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ACCEPTED MANUSCRIPT

Co-movement between sharia stocks and sukuk in the GCC markets: A time-frequency analysis

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Highlights

- We examine the interactive linkages between the GCC sharia-stock returns and sukuk yields.
- Long-horizon regressions reveal a negative linkage between these-sharia assets for all time scales.
- The wavelet squared coherence analysis shows that co-movements vary through frequency and time.
- The co-movements have a different impact on the VaR levels over the sample period.
- We find that the benefits of portfolio diversification vary through time and frequencies.

Abstract

We assess the co-movement between the sharia-compliant stocks and sukuk in the Gulf Cooperation Council (GCC) countries. The wavelet squared coherency approach is applied to daily data covering GCC global, corporate and financial services sukuk indexes as well as GCC sharia stocks. The empirical evidence indicates a strong dependence between these sharia stock and sukuk indexes. The degree of comovement power is varying over time and frequency and the long-run is dominant. To highlight the importance of the wavelet analysis, we perform the value-at-risk (VaR) for a GCC multi-country portfolio. The finding provides strong evidence that the benefits of portfolio diversification vary across frequencies and time. Our results provide several practical implications for Islamic funds when selecting sharia-compliant assets and designing their optimal weights.

JEL Classifcation: C40, E32, G15, F30

Keywords: sharia-compliant stocks; sukuk; co-movement; wavelet-squared coherency; value at risk

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