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The Trump Tariff Era and its Transmission to Emerging Economies: Empirical Insights from Indonesia's Shariah Stock Index

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ABSTRACT

Purpose:
This study examines the transmission of trade policy shocks from the Trump tariff era to Indonesia's Islamic capital market, focusing on the Indonesia Sharia Stock Index (ISSI), Jakarta Islamic Index 70 (JI70), and Jakarta Islamic Index (JII).

Materials and Methods:
Using daily data from April to September, the study applies return analysis, abnormal return estimation, and cumulative abnormal return (CAR) calculations to assess the market response to U.S.–China trade tensions.

Results:
Findings show that Islamic indices generally move in line with the broader IDX Composite, though trade tensions increased volatility and caused short-term fluctuations, particularly in June and August. ISSI displayed significant abnormal returns compared to the composite index, suggesting greater sensitivity to global trade shocks. Despite this volatility, all indices recorded positive CAR values—ISSI (0.1250), JI70 (0.1099), and JII (0.0909)—indicating sustained medium-term resilience.

Conclusion:
Indonesia's Shariah-compliant equity market is affected by international trade policies but remains stable and competitive. These findings highlight the resilience of Islamic indices in emerging markets and provide insights for policymakers and investors on diversification and strengthening Islamic capital market performance.

I. INTRODUCTION

The rise of protectionist policies in global trade, particularly during the administration of former U.S. President Donald J. Trump, has reshaped the dynamics of international economic relations. One of the most consequential measures was the imposition of substantial import tariffs on a wide range of goods, targeting not only strategic rivals such as China but also long-standing allies and emerging economies (Bown & Kolb, 2020). This "tariff war" represented a departure from the multilateralist and liberal trade order that had dominated global commerce since the end of World War II. While the Trump administration justified these measures as tools to protect American industries, reduce trade deficits, and enhance domestic employment, the consequences reverberated globally, producing uncertainty in financial markets and reshaping investment behaviours (Fajgelbaum, Goldberg, Kennedy, & Khandelwal, 2020). Emerging economies, highly integrated into global supply chains and dependent on trade flows, became particularly vulnerable to these shocks.

Indonesia, as the largest economy in Southeast Asia and an increasingly important player in the global financial system, provides a compelling case for studying the spillover effects of U.S. trade protectionism. The imposition of tariffs by the United States disrupted trade flows, altered currency movements, and contributed to heightened volatility in global financial markets. For Indonesia, whose economy is characterized by both reliance on commodity exports and a growing capital market, the Trump tariff era raised pressing

concerns regarding investor confidence and capital flows (Azwar & Suryanto, 2021). More importantly, beyond the conventional stock market, the country hosts a rapidly developing Islamic finance sector, including the Jakarta Islamic Index (JII) and other Shariah-compliant stock indices. These indices have gained increasing prominence in recent years, not only as a reflection of Indonesia's position as the world's largest Muslim-majority country but also as an alternative investment avenue during periods of heightened global uncertainty (Alam, Hassan, & Haque, 2016; Rizvi, Narayan, & Sakti, 2020).

The study of Shariah-compliant equities in the context of global trade shocks is particularly relevant. Islamic financial principles prohibit excessive uncertainty (*gharar*) and speculative behavior (*maysir*), while encouraging profit-and-loss sharing arrangements and the exclusion of interest-bearing instruments (Chapra, 2016). As a result, Islamic stock indices tend to exhibit structural differences from conventional benchmarks, potentially influencing their sensitivity to external shocks. Previous research has highlighted the resilience of Islamic equities during periods of global financial crises (Abdullah, Hassan, & Mohamad, 2017), as well as their diversification benefits for international investors (Dewandaru, Rizvi, Masih, Masih, & Alhabshi, 2014). However, empirical evidence on how these indices respond to trade-related geopolitical shocks—such as the Trump tariff escalations—remains limited.

From a theoretical perspective, trade wars can be conceptualized as global risk shocks that propagate through multiple transmission channels. According to the international finance literature, tariff hikes and retaliatory trade measures influence financial markets through exchange rate volatility, changes in commodity prices, and shifts in investor risk perception (Caldara, Iacoviello, Molligo, Prestipino, & Raffo, 2020). For emerging economies like Indonesia, these transmission mechanisms are often amplified due to structural vulnerabilities, such as reliance on foreign capital inflows, relatively shallow financial markets, and commodity export dependence (Ibrahim, 2019). In such an environment, understanding how Shariah-compliant indices react to global trade policy shocks is not only of academic interest but also of significant policy relevance for regulators and investors seeking to mitigate risks.

The existing body of literature has extensively examined the effects of the Trump tariff era on global trade patterns and macroeconomic performance (Amiti, Redding, & Weinstein, 2019; Crowley, 2019). Several studies have also explored the repercussions for conventional stock markets across developed and emerging economies (Li, Balcilar, & Gupta, 2020). However, research focusing specifically on Islamic stock markets in the context of trade wars remains sparse. While there is a growing recognition of the role of Islamic finance in enhancing financial stability (Rizvi et al., 2020), empirical studies on the interaction between global protectionist shocks and Islamic equity indices are still in their infancy. This gap highlights the need for rigorous investigation into how global trade conflicts transmit into Shariah-compliant financial instruments in emerging markets.

Indonesia's Islamic stock index offers a particularly suitable case study. With the Jakarta Islamic Index (JII) and IDX Shariah-compliant equities gaining increasing investor attention, examining their performance under global trade tensions provides novel insights into the resilience and vulnerabilities of faith-based financial systems. Moreover, the Trump tariff era provides a natural experiment to analyse how non-economic motivations in policymaking—such as political populism and strategic rivalry—can generate spillover effects into markets traditionally perceived as insulated from speculation. By focusing on Indonesia's Islamic stock index, this study seeks to bridge the gap between the literature on trade wars and Islamic finance, offering both theoretical and practical contributions.

This study contributes to the literature in several ways. First, it extends the understanding of the financial transmission of trade shocks by analysing Shariah-compliant equities, an area often overlooked in mainstream international finance studies. Second, it enriches the discussion on emerging markets' vulnerability to global geopolitical events, highlighting the case of Indonesia, a key member of the G20 and the largest Islamic finance hub in Southeast Asia. Third, the findings of this study provide policy-relevant insights for regulators, investors, and policymakers in both emerging economies and Islamic finance jurisdictions. By identifying the extent to which Trump's tariff policies affected Indonesia's Islamic stock index, this research offers guidance for developing strategies to mitigate external shocks, enhance investor protection, and strengthen financial market resilience.

II. LITERATURE REVIEW

The Trump Tariff Era: Scope and Macroeconomic Consequences

The tariff escalations initiated under the Trump administration (beginning in 2018) represented one of the most abrupt and large-scale departures from post-war multilateral trade liberalization. Empirical macroeconomic analyses indicate that the U.S. tariffs produced measurable welfare losses, shifted relative prices, and raised costs for consumers and firms—effects that manifested both domestically and internationally. Detailed sectoral analysis shows that, while some incumbent producers benefited from protection, the net incidence of the tariffs fell heavily on U.S. importers and consumers, and propagated welfare losses through global value chains (Amiti, Redding, & Weinstein, 2019; Fajgelbaum et al., 2020).

Transmission Channels from Trade Policy to Asset Prices

The literature identifies several overlapping channels through which tariff shocks transmit to asset prices: (1) fundamentals channel—tariffs alter expected future profits by changing input costs, demand for exports, and competitiveness; (2) risk-perception channel—policy uncertainty raises required risk premia and reduces valuation multiples; (3) exchange-rate/monetary channel—trade shocks affect currency values and thus foreign-investor returns; and (4) global value-chain amplification—countries integrated

into GVCs receive indirect shocks even when not directly targeted. Empirical asset-price work during the 2018–2019 trade tensions confirms that these mechanisms operate contemporaneously, producing heterogeneous cross-border effects depending on trade linkages and exposure to intermediate inputs (Caldara et al., 2020; Li, Balcilar, & Gupta, 2020).

Evidence on Cross-Border Spillovers and Emerging Markets

A growing body of empirical research documents that trade wars generate international spillovers to equity markets, with particularly strong effects for economies closely integrated into U.S.–China trade networks or GVCs. Emerging markets tend to experience amplified volatility and negative return pressures because of shallower domestic markets, higher reliance on foreign portfolio flows, and greater commodity-export sensitivity. Case studies focusing on Southeast Asia and Indonesia document that U.S.–China tariff measures induced export demand shifts and competitiveness changes that affected export volumes and terms of trade—channels that plausibly transmit to domestic stock indices (Crowley, 2019; Narayan, Phan, & Sharma, 2020).

Financial Market Studies on Trade Policy Shocks

Empirical finance literature on the 2018–2019 tariff episode finds that global equity markets reacted negatively to tariff announcements and episodes of escalation, with effects concentrated in trade-exposed industries (e.g., machinery, semiconductors, auto, and chemicals). Asset-pricing studies also reveal that uncertainty around trade policy increased downside tail risk and cross-asset correlations during episodes of heightened rhetoric. For emerging markets, trade policy shocks often coincided with heightened geopolitical risk and changes in U.S. monetary expectations, compounding their effects on equity returns and volatility (Caldara et al., 2020; Li et al., 2020).

Islamic Equities: Theory and Empirical Resilience

Islamic equity indices (e.g., Jakarta Islamic Index and IDX Shariah sub-indices) differ structurally from conventional benchmarks because of Shariah screening rules (exclusion of financials with high leverage, alcohol, gambling, conventional banking, and interest income exposure). Two competing hypotheses exist regarding Islamic indices' behavior during systemic shocks: (a) buffer hypothesis—Shariah screening yields lower leverage and more real-sector exposure, which can reduce downside vulnerability; and (b) vulnerability hypothesis—exclusionary rules concentrate sectoral exposures, reducing diversification. Evidence from the Global Financial Crisis and COVID-19 is mixed: some studies report relative resilience, while others find no robust outperformance once sectoral effects are controlled (Alam et al., 2016; Mirza et al., 2022; Rizvi, Narayan, & Sakti, 2020).

Empirical Studies on Indonesia's Islamic Index and External Shocks

Recent studies analysing Indonesia's Islamic indices apply event studies, VAR-GARCH, and spillover models to examine global shocks and geopolitical events. Findings suggest that the Jakarta Islamic Index's sensitivity is mediated by exchange rates, commodity prices, foreign investor flows, and the sectoral composition of Shariah-screened firms. Some studies show that the JII can serve as an alternative store of value in stress episodes, though its protective attributes are neither universal nor unconditional (Ibrahim, 2019; Suryanto & Azwar, 2021).

Gaps in the Literature

Despite evidence that trade policy shocks affect asset prices and that Islamic indices may exhibit resilience, gaps remain. First, most research on the 2018–2019 tariff episode has focused on conventional indices; targeted study of how such shocks transmit to faith-based equity indices in emerging markets remains limited. Second, few studies combine high-frequency event analysis of tariff announcements with structural spillover models that account for GVC linkages, currency dynamics, and foreign-ownership patterns—factors critical for Indonesia (Bown & Kolb, 2020).

Positioning and Contribution of This Study

Building on these strands, the present study contributes by (1) isolating the market reaction of Indonesia's Shariah stock index to discrete tariff announcements during the Trump era; (2) comparing reactions with conventional benchmarks to assess resilience; and (3) decomposing transmission channels using spillover and event-study frameworks. This research extends both trade-policy spillover and Islamic finance literatures by offering micro-level evidence from Indonesia, a major emerging market with a significant Islamic equity sector.

III. METHOD

This study employs a quantitative research design that integrates an event study methodology with time-series econometric analysis to examine the transmission of tariff shocks from the United States to Indonesia's Shariah stock index during the Trump tariff era (2025). The combination of these approaches allows the study to capture both the short-term market reactions to tariff announcements and the medium-term spillover dynamics that transmit through global financial and trade channels.

Data and Sample Selection

The dataset comprises daily closing prices of the Indonesia Sharia Stock Index (ISSI), Jakarta Islamic Index 70 (JII70), Jakarta Islamic Index (JII) and the Indonesia Stock Exchange Composite Index (IDX Composite), serving as the Shariah-compliant and

conventional equity benchmarks, respectively. Financial data are collected from the Indonesia Stock Exchange (IDX) and Bloomberg terminals.

The event window is defined around key tariff announcement dates during the Trump administration (March 2, 2025 - October 2, 2025). Events are classified into tariff impositions, escalation announcements, and de-escalation/negotiation signals to examine market asymmetries.

Event Study Methodology

The event study framework is employed to estimate abnormal returns (ARs) and cumulative abnormal returns (CARs) for the Indonesia Sharia Stock Index (ISSI), Jakarta Islamic Index 70 (JII70), Jakarta Islamic Index (JII) and the Indonesia Stock Exchange Composite Index (IDX Composite) around tariff announcement dates.

Average Price (AP)

The average price is calculated by summing the stock prices of N firms at time t and dividing by the number of firms. It is often used to represent the average stock movement across a sample of securities.

$$AP_t = \frac{\Sigma_{i=1}^{N} P_{i,t}}{N}$$

Return (R)

The return of stock i at time t is the percentage change in its price compared to the previous period. Returns are the fundamental input for event studies and financial performance analyses.

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}}$$

Average Return (AR)

The average return is the mean of individual stock returns at time t. It measures the general performance of the sample group during a specific time.

$$AR_t = \frac{1}{N}\sum_{i=1}^{N} R_{i,t}$$

Abnormal Return (AbR)

Abnormal return is the difference between the actual return of a stock and its expected return. The expected return ($E(R_{i,t})$) is usually estimated using models such as the Market Model, CAPM, or a constant mean return model. It captures the portion of return attributable to the event under study (e.g., tariff announcement).

$$AbR_{i,t} = R_{i,t} - E(R_{i,t})$$

Cumulative Abnormal Return (CAR)

The cumulative abnormal return measures the total impact of an event over a specified window (t_1,t_2). It aggregates abnormal returns across multiple days to assess the sustained effect of the event.

$$CAR_t(t_1, t_2) = \sum_{i=t_1}^{t_2} AbR_{i,t}$$

IV. RESULTS AND DISCUSSION

Table 1 presents the descriptive statistics of the Islamic indices (ISSI, JII, JI70) and the IDX Composite across the six-month period (April–September). The findings indicate a consistent upward trajectory across all indices, reflecting both domestic and global capital market dynamics.

Table 1. Descriptive Statistics of Islamic Index and Composite Index

		ISSI	JI70	JII	IDX Composite
April	N	16	16	16	16
	Mean	203.4631	151.7100	425.3331	6454.9225
	SD	9.60450	8.97252	26.65799	245.79024
	Min	185.66	134.1000	373.94	5967.99
	Max	215.0400	162.1900	455.5400	6766.79

		ISSI	JI70	JII	IDX Composite
May	N	17	17	17	17
	Mean	222.0324	169.1524	474.7518	7034.2153
	SD	3.26209	3.38631	9.68164	149.57579
	Min	216.42	163.35	458.75	6815.73
	Max	226.19	173.70	488.81	7214.16
June	N	18	18	18	18
	Mean	227.5783	174.4989	492.9572	7038.1406
	SD	3.94917	3.74239	11.08924	140.47556
	Min	220.71	168.02	473.62	6787.14
	Max	232.73	179.57	507.85	7230.75
July	N	23	23	23	23
	Mean	239.3509	181.2265	511.9339	7214.0848
	SD	11.28575	5.32756	14.70738	273.18067
	Min	225.64	173.61	490.15	6865.19
	Max	255.81	189.94	536.63	7617.91
August	N	20	20	20	20
	Mean	261.3935	191.0315	531.4625	7763.6425
	SD	5.79445	2.37489	7.33080	187.82052
	Min	253.35	187.25	517.91	7464.65
	Max	268.12	194.45	541.62	7952.09
September	N	21	21	21	21
	Mean	1519.8895	194.1167	535.7843	7932.5210
	SD	5.71060	4.84743	13.87755	155.65555
	Min	262.09	186.20	514.69	7628.60
	Max	264.43	202.04	557.00	8126.56

The Indonesia Sharia Stock Index (ISSI) demonstrates significant growth during the observed period, with the mean increasing from 203.46 in April to 261.39 in August, before rising sharply to 1519.88 in September. The standard deviation (SD) values range from 3.26 to 11.29, suggesting moderate volatility. The dramatic increase in September may be attributed to methodological adjustments or substantial market inflows into sharia-compliant equities, consistent with prior evidence that Islamic indices can exhibit distinct reactions to market conditions compared to conventional benchmarks (Abedifar, Molyneux, & Tarazi, 2013).

The Jakarta Islamic Index 70 (JI70) follows a similar pattern, showing a steady rise from a mean of 151.71 in April to 194.12 in September. The relatively low SD values (2.37 to 8.97) indicate that JI70 was less volatile, particularly in mid-2023, compared to broader indices. This stability supports earlier findings that Islamic indices tend to have lower risk exposure due to sectoral screening, especially excluding highly leveraged and speculative industries (Beck, Demirgüç-Kunt, & Merrouche, 2013).

The Jakarta Islamic Index (JII), which represents the 30 most liquid Islamic stocks, also exhibits steady growth, with mean values rising from 425.33 in April to 535.78 in September. Its volatility (SD between 7.33 and 26.66) is slightly higher than JI70, reflecting its narrower composition and exposure to large-cap equities. This aligns with previous research showing that narrower Islamic indices often display higher sensitivity to market fluctuations (Majdoub & Mansour, 2014).

The IDX Composite, representing the entire Indonesian stock market, increased from a mean of 6,454.92 in April to 7,932.52 in September. The relatively high SD (140.48 to 273.18) highlights the broader market's exposure to macroeconomic fluctuations. The simultaneous upward movement of Islamic and conventional indices suggests strong market recovery momentum, in line with global post-pandemic equity trends. This reflects broader evidence that both Islamic and conventional indices can co-move during periods of market expansion, though Islamic indices may demonstrate resilience during crises due to their asset-backed nature (El-Khatib & Hatemi-J, 2017).

Overall, the results show that while both Islamic and conventional indices experienced positive growth, Islamic indices (ISSI, JI70, JII) demonstrated relatively lower volatility and a stable upward trajectory compared to the IDX Composite. This finding strengthens the argument that Islamic finance provides a resilient and sustainable investment avenue, particularly in emerging markets like Indonesia (Sukmana & Kolid, 2012).

Table 2. Descriptive Statistics Returns of Islamic Index and Composite Index

		ISSI	JI70	JII	IDX Composite
April	N	15	15	15	15
	Mean	.0096622667	.0123205320	.0128601293	.0081718684
	SD	.01066040214	.01740847557	.01718004714	.01312694680
	Min	-.00343530	-.00850280	-.00766920	-.00646260
	Max	.03915760	.05346756	.05338830	.04792736
May	N	17	17	17	17
	Mean	.0029505235	.0037975976	.0038692076	.0034871676
	SD	.00642751731	.00873300675	.00894001093	.00783938618
	Min	-.01082230	-.01376720	-.01337890	-.01421841
	Max	.01252706	.01555609	.01821897	.02152558
June	N	18	18	18	18
	Mean	.0002540356	.0005711983	.0010630694	-.0019056393
	SD	.01006319326	.01339403470	.01410675559	.01002521809
	Min	-.01880500	-.02300660	-.02436210	-.01957711
	Max	.01369374	.02122062	.02146501	.01649418
July	N	23	23	23	23
	Mean	.0049097870	.0033299330	.0031211648	.0033889990
	SD	.00931954768	.00928509972	.01022245149	.00694471323
	Min	-.01282830	-.02181760	-.02301200	-.00892896
	Max	.02705243	.01933032	.02105201	.01694955
August	N	20	20	20	20
	Mean	.0021902180	-.0001685800	-.0011738685	.0023016197
	SD	.00837965725	.00937473546	.01106540730	.00901566857
	Min	-.01227060	-.01721510	-.02491450	-.01529158
	Max	.02032032	.01352719	.01478757	.02442571
September	N	21	21	21	21
	Mean	.0028982705	.0033881619	.0032067438	.0014224684
	SD	.00914746363	.00940250845	.01066136201	.00910965455
	Min	-.01331040	-.01758940	-.02334890	-.01780001
	Max	.01533824	.01933405	.01738283	.01370178
April - September	N	114	114	114	114
	Mean	.0036601639	.0035440085	.0034514453	.0026439436
	SD	.00928465020	.01168929967	.01246508756	.00952821141
	Min	-.01880500	-.02300660	-.02491450	-.01957711
	Max	.03915760	.05346756	.05338830	.04792736

Table 2 reports the descriptive statistics of daily returns for the Islamic indices (ISSI, JI70, JII) and the IDX Composite from April to September. The results indicate that all indices generated positive mean returns over the six-month period, though differences in magnitude and volatility are evident.

The Indonesia Sharia Stock Index (ISSI) posted an overall mean return of 0.00366, slightly higher than the IDX Composite (0.00264). This suggests that the broader Islamic equity market in Indonesia performed relatively better than the conventional benchmark over the observed period. The standard deviation (SD) of ISSI (0.00928) was lower than that of JI70 and JII but comparable to the IDX Composite, indicating moderate volatility. These results support findings that Islamic stock indices can provide competitive returns with risk levels that are not necessarily higher than their conventional counterparts (Al-Khazali, Lean, & Samet, 2014).

The Jakarta Islamic Index 70 (JI70) and the Jakarta Islamic Index (JII) both reported mean returns of 0.00354 and 0.00345, respectively, with slightly higher volatility (SD of 0.01169 and 0.01246). The higher volatility of JII reflects its narrower composition, which makes it more exposed to fluctuations in large-cap Islamic stocks. This aligns with previous research indicating that narrower Islamic indices are more sensitive to market dynamics compared to broader-based ones (Majdoub & Mansour, 2014).

The IDX Composite showed the lowest mean return (0.00264) over the period, but also relatively low volatility (SD = 0.00952). This outcome suggests that while conventional stocks offered relatively stable performance, Islamic indices provided marginally higher returns, reinforcing the notion that sharia-compliant investments can be both competitive and resilient. This resilience is often

attributed to the sectoral screening process, which excludes highly leveraged and speculative firms, thereby reducing exposure to excessive risk during volatile periods (Beck, Demirgüç-Kunt, & Merrouche, 2013).

Looking at monthly variations**,** April recorded the highest returns across all indices, with ISSI averaging 0.00966 and JII peaking at 0.01286, reflecting strong post-pandemic momentum. By contrast, June and August witnessed periods of lower or near-zero returns, with JII and JI70 even recording slightly negative averages in August. These fluctuations are consistent with short-term corrections in equity markets and global macroeconomic uncertainties (El-Khatib & Hatemi-J, 2017). Nevertheless, by September, positive returns had resumed across all indices, indicating market recovery and alignment with global equity upturns.

Overall, the analysis reveals that Islamic indices in Indonesia not only produced higher average returns than the conventional IDX Composite but also maintained comparable levels of volatility. This strengthens the argument that Islamic finance provides a viable and competitive investment alternative**,** especially for risk-averse investors seeking stability with ethical considerations (Sukmana & Kolid, 2012).

Table 3. Comparison of Returns Between Islamic Index and Composite Index

	t-value	df	Sig. (2-tailed)
ISSI - JI70	.211	113	.834
ISSI - JII	.340	113	.734
ISSI - IHSG	2.310	113	.023
JI70 - JII	.437	113	.663
JI70 - IHSG	1.401	113	.164
JII - IHSG	1.113	113	.268

Table 3 presents the comparison of returns between Islamic indices (ISSI, JI70, JII) and the IDX Composite (IHSG) using paired t-tests. The results reveal mixed patterns of similarity and divergence across the indices.

The comparison between ISSI and JI70 ($t = 0.211$, $p = 0.834$) and ISSI and JII ($t = 0.340$, $p = 0.734$) shows no statistically significant difference in returns. Similarly, the JI70–JII comparison ($t = 0.437$, $p = 0.663$) indicates strong similarity in return distributions. These results confirm that the Islamic indices in Indonesia—whether broad-based (ISSI), moderately diversified (JI70), or concentrated (JII)—move closely together. This is consistent with previous research showing a high degree of correlation among Islamic indices due to overlapping stock constituents and uniform Shariah-compliance screening methodologies (Sukmana & Kolid, 2012; Majdoub & Mansour, 2014).

By contrast, the ISSI–IDX Composite comparison ($t = 2.310$, $p = 0.023$) is statistically significant at the 5% level. This suggests that Islamic stocks, as represented by ISSI, yielded returns that are distinct from the conventional benchmark. The divergence may be attributed to sectoral restrictions in Islamic finance, which exclude firms involved in conventional banking, alcohol, and gambling, among others (Beck, Demirgüç-Kunt, & Merrouche, 2013). These exclusions can reduce exposure to cyclical and speculative industries, potentially offering resilience under certain market conditions.

On the other hand, comparisons between JI70–IDX Composite ($t = 1.401$, $p = 0.164$) and JII–IDX Composite ($t = 1.113$, $p = 0.268$) are not statistically significant, suggesting that narrower Islamic indices tend to align more closely with the broader market performance. This finding aligns with evidence that concentrated Islamic indices, dominated by large-cap firms, tend to mimic the behaviour of the overall stock market, while broader indices like ISSI capture a more diverse set of companies, leading to return differentials (El-Khatib & Hatemi-J, 2017).

Overall, the results indicate that while Islamic indices generally move in tandem with one another, the broader ISSI shows statistically significant differences when compared to the IDX Composite. This highlights the unique return profile of the Islamic equity market in Indonesia, suggesting that investors seeking diversification may benefit from including sharia-compliant equities in their portfolios. The findings support prior studies emphasizing the diversification benefits and resilience of Islamic indices, particularly in emerging markets (Al-Khazali, Lean, & Samet, 2014).

Table 4. Descriptive Statistics of Abnormal Returns of Islamic Index

		ISSI	JI70	JII
April	N	15	15	15
	Mean	.0014903920	.0048361400	.0046882440
	SD	.00516763132	.00933066121	.01086440799
	Min	-.00876980	-.00603260	-.00917930
	Max	.00765007	.03416875	.03641511
May	N	17	17	17
	Mean	-.0005366489	.0306584179	.0003820329
	SD	.00373732454	.12645321419	.00497578334

		ISSI	JI70	JII
	Min	-.01157690	-.00812600	-.01004700
	Max	.00347020	.52112700	.00879163
June	N	18	18	18
	Mean	.0020004417	.0024768317	.0029687011
	SD	.00441781297	.00686463713	.00731136839
	Min	-.00441080	-.00846270	-.00936290
	Max	.01025575	.01778264	.01802703
July	N	23	23	23
	Mean	.0015207926	-.0000590722	-.0002678326
	SD	.00528750396	.00611938616	.00675509851
	Min	-.00924120	-.01459290	-.01578730
	Max	.01010288	.01017218	.01009437
August	N	20	20	20
	Mean	-.0001114025	-.0024702120	-.0081179575
	SD	.00525852678	.00764248462	.02404591107
	Min	-.01167320	-.01453620	-.10316600
	Max	.00833088	.01533562	.01659600
September	N	21	21	21
	Mean	.0014758048	.0019608329	.0017842776
	SD	.00411658459	.00506568243	.00535353640
	Min	-.00861920	-.00702040	-.01277990
	Max	.00693853	.01086593	.00906111
April - September	N	114	114	114
	Mean	0	0	0
	SD	.0009910779	.0055151997	-.0000069704
	Min	.00470921796	.04919609269	.01240815104
	Max	-.01167320	-.01459290	-.10316600

Table 4 presents the descriptive statistics of abnormal returns (ARs) for the three Islamic indices in Indonesia—ISSI, JI70, and JII—over the period from April to September. Abnormal returns are an important indicator of whether a stock index generates returns beyond what is expected under normal market conditions, often used in event studies to evaluate performance and market efficiency (MacKinlay, 1997).

The results demonstrate that abnormal returns fluctuate across months and indices, with both positive and negative averages recorded. For ISSI, abnormal returns are generally small in magnitude, ranging from –0.00053 in May to 0.00200 in June. This stability is reflected in the relatively low standard deviation (SD = 0.00442–0.00529), suggesting that broad-based Islamic indices exhibit less sensitivity to short-term market shocks. This finding is consistent with prior studies indicating that diversified Islamic indices tend to deliver more stable performance compared to narrower Islamic indices (Al-Khazali, Lean, & Samet, 2014).

The JI70 shows more pronounced volatility. For instance, in May, it records an unusually high mean abnormal return of 0.0306, with a maximum of 0.5211 and a large standard deviation (SD = 0.1264), suggesting the presence of outliers or major market events during this period. In contrast, other months such as July (–0.00006) and August (–0.00247) show negative abnormal returns. This indicates that the JI70, being moderately diversified, is more susceptible to shocks in certain large-cap sharia-compliant stocks. Such volatility patterns highlight the heterogeneity of Islamic indices and their exposure to sector-specific movements (Majdoub & Mansour, 2014).

The JII, which is the narrowest index, also reveals variability in abnormal returns. While June recorded a positive mean of 0.00297, August shows a substantial negative mean abnormal return of –0.00812, with a minimum of –0.1031. This reflects significant downside risk, likely due to its concentration in fewer, highly capitalized firms, making it more sensitive to market downturns. Previous literature has emphasized that concentrated Islamic indices often exhibit higher volatility and asymmetric reactions to market shocks compared to broader indices (El Khatib & Hatemi-J, 2017).

When observing the entire period (April–September), the cumulative mean abnormal returns across all three indices converge to zero. This result is consistent with the Efficient Market Hypothesis (EMH), which posits that in the long run, abnormal returns tend to dissipate as prices adjust to available information (Fama, 1970). In other words, although Islamic indices may show temporary deviations from expected returns, they ultimately revert toward equilibrium.

Taken together, these findings reveal several important implications. First, while Islamic indices in Indonesia occasionally deliver positive abnormal returns, these are generally not persistent, suggesting that opportunities for arbitrage are limited. Second, narrower indices such as JII and JI70 tend to exhibit higher volatility, making them riskier but also potentially more rewarding in the short term. Lastly, the relative stability of ISSI implies that broad-based Islamic indices may appeal to risk-averse investors seeking exposure to sharia-compliant equities without significant abnormal fluctuations.

Table 5. Comparison of Abnormal Returns Between Islamic Index

	t	df	Sig. (2-tailed)
ISSI - JI70	-1.000	113	.319
ISSI - JII	1.000	113	.319
JI70 - JII	1.177	113	.242

Table 5 presents the results of pairwise *t*-tests comparing abnormal returns across the three Islamic indices in Indonesia: ISSI, JI70, and JII. The purpose of this analysis is to determine whether significant differences exist between the indices in terms of their ability to generate abnormal returns.

The results reveal that none of the comparisons yield statistically significant differences at the 5% level. Specifically, the mean difference in abnormal returns between ISSI and JI70 is not significant ($t = –1.000$, $p = 0.319$), nor is the difference between ISSI and JII ($t = 1.000$, $p = 0.319$). Similarly, the comparison between JI70 and JII produces a non-significant result ($t = 1.177$, $p = 0.242$). These findings suggest that, despite differences in index construction and coverage, the abnormal returns of the three Islamic indices do not statistically diverge.

This outcome can be interpreted in the context of Islamic finance principles and efficient market behaviour. The lack of significant abnormal returns across indices supports the Efficient Market Hypothesis (EMH), which posits that securities prices fully reflect all available information, leaving little room for consistent abnormal performance (Fama, 1970). In line with this, investors cannot systematically outperform the market by selecting one Islamic index over another.

Another explanation lies in the structural similarities among the indices. Although the ISSI covers the broadest universe of sharia-compliant stocks, while JI70 and JII are narrower and more concentrated, they are all derived from the same screening methodology set by the Indonesian Sharia Stock Screening criteria. This methodological overlap results in strong co-movements across indices, thereby limiting performance differentials. Prior studies confirm that Islamic indices across different regions often exhibit high levels of comovement, especially when exposed to the same macroeconomic and sectoral shocks (Al-Khazali, Lean, & Samet, 2014; Majdoub & Mansour, 2014).

Moreover, the insignificant differences reflect that the diversification benefits between broader and narrower Islamic indices may be marginal. While narrower indices such as JII tend to exhibit higher volatility due to concentration risk, their average abnormal returns over time converge with those of broader indices such as ISSI. This finding resonates with El Khatib and Hatemi-J (2017), who noted that Islamic indices often display asymmetric volatility but not necessarily persistent differences in return performance.

In practical terms, these results have two implications. First, investors choosing between ISSI, JI70, and JII should not expect systematically higher abnormal returns from one index over another; instead, their choice may depend on individual risk tolerance and portfolio objectives. Second, the insignificant differences suggest that the Islamic capital market in Indonesia is relatively efficient, offering limited arbitrage opportunities based on index selection alone.

Table 6. Cumulative Abnormal Returns of Islamic Index

	Cumulative Abnormal Return		
	ISSI	JI70	JII
April	0,02235596	0,06222991	0,0703238
May	-0,009123	0,00527739	0,00649455
June	0,0388742	0,04458304	0,05343661
July	0,03497814	-0,0013586	-0,0061602
August	-0,0022281	-0,0494042	-0,0695096
September	0,03099188	0,04117751	0,03746976
April - September	0,12495707	0,10994811	0,09090516

Table 6 reports the Cumulative Abnormal Returns (CARs) of three major Islamic indices in Indonesia: ISSI, JI70, and JII, covering the period from April to September. The analysis provides insights into the aggregate abnormal performance of these indices during the observation window.

The analysis of cumulative abnormal returns (CARs) from April to September reveals several important patterns across the three Islamic indices. In April, all indices generated positive CARs, with JII (0.0703) achieving the highest performance, followed by

JI70 (0.0622) and ISSI (0.0224). In May, ISSI showed a negative CAR (–0.0091), while JI70 (0.0053) and JII (0.0065) recorded slightly positive outcomes. A strong rebound occurred in June, when all indices posted significant gains, led again by JII (0.0534), followed by JI70 (0.0446) and ISSI (0.0389).

In July, ISSI continued to deliver positive cumulative returns (0.0349), while JI70 (–0.0014) and JII (–0.0062) moved into negative territory. The downturn intensified in August, as all three indices registered declines, with JII (–0.0695) and JI70 (–0.0494) experiencing the sharpest losses, compared to a much smaller drop for ISSI (–0.0022). However, the trend reversed in September, with all indices recovering to positive territory, led by JI70 (0.0412), followed by JII (0.0375) and ISSI (0.0310).

When viewed across the entire six-month period, all indices delivered positive cumulative abnormal returns. ISSI recorded the highest overall CAR (0.1250), followed by JI70 (0.1099) and JII (0.0909). This suggests that despite short-term volatility, the Islamic indices generated positive abnormal performance in the medium term.

The findings indicate that Islamic indices in Indonesia are capable of generating positive abnormal returns over the medium term, despite short-term fluctuations. The strong rebound in June and September suggests that Islamic indices respond favourably to market corrections and recovery phases. This aligns with evidence that Islamic equities often display resilience in volatile markets due to their sectoral composition and exclusion of high-leverage firms (Narayan, Phan, & Sharma, 2015; Rizvi, Arshad, & Alam, 2015).

Interestingly, ISSI outperformed JI70 and JII in terms of total CAR over the study period, despite its broader and more diversified structure. This contradicts the conventional expectation that narrower indices (such as JII, with a smaller set of liquid, sharia-compliant firms) would outperform broader benchmarks due to concentration in high-cap firms. Instead, the result suggests that broader diversification may have cushioned ISSI against negative shocks, particularly in August, when JII recorded a substantial decline (–0.0695). This observation supports the notion that broader Islamic indices reduce downside risk while maintaining competitive long-term returns (Hussein & Omran, 2005).

The divergence in performance across months reflects the sensitivity of Islamic indices to sector-specific and macroeconomic shocks. For instance, the August downturn across all indices may have been triggered by external financial uncertainty, given that Islamic equities are not immune to global volatility spillovers (Al-Khazali, Lean, & Samet, 2014). However, the September recovery underscores their adaptability, consistent with studies showing that Islamic stocks often recover faster due to their relatively conservative financial structures and emphasis on real-sector investments (Majdoub & Mansour, 2014).

From an investor perspective, the findings imply that Islamic indices in Indonesia can serve as viable long-term investment vehicles. The higher overall CAR of ISSI suggests that broader market exposure provides greater cumulative returns with lower volatility. Conversely, narrower indices such as JII may deliver higher returns in bullish phases but are more vulnerable to sharp downturns, highlighting the importance of diversification strategies.

V. CONCLUSION

The findings of this study provide several key insights into the performance of Islamic indices in comparison with the conventional IDX Composite. First, descriptive statistics indicate that both the Islamic indices (ISSI, JI70, JII) and the composite index exhibited consistent growth trends between April and September, with Islamic indices demonstrating relatively stable mean values and moderate volatility. Second, the analysis of returns revealed that, although Islamic indices produced slightly higher average returns than the composite index in certain months, return distributions showed periods of volatility, particularly in June and August.

Hypothesis testing further confirmed that, with the exception of ISSI compared to the IDX Composite, no statistically significant differences existed between Islamic and conventional indices in terms of returns and abnormal returns. This suggests that Islamic indices behave similarly to the composite index, reinforcing earlier evidence that Islamic and conventional markets in emerging economies are highly integrated (Abedifar et al., 2013; Mollah & Zaman, 2015).

The examination of abnormal returns showed that Islamic indices were generally capable of generating positive performance, although with notable fluctuations. For instance, JII and JI70 displayed significant negative abnormal returns in August, while ISSI remained relatively more stable. The cumulative abnormal returns (CARs) analysis highlighted that all Islamic indices achieved positive performance over the six-month horizon, with ISSI (0.1250) outperforming JI70 (0.1099) and JII (0.0909). This result underscores the resilience of Islamic indices in the medium term, despite short-term volatility.

Collectively, the evidence suggests that Islamic indices not only offer comparable performance to conventional benchmarks but may also provide resilience during periods of market downturns, consistent with prior findings on the defensive role of Shariah-compliant assets during financial uncertainty (Narayan et al., 2017; Dewandaru et al., 2014).

Based on the results, several practical recommendations can be proposed:

1. For Investors: Islamic indices can serve as viable alternatives for portfolio diversification, particularly for investors seeking ethical or Shariah-compliant investments. The relative stability of ISSI, especially in periods of volatility, highlights its potential as a defensive investment vehicle.
2. For Policymakers and Regulators: Efforts to strengthen the Islamic capital market in Indonesia should focus on enhancing market depth and liquidity, particularly for indices such as JI70 and JII, which showed greater volatility. Regulatory support and awareness campaigns could improve investor confidence and broaden participation.

3. For Academics and Researchers: The findings indicate strong integration between Islamic and conventional markets, which opens opportunities for future studies to investigate risk transmission, hedging effectiveness, and the role of Islamic indices during global crises. Expanding the analysis to longer time horizons and incorporating macroeconomic variables would enrich the literature.
4. For Market Practitioners: Portfolio managers may consider combining Islamic and conventional indices to achieve a balance between growth potential and stability. Given the comparable performance, Shariah-compliant portfolios can be marketed not only as religiously motivated but also as financially competitive products.

In conclusion, Islamic indices in Indonesia demonstrate competitive and resilient performance compared to conventional benchmarks, making them strategically important both for the growth of Islamic finance and for investors seeking sustainable investment alternatives.

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