, finance

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