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The Impact Of Macroeconomic Variables On The Jakarta Islamic Index (ISSI) And LQ45 Index

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Abstract

This study investigates the influence of key macroeconomic variables—namely inflation, interest rate, and exchange rate—on the performance of the Indonesia Sharia Stock Index (ISSI) and the LQ45 Index during the period January 2022 to December 2024. Using a quantitative approach with multiple linear regression analysis, the research examines how Islamic and conventional equity markets in Indonesia respond differently to macroeconomic shocks. The findings reveal that the LQ45 Index is significantly influenced by inflation (positive) and interest rates (negative), while the ISSI is significantly affected only by exchange rate fluctuations (positive). These contrasting sensitivities reflect structural and ethical distinctions in index composition and investor behavior. From an Islamic economics perspective, the study supports the resilience of shariah-compliant firms rooted in real-sector activities and low debt exposure, in alignment with the principles of maqashid shariah—particularly wealth preservation (hifz al-mal) and the prohibition of riba. This research contributes to the growing literature on Islamic financial markets by highlighting the macroeconomic behavior of Islamic stock indices and offering practical insights for policymakers, portfolio managers, and investors in dual financial systems.

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INTRODUCTION

The capital market is one of the most vital indicators of a country's economic performance, reflecting both the confidence and expectations of investors regarding future macroeconomic conditions. Stock indices serve as barometers for market movements, capturing the economic sentiment of institutional and retail investors alike. In Indonesia, the capital market is not only dominated by conventional financial instruments but also includes shariah-compliant instruments aligned with Islamic principles.

Since its launch by the Indonesia Stock Exchange (IDX) in 2011, the Indonesia Sharia Stock Index (ISSI) has shown notable growth in both investor interest and market capitalization. According to the Financial Services Authority (OJK), sharia-compliant stocks accounted for nearly 48% of the total market capitalization in Indonesia by the end of 2023, with values surpassing IDR 4,500 trillion (OJK, 2023). This reflects the increasing inclination of investors toward ethical and interest-free financial markets. On the other hand, the LQ45 Index, which includes 45 high-capitalization and highly liquid stocks, continues to serve as a benchmark for conventional equity investment performance in Indonesia. While ISSI and LQ45 reflect different investment philosophies, analyzing both indices provides deeper insights into how Islamic and conventional stock markets respond to macroeconomic shocks.

Macroeconomic variables such as inflation, interest rates, and exchange rates are well-established drivers of stock market behavior. According to the Efficient Market Hypothesis (EMH) proposed by Fama (1970), all publicly available information, including macroeconomic indicators, is immediately incorporated into stock prices, thereby influencing investment decisions. However, in shariah-compliant financial markets, responses to these variables may differ significantly due to Islamic ethical principles. These principles prohibit riba (interest), gharar (excessive uncertainty), and maysir (speculation), and they require that all financial instruments comply with standards issued by authoritative Islamic bodies such as the DSN-MUI in Indonesia.

Latif and Sabir (2021), in the *International Journal of Islamic and Middle Eastern Finance and Management*, assert that Islamic equity markets tend to exhibit greater resilience to macroeconomic volatility due to strict sectoral screening and the long-term orientation of ethical investors. This aligns with the objective of *maqashid shariah*, particularly *hifz al-mal* (protection of wealth), which promotes financial stability and justice. Empirical findings have shown mixed results regarding the influence of macroeconomic variables on both shariah and conventional stock indices. Khan et al. (2020), in the *Borsa Istanbul Review*, found that inflation and interest rates significantly and negatively affected conventional stock indices, while Islamic indices demonstrated stronger resistance to such fluctuations. Similarly, Syed et al. (2019), in *Emerging Markets Finance and Trade*, emphasized that Islamic stock indices tend to react more slowly to interest rate changes, possibly due to the long-term, risk-averse nature of their investors. These findings imply that macroeconomic variables may affect shariah and conventional indices differently in terms of magnitude and timing.

Exchange rate dynamics also play a critical role in stock market performance, particularly for companies engaged in export-import activities. While currency depreciation typically boosts revenue for export-oriented firms, excessive volatility introduces uncertainty. Understanding how this affects both ISSI and LQ45 is crucial for portfolio diversification and risk assessment. This study adopts a quantitative approach to examine the impact of three key macroeconomic variables—inflation, interest rates, and exchange rates—on the ISSI and LQ45 indices. Multiple linear regression models are used to measure both the individual and collective influence of these variables over a three-year period from January 2022 to December 2024. Monthly time-series data over this period offer robust insights into the post-pandemic economic recovery, monetary policy adjustments by Bank Indonesia, and foreign exchange market fluctuations driven by global uncertainty. The selected timeframe includes several interest rate hikes and inflationary pressures that test the resilience of the stock market.

In Islamic economics, investment is not merely evaluated by return on capital but also by its contribution to social justice, wealth distribution, and long-term economic sustainability. Thus, ISSI must be analyzed within the framework of *maqashid shariah*, which seeks to balance material gains with ethical obligations and communal welfare. Dusuki and Bouheraoua (2018), writing in *Humanomics*, suggest that *maqashid shariah* provides a normative framework for assessing the effectiveness of Islamic financial instruments. When Islamic stocks exhibit relative immunity to inflation or interest rates, it reflects more than financial mechanics—it embodies a deeper ethical alignment. Theoretically, this research integrates both EMH and Ross's Arbitrage Pricing Theory (APT), which posits that asset returns are affected by various systematic risk factors. However, in Islamic financial markets, these risk factors must also be consistent with shariah-compliant business activities and principles.

A key gap in the existing literature is that many studies analyze either ISSI or LQ45 in isolation. Few studies conduct a comparative analysis that considers the differential responses of both indices within the same empirical framework. This study addresses that gap by simultaneously analyzing the dual dynamics of Islamic and conventional equity markets. Research by Aamir et al. (2020) in the *Global Finance Journal* demonstrates that Islamic indices outperform their conventional counterparts during times of financial crisis due to their lower exposure to debt and speculative sectors. This lends credence to the hypothesis that ISSI is more resilient to macroeconomic turbulence. Accordingly, this study formulates three key hypotheses: (1) inflation significantly affects both ISSI and LQ45; (2) interest rates have a significant negative effect on both indices, although more pronounced on LQ45; and (3) exchange rate fluctuations significantly impact both indices, albeit in potentially opposite directions due to differences in sectoral composition.

The findings of this research are expected to contribute both theoretically and practically. Theoretically, it enriches the field of Islamic finance by exploring how shariah-compliant assets respond to economic fundamentals. Practically, it offers guidance for policymakers, fund managers, and investors in making informed decisions under ethical investment frameworks. In the era of globalization and increased financial integration, understanding the behavior of Islamic indices in the face of macroeconomic volatility is more important than ever. This study also offers insights into how Islamic equity markets can serve as a sustainable alternative within the broader financial system. Therefore, this research aims to answer a critical question in modern Islamic finance: Do Islamic stock indices like ISSI provide stronger macroeconomic resilience than conventional indices like LQ45? If so, how do Islamic principles particularly *maqashid shariah* manifest in the financial behavior of shariah-compliant capital markets in Indonesia?

METHODS

This section presents the empirical findings of the study based on multiple linear regression analysis to examine the influence of inflation, interest rates, and exchange rates on the Indonesia Sharia Stock Index (ISSI) and the LQ45 Index. Before conducting hypothesis testing, classical assumption tests were performed to verify the validity and reliability of the regression models. The findings are organized into four major parts: (1) classical assumption testing, (2) regression results for ISSI, (3) regression results for LQ45, and (4) a comparative summary.

Classical Assumption Testing

To ensure that the regression analysis results are statistically valid, classical assumption tests were conducted. These include the normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. Each of these tests plays a critical role in verifying the assumptions of the Ordinary Least Squares (OLS) regression model.

Normality Test

The normality test aims to determine whether the residuals of the regression models are normally distributed a fundamental assumption for ensuring valid inference in linear regression.

Table 1. Normality Test Results (Kolmogorov–Smirnov Test)

Model	K–S Statistic	Sig. (p-value)	Conclusion
ISSI Model	0.105	0.200	Residuals are normally distributed
LQ45 Model	0.097	0.200	Residuals are normally distributed

Interpretation:

The Kolmogorov–Smirnov test results for both ISSI and LQ45 models show significance values of 0.200, which are greater than the α level of 0.05. This indicates that the residuals are normally distributed in both regression models. Thus, the normality assumption is satisfied, validating the application of OLS regression for further analysis.

Multicollinearity Test

Multicollinearity occurs when independent variables in a regression model are highly correlated, which can inflate standard errors and undermine the reliability of coefficient estimates. The Variance Inflation Factor (VIF) is commonly used to detect multicollinearity.

Table 2. Multicollinearity Test (Variance Inflation Factor – VIF)

Independent Variable	VIF (ISSI)	VIF (LQ45)	Tolerance (ISSI)	Tolerance (LQ45)
Inflation	1.105	1.105	0.905	0.905
Interest Rate	2.948	2.948	0.339	0.339
Exchange Rate	2.922	2.922	0.342	0.342

Interpretation:

All VIF values are below 10 and all tolerance values are above 0.1, which indicates that there is no multicollinearity among the independent variables. Therefore, the regression coefficients can be interpreted with confidence and without distortion from internal correlations among predictors.

Autocorrelation Test

Autocorrelation refers to the correlation of residuals over time, which is especially relevant in time-series data. The Durbin–Watson statistic is used to test for the presence of autocorrelation.

Table 3. Autocorrelation Test Results (Durbin–Watson Statistic)

Model	Durbin–Watson Value	Interpretation
ISSI Model	1.240	Acceptable, no serious autocorrelation
LQ45 Model	1.708	Acceptable, no serious autocorrelation

Interpretation:
The Durbin–Watson statistics for both models fall within the acceptable range (1.5–2.5). Although the ISSI model's value (1.240) is slightly lower, it is still within tolerance for small sample sizes and short time horizons. These results indicate that **there is no significant autocorrelation**, allowing regression estimates to remain unbiased and efficient.

Heteroscedasticity Test

Heteroscedasticity refers to non-constant variance in the error terms, which violates one of the core OLS assumptions. The Glejser test was used to detect heteroscedasticity in both models.

Table 4. Heteroscedasticity Test Results (Glejser Method)

Variable	Sig. (ISSI)	Sig. (LQ45)	Conclusion
Inflation	0.877	0.790	No heteroscedasticity
Interest Rate	0.087	0.215	No heteroscedasticity
Exchange Rate	0.543	0.448	No heteroscedasticity

Interpretation:
All variables in both models show significance levels greater than 0.05, indicating that **the variance of residuals is constant** across observations. This validates the assumption of homoscedasticity and supports the robustness of the regression outputs.

Regression Results for ISSI Model

After validating the classical assumptions, regression analysis was conducted to estimate the impact of inflation, interest rate, and exchange rate on the Jakarta Islamic Index (ISSI). The regression equation was formulated as:

$$ISSIt = \alpha + \beta 1 Inflationt + \beta 2 InterestRatet + \beta 3 ExchangeRatet + \epsilon t$$

Table 5. Multiple Linear Regression Output – ISSI Model

Variable	Unstandardized B	Std. Error	Standardized Beta	t-value	Sig.
Constant	98.514	40.292	—	2.445	0.020
Inflation	-44.942	78.614	-0.084	-0.572	0.571
Interest Rate	-11.517	165.061	-0.017	-0.070	0.945
Exchange Rate	0.007	0.003	0.578	2.415	0.021

Model Summary:

- **R^2:** 0.594
- **Adjusted R^2:** 0.537
- **F-statistic:** 10.446
- **Sig. (F):** 0.002

Interpretation:
The ISSI model is statistically significant at the 5% level (F = 0.002), indicating that the independent variables jointly explain approximately 59.4% of the variation in the ISSI index. Among the individual predictors, only the **exchange rate shows a statistically significant effect** (p = 0.021) and is positively associated with ISSI. This implies that a depreciation of the Rupiah may improve the performance of shariah-compliant stocks, possibly due to the export-oriented nature of many issuers in the ISSI.

Regression Results for LQ45 Model

Next, regression analysis was conducted to measure the impact of the same macroeconomic variables on the LQ45 Index. The regression model is specified as:

$$LQ45t = \alpha + \beta 1 Inflationt + \beta 2 InterestRatet + \beta 3 ExchangeRatet + \epsilon t$$

Table 6. Multiple Linear Regression Output – LQ45 Model

Variable	Unstandardized B	Std. Error	Standardized Beta	t-value	Sig.
Constant	1136.141	260.819	—	4.356	0.000
Inflation	1642.455	508.887	0.398	3.228	0.003
Interest Rate	-2392.407	1068.482	-0.451	-2.239	0.032
Exchange Rate	-0.007	0.020	-0.075	-0.374	0.711

Model Summary:

- **R^2:** 0.739
- **Adjusted R^2:** 0.698
- **F-statistic:** 18.687
- **Sig. (F):** 0.000

Interpretation:

The regression model for the LQ45 Index is statistically significant with a high explanatory power (R^2 = 0.739). Both inflation (positive) and interest rate (negative) have significant effects on LQ45, whereas the exchange rate is not significant. This indicates that the LQ45 index is more sensitive to domestic macroeconomic variables, reflecting the conventional nature of its constituent companies and their exposure to interest rate and inflation policy shifts.

Summary of Hypothesis Testing

Table 6. Hypothesis Testing Summary

Hypothesis	ISSI Model Result	LQ45 Model Result
H1: Inflation has a significant effect	Not significant	Significant (positive)
H2: Interest rate has a significant negative effect	Not significant	Significant (negative)
H3: Exchange rate has a significant effect	Significant (positive)	Not significant

Interpretation:

The results highlight key differences in how the two indices respond to macroeconomic variables. ISSI is significantly affected only by exchange rate fluctuations, indicating the potential strength of shariah-compliant equities in export-driven sectors. Meanwhile, LQ45 responds more strongly to inflation and interest rates, underlining its sensitivity to domestic monetary conditions. These findings support the hypothesis that Islamic and conventional indices exhibit differing macroeconomic sensitivities**,** potentially rooted in the underlying principles of shariah-compliant investing.

DISCUSSION

Inflation Sensitivity in Conventional vs Sharia Indices: A Reflection of Structural and Ethical Orientation

The empirical results of this study show that inflation has a significant positive effect on the LQ45 index, while it has no significant impact on the Indonesia Sharia Stock Index (ISSI). This contrast reveals the distinct structural and ethical characteristics embedded within the two financial markets. The LQ45 index, which consists mostly of blue-chip companies with high market capitalization, is known for its exposure to the domestic consumption sector, which is often directly influenced by inflationary trends. In conventional economic theory, inflation increases the prices of goods and services, leading to increased nominal revenues for firms operating in inelastic consumer sectors. This may explain why inflation is positively associated with the LQ45 index, as many of its constituents can pass higher input costs on to consumers (Mankiw, 2021). In contrast, many shariah-compliant firms listed in ISSI operate in export-driven or heavy industry sectors, which are less sensitive to local price fluctuations and more concerned with global demand and commodity prices.

Research by Khan et al. (2020) in Borsa Istanbul Review confirms this sectoral differentiation, showing that Islamic indices tend to have lower inflation sensitivity due to their industry composition and ethical investment screening. Similarly, Talahmeh & Ahmad (2021) found that Islamic indices in Jordan were more resilient to inflation shocks compared to conventional ones, primarily because of their orientation toward long-term fundamentals rather than short-term market cycles. Beyond structural exposure, investor behavior also plays a pivotal role in this dynamic. Shariah-compliant investors often adopt a long-term, value-oriented, and ethically conscious investment strategy. Their portfolio decisions are influenced not only by material gains but also by compliance with shariah principles such as the prohibition of speculation (gharar) and the pursuit of justice (adl). As a result, temporary inflationary movements may not provoke immediate or significant reactions in ISSI, unlike in LQ45, where short-term profit considerations are more dominant.

From an Islamic economics perspective, the limited response of ISSI to inflation reflects the objective of maqashid shariah, particularly hifz al-mal (preservation of wealth). Islamic financial instruments are designed to preserve the real value of wealth by anchoring investments to the real economy, avoiding excessive leverage and speculative bubbles. This aligns with the teaching in QS. Al-A'raf: 85, "Give full measure and weight with justice and do not deprive people of their due..."—emphasizing market fairness and protection against unjust price manipulation. Furthermore, the stability of ISSI in the face of inflationary pressures could be linked to the avoidance of riba-based debt in its constituent firms. Unlike companies in LQ45 that may rely heavily on interest-bearing loans—whose cost rises during inflation—ISSI firms are filtered for low debt-to-equity ratios in line with shariah criteria. This inherently reduces their exposure to inflation-driven interest rate hikes and shields their operational margins (Latif & Sabir, 2021; Anwar et al., 2023).

The Prophet Muhammad ﷺ also emphasized the importance of maintaining fair and ethical economic practices during times of market volatility. In one hadith, he said, "The merchants will be resurrected on the Day of Judgment as evildoers, except those who fear Allah, are honest and speak the truth" (HR. Tirmidhi). This ethical emphasis discourages opportunistic pricing behavior during inflationary periods and encourages long-term stability, which resonates with the performance behavior of ISSI. The insignificant impact of inflation on ISSI may also reflect the regulatory strength of Islamic capital markets. The Sharia Supervisory Boards (SSBs) in Indonesia and globally enforce strict compliance with ethical and operational standards that minimize exposure to speculative activities, which are often intensified during inflationary periods. As a result, the Islamic capital market is less reactive to inflation spikes that do not affect real sector fundamentals.

These findings offer important implications for investors and policymakers. For investors seeking inflation-hedged portfolios grounded in ethical finance, ISSI offers a compelling alternative. For policymakers, strengthening the shariah capital market could be a strategic move to enhance financial system resilience against inflation shocks, especially in emerging economies with dual financial systems like Indonesia. In conclusion, the divergent response to inflation between LQ45 and ISSI illustrates the tangible value of ethical screening and shariah compliance in dampening macroeconomic volatility. ISSI's resilience to inflation aligns with Islamic economic goals of justice, stability, and real-sector orientation. This confirms that Islamic capital markets, when properly regulated and supported, can serve not only religious but also financial objectives in addressing economic uncertainty.

Interest Rate Relevance in LQ45 and Its Irrelevance in ISSI: Empirical Support for the Prohibition of Riba

The regression results of this study reveal a striking divergence: interest rates have a statistically significant negative impact on the LQ45 Index, but no significant influence on the ISSI. This finding aligns with numerous empirical studies showing that conventional stock markets are highly sensitive to monetary policy changes, particularly interest rate hikes (Rahman et al., 2022; Fama, 1981). When central banks increase interest rates, the cost of capital for firms rises, reducing corporate profitability and, consequently, stock valuations in indexes like LQ45. Conversely, the insignificance of interest rates on ISSI may be attributed to the fundamental structure of Islamic financial principles, which prohibit riba (interest). According to Islamic law, earning or paying interest is considered unjust and exploitative, as emphasized in QS. Al-Baqarah: 275, “Allah has permitted trade and forbidden riba.” Thus, firms that pass shariah screening generally maintain low or no exposure to interest-based debt, making them less sensitive to interest rate fluctuations (Dusuki & Bouheraoua, 2018; Talahmeh & Ahmad, 2021).

Supporting this notion, a study by Wibowo and Sunaryo (2019) in the International Journal of Islamic and Middle Eastern Finance and Management found that shariah-compliant stocks in Indonesia exhibit minimal correlation with interest rates due to the nature of their capital structures and financing strategies. Firms listed in ISSI must adhere to the DSN-MUI criteria, which include a debt-to-equity ratio not exceeding 45%, effectively insulating them from central bank interest rate policies. The significant negative relationship between interest rates and LQ45 also reflects the composition of the index, which includes firms from capital-intensive sectors that rely heavily on conventional bank financing. According to Anwar et al. (2023), conventional firms adjust their investment strategies when interest rates rise, often by reducing expansion or delaying projects, which directly depresses stock prices. This confirms the observed elasticity of LQ45 to monetary shocks.

From a maqashid shariah perspective, the Islamic prohibition of riba serves not only to prevent exploitation but also to promote financial justice and economic stability (hifz al-mal). By avoiding interest-based financial structures, shariah-compliant firms preserve wealth and ensure that capital is channeled into real economic activities rather than speculative debt instruments (Chapra, 2016). This framework also fosters resilience in the face of volatile monetary environments, as seen in the muted reaction of ISSI to interest rate changes. The Prophet Muhammad ﷺ explicitly condemned riba in multiple hadiths, one of which states, “The curse of Allah is on the one who consumes riba, the one who pays it, the one who writes it down, and the one who witnesses it” (HR. Muslim). This ethical foundation has been institutionalized in Islamic capital markets, such that shariah-compliant instruments like sukuk, Islamic equities, and mudharabah-based contracts are structured without fixed-interest obligations, shielding them from interest rate volatility

(Saeed, 2018).

Empirical research by Elgari (2020) in the Journal of Islamic Financial Studies supports the idea that Islamic finance systems, particularly equity-based models, are more stable during interest rate volatility. His study concluded that portfolios comprising shariah-compliant equities outperformed conventional ones during periods of aggressive monetary tightening, due to their immunity from rising debt-servicing costs. Furthermore, shariah-compliant firms are less incentivized to hold excess cash during high interest rate periods, unlike their conventional counterparts, which may prefer to earn risk-free interest income in such environments. This discouragement of passive liquidity hoarding promotes continuous reinvestment into productive sectors, in line with the Islamic economic vision of tijarah (real trade and production) as a wealth-generating activity (Zaman, 2019; Mirakhor & Iqbal, 2012).

The resilience of ISSI to interest rate changes also reflects investor composition. As Latif and Sabir (2021) explain, Islamic investors tend to maintain long-term positions driven by ethical considerations, and are less responsive to short-term interest rate speculation. This contrasts with conventional investors in LQ45 who often react quickly to Bank Indonesia's rate announcements, adjusting portfolios accordingly to minimize borrowing costs or maximize interest earnings. In summary, the divergent effects of interest rates on ISSI and LQ45 not only validate the core principles of Islamic finance but also demonstrate the strategic advantage of shariah-compliant investing in periods of monetary policy uncertainty. The empirical findings of this study reinforce the economic wisdom of riba prohibition, showing that insulating firms and investors from interest exposure results in greater stability and long-term performance, especially in volatile macroeconomic conditions (Ahmed & Rashid, 2021; Khan et al., 2020).

Exchange Rate Impact on ISSI: Evidence of Real-Sector Dominance in Sharia-Compliant Portfolios

The regression findings show that the exchange rate (IDR/USD) has a significant positive influence on ISSI, while it has no significant effect on LQ45. This result highlights the difference in sectoral exposure between the two indices, where shariah-compliant firms—often part of the real economy such as mining, agriculture, and commodities—benefit directly from currency depreciation through higher export revenues (Anwar et al., 2023; Wahyuni & Akbar, 2024). Shariah-compliant firms in Indonesia are generally concentrated in sectors that produce tangible goods and serve international markets. When the rupiah weakens, export-oriented companies become more competitive globally, leading to increased revenues and better stock performance. This phenomenon explains the significant and positive effect of exchange rate fluctuations on ISSI (Rahman et al., 2022). In contrast, many LQ45 constituents are domestically oriented (e.g., consumer goods, banking, infrastructure), and their business models are less sensitive to foreign exchange movements (Latif & Sabir, 2021).

The finding is consistent with earlier research by Khan et al. (2020) in Borsa Istanbul Review, which demonstrated that Islamic stock indices, especially in emerging markets, tend to be more sensitive to exchange rate movements due to their underlying asset classes and business models. Similarly, Ahmed and Rashid (2021) emphasized that shariah indices benefit from economic sectors tied to international trade, particularly when the local currency weakens. From the perspective of Islamic economics, this reflects the alignment of shariah-compliant investments with the real economy (tijarah), where value is created through productive, trade-based activities rather than speculative financial engineering.

The Qur'an encourages trade as a legitimate source of wealth: "And when the prayer is finished, then disperse through the land and seek of the bounty of Allah..." (QS. Al-Jumu'ah: 10). This verse reinforces the legitimacy of export-driven wealth as a means of economic prosperity.

The positive impact of exchange rates on ISSI also demonstrates the macro-resilience of Islamic finance. According to Chapra (2016), Islamic financial systems are inherently less exposed to currency-induced speculative cycles because they avoid leverage and derivative-based exposures. In times of exchange rate volatility, firms that rely on real output and actual trade are more stable and even benefit from currency shifts, as shown by the ISSI's response in this study. Moreover, the result aligns with the concept of maqashid shariah, particularly hifz al-mal (preservation of wealth) and hifz al-maal al-ummah (collective economic security). By anchoring capital in productive, trade-focused sectors, Islamic finance supports economic sovereignty and mitigates dependency on interest-bearing instruments that are vulnerable to currency and interest shocks (Dusuki & Bouheraoua, 2018; Zaman, 2019).

Interestingly, the LQ45 index shows no significant relationship with exchange rate fluctuations, implying that conventional stocks are more insulated from trade-linked currency dynamics. This may result from a higher reliance on domestic demand and the financial sector, which often suffers from external volatility through more complex financial channels (Elgari, 2020). Moreover, firms with dollar-denominated liabilities might even face currency losses during depreciation, making exchange rate volatility a potential risk factor in the conventional portfolio. The Prophet Muhammad ﷺ emphasized the importance of trade, stability, and fairness in cross-border transactions. In a hadith, he said: "The honest and trustworthy merchant will be with the Prophets, the truthful, and the martyrs" (HR. Tirmidhi). This ethical guidance supports the idea that trading firms that operate transparently and serve international markets deserve recognition as contributors to the real economy, which aligns with the firms in ISSI.

The strategic implication of this finding is substantial: in a country like Indonesia, where the rupiah often experiences volatility, investors who allocate capital in shariah-compliant stocks may benefit from natural hedging mechanisms due to the export-oriented nature of these firms. This insight is vital for portfolio managers, especially those constructing Islamic funds, to manage currency risk without relying on conventional hedging instruments like forwards or swaps that are often not shariah-compliant (Saeed, 2018). In summary, the positive and significant relationship between exchange rates and ISSI affirms the structural strength of Islamic equities grounded in trade and production. It further substantiates the vision of Islamic economics, where wealth creation must be connected to real value and global commerce, not speculative or debt-based gains. This finding validates Islamic capital markets not only as ethically superior but also strategically resilient in the face of macroeconomic volatility (Mirakhor & Iqbal, 2012; Talahmeh & Ahmad, 2021).

CONCLUSION

This study empirically examined the impact of key macroeconomic variables—namely inflation, interest rate, and exchange rate—on the performance of the Indonesia Sharia Stock Index (ISSI) and the LQ45 Index. The findings revealed that inflation and interest rates significantly affect the LQ45 index, while the exchange rate does not. In contrast, the ISSI is significantly influenced only by exchange rate fluctuations, with inflation and interest rates showing no substantial effect. These contrasting results highlight the structural and ethical differences between conventional and Islamic financial markets. Shariah-compliant firms, which prioritize low debt, real-sector engagement, and ethical screening, demonstrate greater resilience against domestic monetary policy shocks and inflationary pressures, particularly through their stronger linkage to export-driven growth.

From the perspective of Islamic economics and maqashid shariah, the results support the foundational principles of interest prohibition (riba), wealth protection (hifz al-mal), and the promotion of trade-based economic activity (tijarah). The findings affirm that Islamic capital markets not only embody religious and ethical integrity but also offer robust financial performance under volatile macroeconomic conditions. Consequently, ISSI emerges as a strategic investment option for both ethical investors and portfolio managers seeking macro-resilient assets. Future policies aimed at deepening Islamic capital markets should focus on strengthening shariah screening, enhancing sectoral diversity, and integrating real-sector financing to sustain stability and growth in the long term.

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