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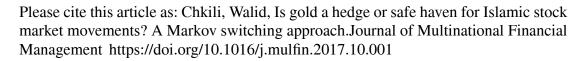
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ACCEPTED MANUSCRIPT

Is gold a hedge or safe haven for Islamic stock market movements? A Markov switching approach

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Highlights

- The role of gold as a hedge or a safe haven is examined
- The Markov switching approach is used
- We study the dynamic behavior of Islamic stock markets
- We find that gold can act as a strong safe haven for Islamic equity markets

Abstract:

This paper uses the Markov switching approach to investigate the role of gold as a hedge or safe haven for Islamic stock market risk. Empirical results reveal on the one hand, the presence of two distinct regimes for all the considered markets namely a low volatility regime and a high volatility regime. More precisely, the high volatility regime coincides with the major economic and political events that occurred during the period under study. On the other hand, evidence shows that gold can act as a weak hedge and a strong safe haven against extreme Islamic stock market movements. This result has significant implications for portfolio diversification and hedging strategy choice.

Keywords: Islamic stock market, Gold, Markov switching, Hedge, Safe haven

Jel classification: C24, G01, G10, G11

1. Introduction

The last few years, Islamic financial markets have attracted international investors by the development of Islamic equity and bond indices. These assets have occupied a significant

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