



Book Review: Islamic Capital Markets; Volatility, Performance and Stability

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This book presents an analytical review of *Islamic Capital Markets: Volatility, Performance and Stability*, edited by Nafis Alam and Syed Aun R. Rizvi (Palgrave Macmillan, 2016). The book compiles empirical and theoretical studies on the behavior, structure, and resilience of Islamic capital markets. Covering topics from Islamic equity funds and sukuk to interbank money markets, it highlights the comparative advantages and limitations of Islamic finance in terms of volatility, performance, and stability. Findings suggest that Islamic capital markets offer greater resilience during financial crises, though they face ongoing challenges related to efficiency, legal structures, and risk management instruments. The review concludes that further research is needed on Shariah-compliant hedging, integration mechanisms, and regulatory harmonization to ensure long-term stability and competitiveness.

OPEN ACCESS

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Received: 30 June 2025
Accepted: 3 September 2025
Published: 30 September 2025

Citation:
(2025) Book Review: Islamic
Capital Markets: Volatility,
Performance and Stability.
Islamic Capital Market.
3.1.

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Keywords: Islamic Capital Markets; Volatility; Sukuk; Equity Funds; Financial Stability; Shariah Compliance

INTRODUCTION

In the last two decades, the development of Islamic finance has experienced significant acceleration and has begun to occupy a strategic position in the global financial system. One of its most dynamic components is the Islamic Capital Market (ICM), which has become a primary means for mobilizing investment funds in accordance with Shariah principles. This market not only reflects financial activities that are free from the elements of *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (speculation/gambling), but has also become an important instrument in realizing a more just, stable, and sustainable economic system.

The rapid development of Islamic capital markets cannot be separated from the failure of the conventional financial system to maintain global economic stability, especially after the 1997 financial crisis in Asia and the 2007–2008 crisis in the United States. Both crises raised deep concerns about the interest-based financial system, which proved fragile due to high leverage, speculative derivative instruments, and weak governance. This situation prompted academics and regulators to seek alternatives for a more resilient and ethical financial system. It is in this context that Islamic capital markets emerged as a normative and functional alternative, integrating Shariah principles with modern market mechanisms.

Empirically, Islamic capital markets now include various instruments such as Shariah stocks, *sukuk* (Islamic bonds), Islamic mutual funds, Islamic stock market indices, and Shariah interbank money market instruments. According to data from the Islamic Financial Services Board (IFSB) and Thomson Reuters, Islamic financial assets have surpassed USD 1.8 trillion globally, with significant contributions from the capital market sector. Countries like Malaysia, Saudi Arabia, and the United Arab Emirates have become major centers for the development of Shariah capital market instruments, while regions like Europe and North America have begun to adopt similar models through the issuance of sovereign *sukuk* and the establishment of Shariah indices like the Dow Jones Islamic Market Index or the FTSE Shariah Index Series.

The book *Islamic Capital Markets: Volatility, Performance and Stability*, edited by Nafis Alam and Syed Aun R. Rizvi (Palgrave Macmillan, 2016), stands as an important academic work that highlights three main aspects of the dynamics of Islamic capital markets: volatility, performance, and stability. These three are crucial variables in assessing the contribution and resilience of Islamic capital markets to global economic

turmoil. Through a cross-regional empirical approach, this book seeks to answer the fundamental question: "Do Islamic capital markets have higher resilience and efficiency compared to conventional financial systems in facing global market volatility?"

More than just a compilation of research, this book represents a conceptual and methodological effort to build a scientific framework for the study of Islamic capital markets. By involving academics from various renowned universities such as the University of Nottingham Malaysia, INCEIF, and the IIUM Institute of Islamic Banking and Finance, this book combines strong empirical analysis with theoretical reflection on Shariah principles and modern market practices.

Broadly, this work contributes in three main ways. First, it expands the academic literature on Islamic capital markets, which was previously dominated by studies on Shariah banking. Second, it provides a comparative analysis between the performance of Islamic and conventional capital markets in various economic cycles, including the global financial crisis. Third, it identifies structural challenges such as the lack of Shariah-compliant hedging instruments, limitations in international regulation, and issues of asset ownership in *sukuk* contracts. Thus, this book is not only descriptive but also normative and prospective, directing scholarly discussion towards the development of an Islamic capital market that is more efficient, just, and resilient to crises. In the context of financial globalization, the existence of a stable and ethically-based Islamic capital market has strategic significance: as a moral and structural alternative to the speculative capitalism that dominates the world's financial system.

CHALLENGES IN THE ISLAMIC CAPITAL MARKETS DEVELOPMENT

Although Islamic capital markets show significant progress and relatively high resilience against the global financial crisis, the book *Islamic Capital Markets: Volatility, Performance and Stability* affirms that this sector still faces various fundamental issues and structural challenges. These challenges are not only technical but also epistemological and institutional, as they concern the compatibility between Shariah principles and global market dynamics. The following is an elaboration of five main issues discussed in this book and in recent literature:

Limitations of Shariah-Compliant Hedging Instruments

One of the most fundamental problems in Islamic capital markets is the absence of Shariah-compliant derivative instruments. In the modern financial system, derivatives such as futures, options, and swaps play an important role in managing price, interest rate, and exchange rate risks. However, from a Shariah perspective, many of these instruments contain elements of *gharar* (excessive uncertainty) and *maysir* (speculation), which are prohibited. Rizvi and Alam note that although there have been efforts to develop Shariah derivative products through the Tahawwut Master Agreement (ISDA–IIFM, 2010) and Mubadalatul Arbaah (Profit Rate Swap), their application is still limited because there is no global consensus among Shariah scholars regarding the validity of their contract structures. This causes Islamic financial institutions to tend to be under-hedged, making them more vulnerable to market value fluctuations. This limitation of hedging instruments becomes a major challenge in enhancing market efficiency and competitiveness against conventional markets.

Disharmony of International Regulation and Shariah Standards

The absence of standardization of law and Shariah fatwas is the second challenge that directly impacts the integration of the global Islamic capital market. Unlike the conventional system, which has international standards like the Basel Framework or IFRS, the Islamic capital market still faces regulative fragmentation between jurisdictions—for example, differences in views between standards issued by AAOIFI (Bahrain), IFSB (Malaysia), and the OIC Fiqh Academy (Saudi Arabia). As a result, an instrument considered *halal* in one country might be deemed non-Shariah-compliant in another. This condition hinders cross-border liquidity and reduces global investor confidence. Rizvi and Alam emphasize the need to establish a global Shariah governance framework that can harmonize practices and regulations between markets.

Market Efficiency and Performance of Shariah Funds

From an efficiency standpoint, various studies in this book find that the Islamic capital market has not fully met the criteria for strong-form efficiency. Islamic equity funds still show fluctuating performance and tend to underperform compared to conventional funds in normal market conditions. Azmi and Ali (Chapter 2)

identify that fund size is a significant determinant of performance, while age and management fees have no significant influence. The limitation of portfolio diversification due to strict Shariah filters causes investors to face a trade-off between ethics and profitability. However, during crisis periods, Islamic equity funds actually show stronger resilience because their portfolios are free from high-risk assets and companies with large debts. The efficiency problem is also related to a lack of transparency, limited historical data, and low Shariah capital market literacy among retail investors (Rusydiana & Nugroho, 2017), especially in developing countries.

Structure and Asset Ownership in Sukuk

The sukuk instrument has become a major innovation in the Islamic capital market as it serves as an alternative to conventional bonds. However, as outlined by Zada, Lahsasna, and Saleem (Chapter 3), a serious debate has emerged regarding the legal structure and beneficial ownership rights in modern sukuk issuances. The East Cameron Partners Sukuk bankruptcy case in the United States demonstrated a fundamental weakness in the design of the sukuk contract, which failed to provide legal protection to investors.

CONCLUSION

The book *Islamic Capital Markets: Volatility, Performance and Stability* provides an important contribution to the development of Islamic finance literature with its empirical and cross-regional comparative approach. The main conclusions are that Islamic capital markets:

- a. Are more stable in the face of global financial crises,
- b. Show relatively good performance in low-risk environments,
- c. But still face serious challenges in efficiency and innovation.

To strengthen long-term stability, the authors emphasize the importance of:

- a. Development of Shariah-compliant derivatives and hedging instruments,
- b. Balanced integration of Islamic capital markets with the global financial system,
- c. Harmonization of international regulations under a Shariah governance framework

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