

## Asean Sharia Stocks and The Fed's Policy Dynamics

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### Abstract

*This study analyzes the volatility of Islamic stock returns in Indonesia, Malaysia, Thailand, and Singapore related to changes in the Fed's interest rate. The study used monthly data from January 2014 to December 2023 using the GARCH approach and its derivatives. The results show that changes in the Fed Rate have no significant effect on returns in all countries. The coefficients are very small and insignificant, namely 0.008735 for Indonesia, 0.012013 for Malaysia, 0.016524 for Thailand, and 0.001849 for Singapore. In contrast, the variance component shows a very strong influence on volatility. The GARCH coefficients, which describe significant and high lag variance in each country, are 0.963740 for Indonesia, significant for Malaysia, 1.093695 for Thailand, and 1.064228 for Singapore. The ARCH component shows a significant negative effect in Thailand and Singapore, while a positive leverage effect is seen in Singapore through the previous negative shock component. These findings confirm that ASEAN Islamic stock market volatility is more influenced by historical dynamics and internal market factors than by changes in the Fed's interest rate. Theoretically, this study strengthens our understanding of the relatively resistant nature of ASEAN Islamic markets to global monetary shocks, yet exhibits persistent high volatility. Policy-wise, these results emphasize the importance of domestic volatility-based risk management. The novelty of this study lies in its cross-country comparative analysis of ASEAN countries, focusing on the volatility structure through ARCH–GARCH components.*

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## INTRODUCTION

The sharia-based stock market in the ASEAN region continues to grow along with the increasing interest of investors in ethical and stable investment instruments. These instruments are designed in accordance with sharia principles that uphold fairness and transparency in financial transactions. However, the appeal of these instruments is inseparable from the various challenges that accompany the dynamics of global and regional markets. A deep understanding of the factors that influence this market is important to maintain its competitiveness and stability.

Nevertheless, the Islamic stock market is still influenced by various global and domestic economic factors that can affect its volatility level. One of them is global monetary policy, especially the interest rate policy set by the United States Federal Reserve (The Fed), which has the potential to have a major impact on the volatility level of the Islamic stock market in the region. Monetary policies from major world central banks, such as The Fed, not only affect conventional financial markets but also have a significant influence on markets based on Islamic principles.

To strengthen this analytical foundation, it is essential to consider the theoretical and policy motivations underlying the study of sharia stock volatility. From a theoretical perspective, sharia stocks exhibit risk-return behavior that differs from conventional assets due to their prohibition of *riba*, asset-back requirements, and stricter screening criteria. These characteristics may alter how external shocks, including global monetary policy changes, are transmitted into the market. From a policy standpoint, ASEAN economies increasingly integrate Islamic finance into national development strategies, which makes understanding the sensitivity of sharia stocks to The Fed's policy crucial for designing effective financial stability measures. This dual motivation underscores the importance of examining whether sharia-compliant markets respond differently to global monetary shocks compared to conventional markets.

In the period 2014–2023, there were a number of important events that illustrate the relationship between the Fed's policy and the stock market in ASEAN. The first event was the Fed's Gradual Tantrum Policy (2013–2015), when the Fed's announcement of a reduction in asset purchases (quantitative easing) drove capital outflows from developing countries, including the ASEAN region. This condition caused currency depreciation, a decline in stock market indices, and an increase in the imbalance of bond returns in the region (Contributor, 2024). Then between 2015–2018, the Federal Reserve gradually raised its benchmark interest rate from almost 0% to around 2.5%. This policy drove capital outflows from the ASEAN market, as global investors preferred assets denominated in US dollars. Sharia stocks, which are generally more stable, showed a different movement pattern than conventional stocks (Tim Riset CNBC, 2019). These dynamics show how global policy decisions can create inevitable ripple effects in domestic markets, especially in ASEAN countries.

During the COVID-19 pandemic in 2020–2021, to support the economy, the Federal Reserve launched a massive stimulus and lowered interest rates to near zero. This policy caused extreme volatility in global stock markets, including in the ASEAN region (Puri and Ningsih, 2024). Sharia stocks, which are based on real assets, showed better resilience than conventional stocks (Normasyhuri, Anggraeni, and Pratama, 2022). And during the 2022–2023 period, the Federal Reserve (The Fed) aggressively raised interest rates to suppress inflation which reached its highest level in 40 years. This policy caused capital outflows from ASEAN countries, depreciation of regional currencies, and increased volatility in stock markets, including sharia stocks (Victoria, 2022).

The Generalized Autoregressive Conditional Heteroskedasticity (GARCH) model has been widely used in previous studies to analyze stock market volatility. For example, Miyakoshi (2003) and Chuang et al., (2007) tested the Japanese stock market in providing a dominant influence and consistently showed a significant impact in terms of volatility using the GARCH method. Furthermore, research by Linda et al., (2017) conducted a modeling of stock return volatility in the Asian stock market using the GARCH model. Ridha and Wibowo (2020) conducted an analysis of the return volatility of the Goods and Consumer Sector Stock Index in Indonesia using the Threshold-Garch (TGARCH). In addition, Sudarto et al., (2021) tried to model stock return volatility with the EGARCH and TGARCH models. Then research conducted by Rahmadini and Idris (2024) conducted an analysis of the volatility of the Composite Stock Price Index by considering the impact of the ASEAN stock index and macroeconomics. However, it is important to understand that the Islamic stock market has unique characteristics that are not always in line with the patterns found in conventional markets.

Although a number of previous studies have explored stock market volatility in the ASEAN region using the Generalized Autoregressive Conditional Heteroskedasticity (GARCH) model, studies that specifically highlight the influence of the Fed's interest rate policy on the volatility of sharia stock returns in ASEAN are still very limited. Most of the studies above tend to focus on conventional stocks, without considering the unique characteristics of the Islamic stock market which is based on the principle of non-riba and economic activities based on real assets. This gap indicates that the extent to which The Fed's monetary policy contributes to the volatility of sharia stocks in ASEAN remains underexplored, leaving an important empirical question unanswered.

This study is expected to provide benefits both in theory and practice in understanding the influence of global monetary policy on Islamic financial markets. In addition, the results of this study are also expected to be a reference for policy makers in ASEAN in designing effective strategies to maintain the stability of the Islamic stock market amidst the dynamics of global challenges.

## METHOD

This study analyzes the relationship between the Fed's interest rate policy and the dynamics of Islamic stock return volatility in four ASEAN countries: Indonesia, Malaysia, Thailand, and Singapore. The research method used includes secondary data processing with a volatility econometric approach.

Monthly time series data from January 2014 to December 2023 are used as secondary data in this study. Sharia stock price data is taken from the Indonesia Stock Exchange website at [www.idx.co.id/id](http://www.idx.co.id/id) (IDX, 2024) and the Yahoo Finance site at [www.finance.yahoo.com](http://www.finance.yahoo.com) (Yahoo, 2024). while the Fed interest rate data (Federal Funds Rate) is obtained from the site Investing at [www.investing.com](http://www.investing.com) (Investing, 2024). The main variables in this study are sharia stock returns and the Fed interest rate. The use of secondary monthly data for the 2014–2023 period is justified by the

availability of consistent, uninterrupted data across the selected markets and the presence of major global monetary events during this period, making it suitable for long-term volatility analysis.

Sharia stock price data is processed to obtain return values using the natural logarithm formula (log return) (Jogiyanto, 2019). The Augmented Dickey-Fuller (ADF) test is used to test the stationarity of the data before building an econometric model (Aktivani, 2021). This test aims to ensure that the data used in the model estimation is stationary. This transformation and stationarity testing are essential to avoid spurious regression, especially for high-volatility financial time series.

The Generalized Autoregressive Conditional Heteroskedasticity (GARCH) model and its variations are used to analyze the dynamics of stock return volatility. This model includes two categories: 1) Symmetric Model: Standard GARCH is used to identify symmetric volatility. 2) Asymmetric Model: Given the potential for asymmetric volatility, the EGARCH, TGARCH, IGARCH, APARCH, and CGARCH models are also applied to obtain a more comprehensive picture (Linda et al., 2017). The choice of asymmetric models is based on the theoretical expectation that positive and negative shocks in financial markets do not have equal effects on volatility, particularly in sharia markets where leverage effects may be structurally different due to asset-backed and non-riba constraints. Moreover, the GARCH family is chosen because it effectively captures volatility clustering, persistence, and time-varying variance characteristics that are typical in stock return data and cannot be modeled by standard linear regression.

The analysis steps include 1) information criteria such as Akaike Information Criterion (AIC) and Schwarz Information Criterion (SIC) are used to select the best model (Al Rosyid, Viana, and Saputro, 2021), as these criteria allow objective comparison among competing volatility models by penalizing model complexity and preventing overfitting. 2) Testing the validity of the model through residual testing using the ARCH-LM test (Maesza, Saputro, and Suwarno, 2022). In addition to the residual test, robustness is strengthened by incorporating diagnostic evaluations such as checking standardized residuals and volatility persistence to ensure model stability. Where possible, out-of-sample validation is also considered to assess predictive reliability. 3) Interpretation of the model estimation results to evaluate the effect of the Fed's interest rate policy on the volatility of sharia stock returns in each ASEAN country. Data processing analysis tools are carried out using EViews 12 software which supports time series analysis and volatility modeling.

The selection of the four ASEAN countries is based on their established Islamic capital market indices, consistent data availability, and their regional representativeness in capturing the dynamics of sharia financial markets within ASEAN. This ensures comparability and reliability of the volatility analysis across countries.

## RESULTS AND DISCUSSION

### Result

#### 1. Descriptive Analysis

Descriptive statistical analysis was conducted to provide an initial overview of the characteristics of the research data, which include the Fed Rate, Return ISSI Indonesia, Return FTSE Bursa Malaysia EMAS Shariah, Return FTSE SET Shariah Thailand, and FTSE SGX Asia Shariah 100 Singapore. These statistics include measures of central tendency, dispersion, and normality tests of data distribution. Complete results are presented in the following table.

**Table 1.** Descriptive Analysis

|              | FED RATE    | RETURN ISSI<br>INDONESIA | RETURN<br>FTSE Bursa<br>Malaysia<br>EMAS<br>Shariah | RETRUN<br>FTSE SET<br>Shariah<br>Thailand | FTSE SGX<br>Asia Shariah<br>100<br>Singapura |
|--------------|-------------|--------------------------|-----------------------------------------------------|-------------------------------------------|----------------------------------------------|
| Mean         | 1.272666667 | 0.003956667              | -0.000901667                                        | 0.001031667                               | 0.00462                                      |
| Median       | 0.33        | 0.0091                   | -0.0003                                             | 0.00695                                   | 0.0061                                       |
| Maximum      | 5.33        | 0.0973                   | 0.1163                                              | 0.1815                                    | 0.1461                                       |
| Minimum      | 0.05        | -0.1452                  | -0.0914                                             | -0.1387                                   | -0.1442                                      |
| Std. Dev.    | 1.58230166  | 0.036961606              | 0.032916109                                         | 0.044458728                               | 0.047910337                                  |
| Skewness     | 1.374506273 | -0.81024616              | 0.171561545                                         | 0.133822306                               | -0.095533628                                 |
| Kurtosis     | 3.85860694  | 4.923285414              | 4.927576372                                         | 5.106559969                               | 4.491436682                                  |
| Jarque-Bera  | 41.47137928 | 31.62511069              | 19.16642062                                         | 22.54614271                               | 11.30445037                                  |
| Observations | 120         | 120                      | 120                                                 | 120                                       | 120                                          |

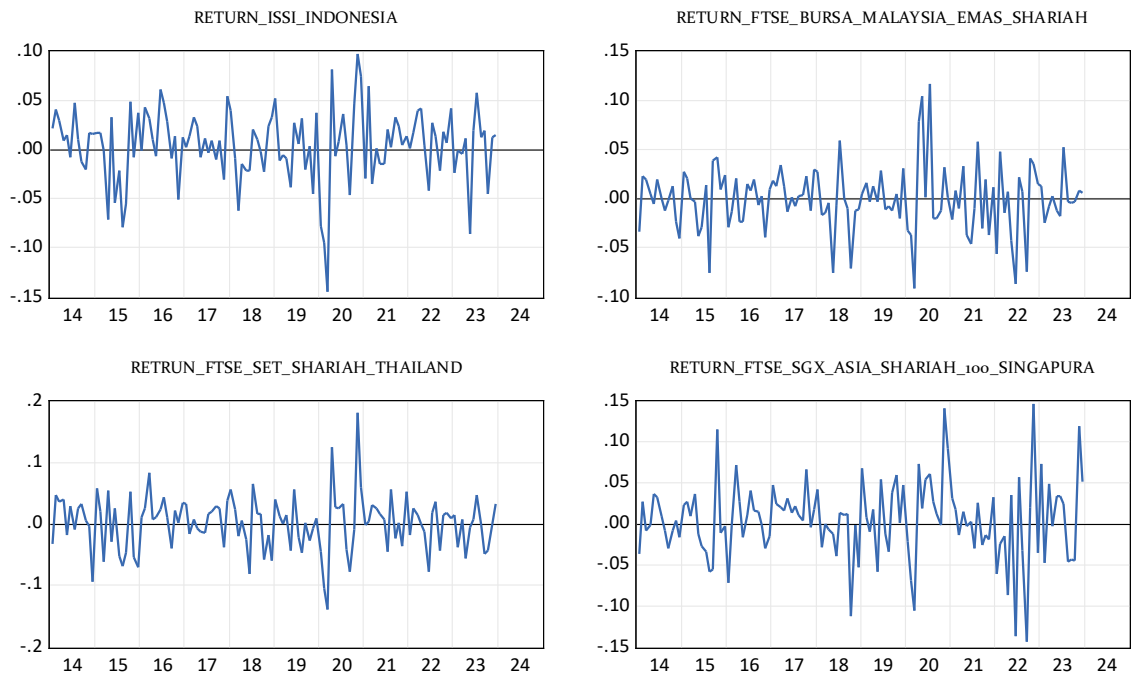
Source: Eviews 12 output processed 2025

Based on the data above, the volatility of the sharia stock index in ASEAN shows significant differences. The Singapore sharia stock index has the highest volatility with a standard deviation of 0.0479, followed by Thailand (0.0445), Indonesia (0.0369), and Malaysia (0.0329) as the lowest. In terms of data distribution, the results of the Jarque-Bera test show that all sharia stock indices are not normally distributed. The Indonesian stock index has the furthest distribution from normal (Jarque-Bera: 31.63), followed by Thailand (22.55), Malaysia (19.17), and Singapore (11.30) which are close to normal distribution. If viewed from the average return value, the Singapore sharia stock index has the highest average return of 0.00462, followed by Indonesia (0.00396), Thailand (0.00103), and Malaysia which recorded a negative average return of -0.00090. The average Fed funds rate was recorded at 1.27 with a standard deviation of 1.58, indicating significant volatility during the observation period. Positive skewness (1.37) indicates the data distribution is skewed towards low values, reflecting a period dominated by low interest rates.

#### 2. Data Plot and Analysis of ASEAN Sharia Stock Returns

The following are some graphs that illustrate the performance of sharia stocks in ASEAN countries, including Indonesia, Malaysia, Singapore, and Thailand. These graphs present data related

to the return and volatility of sharia stocks during the period 2014-2023, providing an overview of trends and comparisons between countries in managing the stock market.



**Figure 1-4.** Data Plot and Analysis of ASEAN Sharia Stock Returns  
Source: Eviews 12 Processed Data 2025

The graph of Islamic stock returns in four ASEAN countries (2014-2023) shows differences in volatility characteristics. Singapore has the highest volatility, with frequent major events, reflecting a market that is sensitive to global and regional changes. Thailand shows more volatile volatility than Indonesia and Malaysia, although lower than Singapore. Indonesia tends to be stable, with some sharp movements, especially towards 2020, influenced by global economic dynamics and domestic events. Malaysia has the lowest volatility, although it remains sensitive to external changes. Overall, the volatility of the ASEAN Islamic stock market varies, with Singapore the most volatile and Malaysia the most stable.

### 3. Stationary Data Test

Table 2 presents the results of the Augmented Dickey-Fuller (ADF) test conducted on various Islamic stock indices in ASEAN countries at both the level and first difference levels. The ADF test is used to test the stationarity of a time series, determining whether its values show constant variance and mean over time. The following is a unit root test table that presents a detailed explanation based on the results displayed.

**Tabel 2.** Statinary Data Test (Unit Root Test)

| Variables | Level | ADF Values  |        | Description |
|-----------|-------|-------------|--------|-------------|
|           |       | T-Statistic | Prob*  |             |
| Return    |       | -9.90732    |        |             |
| ISSI      | 1%    | -3.48606    | 0.0000 | Level       |
| Indonesia | 5%    | -2.88586    |        |             |

| Variables                                              | Level | ADF Values  |        | Description        |
|--------------------------------------------------------|-------|-------------|--------|--------------------|
|                                                        |       | T-Statistic | Prob*  |                    |
| RETURN<br>FTSE<br>Bursa<br>Malaysia<br>EMAS<br>Shariah | 10%   | -2.57982    | 0.0000 | Level              |
|                                                        |       | -11.3706    |        |                    |
|                                                        | 1%    | -3.48606    |        |                    |
|                                                        | 5%    | -2.88586    |        |                    |
|                                                        | 10%   | -2.57982    |        |                    |
| RETRUN<br>FTSE SET<br>Shariah<br>Thailand              |       | -10.5644    | 0.0000 | Level              |
|                                                        | 1%    | -3.48606    |        |                    |
|                                                        | 5%    | -2.88586    |        |                    |
|                                                        | 10%   | -2.57982    |        |                    |
|                                                        |       | -10.9111    |        |                    |
| FTSE SGX<br>Asia<br>Shariah<br>100<br>Singapura        | 1%    | -3.48606    | 0.0000 | Level              |
|                                                        | 5%    | -2.88586    |        |                    |
|                                                        | 10%   | -2.57982    |        |                    |
|                                                        |       | -5.11782    |        |                    |
|                                                        | 1%    | -3.48705    |        |                    |
| FED Rate                                               | 5%    | -2.88629    | 0.0000 | 1 St<br>Difference |
|                                                        | 10%   | -2.58005    |        |                    |
|                                                        |       |             |        |                    |

Source: EvIEWS 12 data processed 2025

Time Series data is considered stationary if its t-statistic is smaller (more negative) than the critical value at a certain level of significance, and its probability (Prob) is below 0.05, indicating a significant result. Based on Table 1, all observed ASEAN sharia stock indices show stationary properties at the level level, while the FED Rate is stationary after differentiation at the first level (1St Difference).

#### 4. Selection of The Best Model

After the stationary data, Table 3 presents information about the best model selected based on the Akaike Information Criterion (AIC) and Schwarz Information Criterion (SIC) criteria. The following is a detailed explanation of each component in the table.

**Table 3.** Selection of the Best Estimation Model

| No | Variables                                                               | AIC           | SIC           | Best Model                 |
|----|-------------------------------------------------------------------------|---------------|---------------|----------------------------|
| 1  | The Influence of FED Rate on ISSI<br>Indonesia Returns                  | -<br>3.909222 | -<br>3.745744 | Component<br>GARCH (1,1,1) |
| 2  | The Influence of FED Rate on FTSE Bursa<br>Malaysia Shariah GOLD RETURN | -<br>4.146066 | -<br>3.982588 | Component<br>GARCH (1,1,1) |
| 3  | The Influence of FED Rate on FTSE SET<br>Syariah Thailand Returns       | -<br>3.550965 | -<br>3.480903 | IGARCH (1,1,1)             |
| 4  | The Impact of FED Rate on FTSE SGX<br>Asia Shariah 100 Singapore        | -<br>3.542553 | -<br>-3.40243 | TGARCH (1,1,1)             |

Source: EvIEWS 12 data processed 2025

This table presents the selection of the best models to analyze the effect of the FED Rate on Islamic stock returns in four countries. For ISSI Indonesia and FTSE Bursa Malaysia EMAS Shariah, the selected model is Component GARCH (1,1,1), which is effective in capturing both short-term and long-term volatility. Meanwhile, the IGARCH (1,1,1) model is selected for FTSE SET Shariah Thailand, because it focuses more on the impact of volatility in the long term. In FTSE SGX Asia Shariah 100 Singapore, the TGARCH (1,1,1) model is used, which considers the asymmetry or difference in impact between positive and negative shocks. The selection of this model is based on the lowest AIC and SIC values, indicating that the model is the most efficient in describing the data.

### 5. Heteroscedasticity Test

The heteroscedasticity test was conducted using the ARCH LM Test to test for the presence of variance instability in the model used. The following are the results of the heteroscedasticity test for each selected model:

**Table 4.** Results of Heteroscedasticity Test

| No | Variables                                                            | Best Model              | Heteroscedasticity Test Results (p-value) | Conclusion of Heteroscedasticity Test |
|----|----------------------------------------------------------------------|-------------------------|-------------------------------------------|---------------------------------------|
| 1  | The Influence of FED Rate on Indonesia's ISSI Return                 | Component GARCH (1,1,1) | 0.9056                                    | There is no heteroscedasticity        |
| 2  | The Influence of FED Rate on FTSE Bursa Malaysia Shariah GOLD RETURN | Component GARCH (1,1,1) | 0.3119                                    | There is no heteroscedasticity        |
| 3  | The Influence of FED Rate on FTSE SET Syariah Thailand Returns       | IGARCH (1,1,1)          | 0.6004                                    | There is no heteroscedasticity        |
| 4  | The Impact of FED Rate on FTSE SGX Asia Shariah 100 Singapore        | TGARCH (1,1,1)          | 0.2205                                    | There is no heteroscedasticity        |

Source: Eviews 12 data processed 2025

Based on the results of the heteroscedasticity test using the ARCH LM Test, it can be concluded that in the four models tested, there is no indication of heteroscedasticity, because all p-values are greater than 0.05.

### 6. Best Asymmetric Model Parameter Coefficients

Table 5 below shows the parameter coefficients of the best asymmetric model to analyze the volatility of the return of the Islamic stock index. These results illustrate the influence of variables on the volatility of returns in the period studied.

**Table 5.** Parameter Coefficients of the Best Asymmetric Model

| No | Variables                                                            | Selected Models         | Coefficients | Z-Statistic | Prob. | Variance Equation                                                                                                      |
|----|----------------------------------------------------------------------|-------------------------|--------------|-------------|-------|------------------------------------------------------------------------------------------------------------------------|
| 1  | The Influence of FED Rate on Indonesia's ISSI Return                 | Component GARCH (1,1,1) | 0,008735     | 0.603308    | 0.546 | $C(3) = 0,001513$ ,<br>$C(4) = 0,963740$ ,<br>$C(5) = -0,142615$ ,<br>$C(6) = 0,182905$ ,<br>$C(7) = 0,298807$         |
| 2  | The Influence of FED Rate on FTSE Bursa Malaysia Shariah GOLD RETURN | Component GARCH (1,1,1) | 0,012013     | 0.81852     | 0.413 | $C(3) = 0,001641$ ,<br>$C(4) = 0,986143$ ,<br>$C(5) = -0,169865$ ,<br>$C(6) = 0,318503$ ,<br>$C(7) = 0,416336$         |
| 3  | The Influence of FED Rate on FTSE SET Syariah Thailand Returns       | IGARCH (1,1,1)          | 0,016524     | 1.569647    | 0.117 | $RESID(-1)^2 = -0,093695$ ,<br>$GARCH(-1) = 1,093695$                                                                  |
| 4  | The Impact of FED Rate on FTSE SGX Asia Shariah 100 Singapore        | TGARCH (1,1,1)          | 0,001849     | 0.17514     | 0.861 | $C = 7,89E-05$ ,<br>$RESID(-1)^2 = -0,219291$ , $RESID(-1)^2 * (RESID(-1) < 0) = 0,271698$ ,<br>$GARCH(-1) = 1,064228$ |

Source: Eviews 12 data processed 2025

The results of the analysis show that the influence of the FED Rate on the return of ISSI Indonesia is not significant, with a coefficient of 0.008735, z-statistic 0.603308, and probability 0.5463 > 0.05. On the other hand, in the variance equation, the coefficients C(3) (0.001513), C(4) (0.963740), and C(5) (-0.142615) show a significant influence on the volatility of the return of ISSI Indonesia. Specifically, C(3) has a positive effect on the variance of the return, while C(4) shows that the volatility of the return is greatly influenced by the previous lag variance (GARCH), which means that past volatility has a large impact on current volatility. C(5) has a significant negative effect on the change in the squared residual of the previous period. Overall, although the FED rate is not significant, factors such as lag variance and changes in residuals have a greater influence on the level of volatility of the return of ISSI Indonesia.

Based on the analysis, the change in FED rate has no significant effect on the return of FTSE Bursa Malaysia Emas Shariah, as indicated by the coefficient D(FED\_RATE) of 0.012013, z-statistic 0.818520 with a probability of 0.4131. However, in the variance equation, the coefficients C(3) and

C(4) have a significant effect, with C(3) showing a strong positive effect and C(4) confirming the importance of the influence of the previous lag variance (GARCH) on current volatility. Meanwhile, the coefficient C(5) shows an insignificant negative effect, while C(6) and C(7) have an effect approaching significant at the probability level of 0.1, although weaker than C(3) and C(4). Overall, the volatility of stock market returns is more influenced by the lag variance and changes in past variance than by changes in FED rate.

The results of the analysis show that changes in the US benchmark interest rate (FED Rate) have a coefficient of 0.016524, z-statistic 1.569647 with a probability of 0.1165 > 0.05. This indicates that changes in the FED Rate do not have a significant effect on the volatility of the FTSE SET Syariah Thailand index returns. In the component variant, the ARCH term ( $\text{RESID}(-1)^2$ ) has a negative coefficient of -0.093695 with a probability of 0.0000, which is very significant, indicating that past shocks tend to reduce return gains. Conversely, the GARCH (-1) component shows a coefficient of 1.093695 with a probability of 0.0000, which is also very significant, indicating that volatility has a persistent nature, where past volatility has a strong influence on current volatility.

The FED Rate coefficient of 0.001849 with a probability of 0.8610 indicates that changes in the Fed's interest rate have no significant effect on the return of the Singapore sharia index in the period studied. The negative  $\text{RESID}(-1)^2$  coefficient (-0.219291) is significant at the 0.0000 level, indicating that previous positive shocks tend to reduce current volatility. Conversely, the positive  $\text{RESID}(-1)^2 \cdot (\text{RESID}(-1) < 0)$  coefficient (0.271698) is significant at the 0.0000 level, indicating that previous negative shocks have a greater effect on increasing volatility, reflecting the effect of market leverage. The GARCH(-1) coefficient of 1.064228 which is very significant (p-value = 0.0000) indicates that current volatility is highly influenced by previous volatility, with a coefficient value approaching 1 indicating the persistence of volatility.

## **Discussion**

### ***ASEAN Sharia Stock Market Response to The Fed's Interest Rate Policy***

The findings of this study indicate that changes in the benchmark interest rate by the Federal Reserve (The Fed) do not have a significant effect on sharia stock returns in Indonesia, Malaysia, Thailand, and Singapore. This insensitivity reflects the relative resilience of the ASEAN sharia stock market to the dynamics of global monetary policy, especially from developed countries such as the United States. This is inseparable from the characteristics of the sharia market which is built on the principle of prudence, such as restrictions on the use of debt (leverage), prohibitions on speculative practices, and commitment to the real sector (Lubis, 2023). Thus, stocks included in the sharia index tend to have a more stable financial structure and are less dependent on short-term global sentiment.

In addition, the lack of response to changes in the Fed Rate also reflects the market segmentation between sharia investors and conventional investors. Sharia investors generally have a long-term investment orientation and more conservative risk preferences. They emphasize sustainability and

ethical values more than pursuing short-term profits (Mirza *et al.*, 2025). Therefore, the existence of the sharia stock index not only offers an alternative instrument based on sharia principles, but also reflects stability and resilience in facing external shocks of a monetary nature. This reinforces theoretical perspectives in Islamic finance literature, which argue that sharia-compliant assets inherently offer greater stability because their screening mechanisms reduce exposure to speculative and interest-sensitive sectors.

Beyond the structural explanation, the findings also imply that The Fed's monetary stance does not automatically transmit to Islamic equity markets in Southeast Asia, suggesting a weaker global local financial linkage within sharia portfolios. This supports previous studies highlighting the partial decoupling of Islamic markets from global shocks.

Furthermore, this resilience can be interpreted as structural strength that enhances the role of Islamic equity markets as a stabilizing asset class during episodes of global monetary tightening. The discussion aligns with the expectation stated in the introduction that the study contributes theoretically by deepening the understanding of how global monetary policy influences Islamic financial markets, and practically by offering insights that policymakers in ASEAN can use to design strategies for maintaining market stability amid global challenges.

### ***Comparison of Volatility Characteristics Between Countries***

The level and pattern of volatility of Islamic stocks in ASEAN are not uniform across countries. Some countries such as Indonesia and Thailand show a tendency towards higher volatility compared to Malaysia and Singapore. This difference can be explained by a number of structural and institutional factors that influence market dynamics. For example, the lower depth of financial markets in Indonesia and Thailand results in greater sensitivity to market sentiment. In contrast, Singapore as a regional financial center has a more liquid and diversified market, making it better able to absorb shocks with higher stability (Thampanya *et al.*, 2020).

In addition, the proportion of sharia issuers in the national index also determines the level of volatility. Countries that have a wider range of sharia stocks and are integrated with conventional markets tend to show better stability. Other factors such as the credibility of economic policies, domestic macroeconomic conditions, and political stability also play an important role in determining market vulnerability to shocks (Manzilati *et al.*, 2024). Therefore, the differences in characteristics between countries indicate that the source of volatility in the ASEAN Islamic stock market does not only come from external factors, but is rather determined by the internal structure and institutional strength of each country.

A cross-country comparative perspective highlights that countries with mature financial systems (e.g., Malaysia and Singapore) demonstrate more effective volatility transmission filtering, while markets with evolving regulatory environments (e.g., Indonesia and Thailand) remain more

exposed (Mateus, Bagirov and Mateus, 2023). These comparative insights strengthen the practical contribution of this study, as policymakers can use them to identify which structural reforms such as enhancing market depth, improving corporate governance, or expanding sharia-compliant product offerings can reduce vulnerability to external shocks. For investors, the findings imply that diversification across ASEAN sharia markets can yield risk-reduction benefits due to heterogeneous volatility structures. Sharia indices in more stable markets may function as safe havens when global uncertainty rises, while markets with higher volatility may offer greater return potential but require careful risk management.

## CONCLUSION

This study shows that changes in the Fed's interest rate do not have a significant effect on the return of the Islamic stock index in Indonesia, Malaysia, Thailand, and Singapore. However, return volatility is more influenced by other factors such as lag variance and residual changes from the previous period. These results indicate the persistence of volatility in the stock market, indicating that past volatility has a large impact on current volatility.

The implication of this finding is that investors, portfolio managers, and policymakers in these countries need to pay more attention to internal market dynamics and domestic factors in managing investment risk, rather than focusing too much on the Fed's interest rate policy. Risk management strategies that consider historical volatility patterns and domestic uncertainty will be more relevant in making short-term and medium-term investment decisions.

This study can be developed by expanding the analysis of other countries' stock markets and eliminating other factors that affect return volatility, such as monetary policy. Further research can further explore the long-term impact of monetary policy using more complex models and more data, as well as comparing emerging markets to get a more complete picture.

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