



The Indonesian Sharia Capital Market in Shock Covid-19: Global Market Interaction

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Abstract

Covid-19 has caused problems, including the global Islamic capital market. The rapid and extraordinary development of Covid-19 has rocked sharia investment in Indonesia. This study looks at the interaction of the global Islamic stock market with the Indonesian Islamic stock market, namely the Jakarta Islamic Index (JII), in the Covid-19 shock. Data is collected from within the global Islamic capital market sourced from the Dow Jones Islamic Market World Index, and the Indonesian Islamic capital market is sourced from the Indonesia Stock Exchange (IDX). They are generalizing the research period carried out during the covid-19 period starting from March 2020 to November 2022. This research used several stages of the Cointegration Test, Granger Causality Test, IRF (Impulse Response Function) Test and Forecasting Error Variance Decomposition (FEVD) Test. The study results show that the global Islamic stock market has had a significant impact on the Indonesian Islamic stock market both in the short and long term in the era of the covid-19 shock.

Keywords : Covid-19; Islamic Stock Market; Shariah Index

INTRODUCTION

The pandemic that suddenly hit the world at the end of December 2019 wreaked havoc in all aspects of life. Corona Virus Disease 2019 (also known as Covid-19, according to the United Nations 2020) is the name given to a virus

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originally identified and reported in the Wuhan area of China. The global Covid-19 epidemic has a variety of impacts across different industries. Not only does it impact public health, resulting in millions of deaths, but to the point of having an impact on the economy's collapse (Hasan *et al.*, 2021).

Indonesia did not escape the shock of the Covid-19 outbreak. The first Covid case in Indonesia was identified in March 2020 and spread quickly. Therefore, the Covid-19 pandemic is an important concern for the Government of Indonesia. The Indonesian government moved quickly and announced a nationwide lockdown at the end of March 2020 because the situation was getting worse so that the Corona Disease 2019 virus would not spread and result in the deaths of millions of people becoming more widespread (Gandasari & Dwidienawati, 2020) the more valuable it is in reporting problems. Currently, news related to the COVID-19 outbreak is most popular. The media has been reporting not only on health but also on social and economic issues during the pandemic. The questions of this research are (1.

The Covid-19 epidemic has created significant health problems that have led to an economic crisis that has impacted the global economy and society as a whole. Due to its indirect effects on various political, economic and social institutions, including the Islamic capital market, this epidemic undoubtedly presents the toughest challenges for international humanitarian and development groups (Hasan *et al.* 2021). The extraordinary and rapid development of the Covid-19 pandemic has raised concerns, had a significant impact on Islamic stock markets worldwide, and revealed the health of the international financial system (Salisu and Shaik, 2022). The current global economic system is heavily dependent on the stock market. The capital market also referred to simply as the "capital market", is a system for trading securities and public offerings. Although the Islamic capital market has a mechanism structure, issuers and the types of assets exchanged have been modified to comply with Islamic law (Adekoya, Oliyide, and Tiwari 2022).

Globally, Islamic capital markets can be found in some Asian countries, such as the Philippines, Vietnam, Singapore, Malaysia, Qatar, China, United Arab Emirates, Japan, Hong Kong, India, Australia, Taiwan, Switzerland and South Korea. In contrast, Islamic capital markets can be found in the European



region in countries such as Russia, United Kingdom, Netherlands, Italy, Sweden, France, Germany, Finland, Spain, United States and Denmark. In the existing Sharia system, the stock index serves as the main criterion for determining the trend or movement of stock prices, a sign of market direction, and a benchmark for portfolio performance against financial institutions in the capital market. The Dow Jones Islamic Market Index (DJIM) is used to track changes in Islamic stocks on a global scale.

As a result of the Covid-19 shock, the overall impact was an extreme decline in Islamic stock markets around the world. Countries that have experienced the Covid-19 shock have had a negative impact resulting in negative returns due to the pessimistic attitude of investors towards market conditions, causing the stock market to experience an overreaction phenomenon (Halim, 2021). In addition, the tremendous shock from the Covid-19 virus disaster caused instability and weakened investment in the Sharia instrument market globally. During the period that occurred as a result of the Covid-19 pandemic, the Islamic capital market experienced shocks and caused a reduction in investment portfolios. Apart from that, this outbreak had a negative or bad impact, resulting in a decrease in the level of investment in the Islamic stock market (shear & Ashraf, 2022).

Globally, the Covid-19 outbreak has had an indiscriminate impact on the Islamic capital market. Even the entry of the Covid-19 virus into Indonesia has had a detrimental long-term effect on the world economy, especially in sharia investment. The movement of the Jakarta Islamic Index can be used to measure the movement of sharia investment in Indonesian sharia stocks (JII). One of the stock indices in the State of Indonesia is the Jakarta Islamic Index (JII), which averages the types of stocks with sharia quality to determine the price index (Faruk 2022).

The collapse of the Indonesian sharia stock market was a direct result of the influence of COVID-19 on the Jakarta Islamic Index (JII) movement. The Covid-19 outbreak was responded to negatively by the sluggish returns on Indonesian sharia stocks. The Covid-19 pandemic has also significantly impacted the dynamics of the sharia stock market, leading to a decrease in efficiency and an increase in it. The escalation of this epidemic is having a disastrous effect on the state of Islamic equities, caused by investors' pessimistic expectations and lack



of confidence in the value of future returns. The depreciation of Islamic stock prices on the Indonesian stock market shows that this also indirectly impacts the Indonesian economy. The Covid-19 pandemic outbreak has prevented the Indonesian sharia stock market from significantly increasing its liquidity level. Jakarta Islamic Index (JII) sharia stocks will certainly lose value if the COVID-19 outbreak continues and spreads for a long period.

Previous studies generally focused on the context due to the coronavirus that occurred in Asia, causing a spiral of uncertainty in the stock market (Mishra & Mishra, 2020). Second, the study conducted analyzed the impact of the Covid-19 pandemic on the global capital market indiscriminately and even attacked the conventional stock market and the Islamic stock market to the point of a catastrophic decline that contributed to a long-term negative impact on the global economy, especially in the investment sector (Hassan, Chowdhury, Balli, & Hasan, 2021). Third, this study prefers to explore that during the Covid 19 pandemic the Islamic capital market experienced shocks and caused a reduction in investment portfolios. In addition, portfolio managers must closely monitor health outbreak trends due to the COVID-19 pandemic (Adekoya, Oliyide, & Tiwari, 2021). The study (Retnoningsih, Naufa, & Astuti, 2022) proxied by the Jakarta Islamic Index. Covid-19 data in Indonesia, which is proxied by four measures such as the number of new cases (NC revealed that Covid-19 had a negative impact on the Islamic capital market in Indonesia.

Previous research examined the long-term weakness in the Indonesian stock market due to a larger cumulative number of Covid-19 cases (Rahmayani and Oktavilia 2020). The implementation of Large-Scale Social Restrictions (PSBB) and confirmed cases of Covid-19 both have an impact the instability of the Islamic stock market (August 2021). The performance of Islamic stock indices, including Indonesia, is processed and analyzed using a global Islamic stock market map during the Covid-19 period. During COVID-19, investments in international Islamic stocks will be scrutinized to consider risks and returns (Rizaldy and Rahayu 2021).

Previous research at home and abroad has produced findings indicating a research gap. However, previous research had not shown the interaction of the Islamic capital market when the Covid-19 pandemic shock occurred



globally on its domestic impact in Indonesia. Thus, this study aims to find empirical evidence that the interaction of the global Islamic stock market in the Covid-19 era strongly influences the Indonesian Islamic stock market both in the short and long term. This is because the global Islamic stock market has become a reference map for investors in viewing the movement of Indonesian Islamic stocks for investors considering the returns and risks of investing in the Indonesian Islamic stock market.

LITERATUR REVIEW

Contagious Effects Theory

The Contagious Effect Theory put forward by Barry, Rose & Wyplosz states that the contagion effect occurs successively among interconnected countries. The crisis can spread to other countries if these countries have the same economic conditions. Contagion effect occurs due to information asymmetry and the collective behaviour of investors. This can happen because investors share the same information, and this information can trigger changes in expectations in the capital market (Aslam *et al.* 2020).

The linkage of Contagious Effect Theory in this study, where investment and the stock market in one country cannot be separated from other countries but instead influence each other and have long-term impacts in other regions, is often known as the domino effect (contagion effect). The connection with the situation in Indonesia, precisely the Islamic capital market in Indonesia, is that the crisis that is happening globally and that is happening in other countries can have an impact on Indonesia, considering that global investment also flows greatly affect the Indonesian economy. This situation will lead to interaction with the Islamic capital market in Indonesia so that Indonesia cannot be separated from the global or international sector, including being affected by its capital market (Harjoto, Rossi, Lee, & Sergi, 2021)we argue that the unprecedented adverse shock of COVID-19 on the countries' economic growth translates into a negative shock to the stock markets. According to the institutional theory, we also argue that the impact of COVID-19 in emerging countries is different from developed countries. Based on the overreaction hypothesis, we expect that the

market reaction during the stabilizing period of COVID-19 spread is different from the market reaction during the infection period. Using high-frequency daily data across 53 emerging and 23 developed countries from January 14 to August 20, 2020, we find that COVID-19 cases and deaths adversely affect stock returns and increase volatility and trading volume. Cases and deaths affected stock returns and volatility in the emerging markets, while only cases of COVID-19 affected stock returns, volatility, and trading volume in the developed markets. COVID-19 cases and deaths are related to returns, volatility, and trading volume for emerging countries during the rising infection of COVID-19 (pre-April 2020).

Portfolio Theory

Portfolio theory was born by Harry Markowitz, who put forward a portfolio theory known as the Markowitz model, namely obtaining returns at the desired level with minimal risk. To minimize risk, it is necessary to diversify in investing, namely forming a portfolio or investing funds not in one asset but in several assets with a certain proportion of funds (Rusydiana and Prakoso 2021). This means that investors must be separated (allocation of assets) in the capital market, such as shares and then must be explained in more detail, such as what percentage of shares. In addition to the diversification of selected investment products, it is important to analyze macro conditions in selecting and allocating these investments (Pratiwi, Darmawati, & Amaliyah, 2020).

The relevance of portfolio theory in this study is that the rise and fall of portfolio value will be proportional to the rise and fall of market returns following the rise and fall of the stock index. TheoryPortfolio is a method used to obtain the desired return by minimizing the risk that will occur. Portfolio risk is calculated from the contribution of asset risk to portfolio risk, so diversification is required to reduce risk. Systematic risk is caused by various macro factors that affect all companies and industries, such as changes in interest rates, the weakening of the rupiah exchange rate against foreign currencies, and economic recession (Nugraha, 2021).



Sharia Capital Market

The Islamic capital market is all activities in the capital market that are following Islamic principles. The main factor forming the Islamic capital market is the capital market and Islamic principles in the capital market. The Islamic capital market can be described as a capital market that upholds Islamic principles in all aspects of economic transaction activities and is free from prohibited practices such as usury, gambling, speculation, etc. The capital market complements the role of other financial organizations in the financial system, such as commercial banks, insurance companies and other financial institutions that function as intermediaries. Sharia principles in the capital market are defined as principles that are the main requirement for the establishment of a sharia-compliant capital market. The Al-Qur'an is the main reference for Islamic principles in the capital market (Bahloul and Khemakhem 2021).

The global Islamic capital market developed due to the urgent need for Islamic financial institutions to manage their liquidity during the 1980s and 1990s. Until now, deposits kept in a very limited range of financial instruments have allowed Islamic financial organizations to raise funds. The development of the Indonesian Islamic capital market was triggered by market demand which was then made by the government supporting regulations. At the beginning of its development, the time gap between making regulations and issuing sharia investment products on the market was quite long (Ashraf, Rizwan, and Ahmad 2022).

According to (Huynh, Foglia, Nasir, & Angelini, 2021) we draw on the six behavioural indicators (media coverage, fake news, panic, sentiment, media hype and infodemic, Covid-19 has negatively impacted the world's Islamic capital market. The higher the number of cases of the Covid-19 outbreak, the lower the index of capital market stocks in the world, including Indonesia. The number of deaths from the Covid-19 outbreak has an even bigger impact. Furthermore, regulations imposed by the government can reduce the negative impact. Therefore, it is very important to reduce the weakness of Covid-19 in the Islamic capital market by providing relevant policies in Indonesia so that the ysariah capital market can withstand investment shocks caused by Covid-19 (Shelly Midesia, 2020).



Sharia Stock

Shares serve as a representation of ownership or as evidence of equity involvement in a limited liability company. Shareholders are also the owners of the company. The size of the shares held increases with authority over the corporation. Dividends are funds that the organization pays out as profit. The General Meeting of Shareholders (GMS) will decide how this dividend will be distributed at the closing of the financial accounts (Bugan, Cevik and Dibooglu 2022). Sharia shares are certificates of ownership issued by business entities whose administration and operations adhere to sharia principles. Securities that represent ownership in a company are shares. Conversely, equity participation is carried out according to sharia principles in industries that are not against it, such as gambling, usury, or the production of goods such as alcohol which are prohibited by law (Aloui, Asadov, Al-kayed, Hkiri, & Danila, 2022)we assess the impacts of the COVID-19 counts (infected cases, deaths and recovered.

Shares purchased from businesses that operate according to sharia law are considered capital investments. Sharia shares are shares or securities with the understanding of equity participation in a limited liability company with profit-sharing rights that do not violate sharia law. Sharia shares are securities issued by business entities whose management and operational procedures are following Islamic law or do not conflict with it (Bossman, Owusu Junior, and Tiwari 2022) supplemented by the time-varying parameter vector autoregressions (TVP-VAR.

According to (Ersyafdi & Fauziyyah, 2021), when the COVID-19 virus occurred, there was a reaction in all sectors of Islamic stocks, namely a sharp decline in share prices, so that this became the cause of the downward trend in various stock prices. Apart from that, according to (Pratitis & Setiyono, 2021), when the Covid-19 outbreak took place resulted in the movement of the sharia stock index achieved growth in a negative direction.

Dow Jones Islamic Market (DJIM)

The Dow Jones Islamic Market (DJIM), a stock market index, was founded by Charles Dow, a journalist for the Wall Street Journal and founder of Dow Jones & Company. To monitor the performance of the industrial sector on the US stock market, the Dow established this index. The index was officially



launched on May 26, 1986 (Choi, 2022). The Dow Jones stock market was one of the first continuously running United States (US) indexes. The performance of internationally purchasable equity according to Sharia is measured by the Dow Jones Islamic Market Index (DJIM). As per Dow Jones Islamic Market (DJIM) screening, businesses engaged in the production of alcohol, pork-derived products, traditional financial services (such as banks and insurance companies), entertainment (such as hotels, casinos and gambling establishments), tobacco, and weapons and defence are all disqualified (Ali, Jiang, and Sensoy 2021) the COVID-19 pandemic also disrupted the global supply chain, putting the precious metal market into great uncertainty. In this study, we revisit the diversifying role of precious metals – gold, silver, and platinum – for six Dow Jones Islamic (DJI).

The global impact of COVID-19 on world stock markets is reflected in research (Chatjuthamard, Jindahra, Sarajoti, & Treepongkaruna, 2021) that various countries in the world have experienced a negative impact on their stock markets due to COVID-19, especially on the stock market. However, stock markets in Asian countries were hit more severely than those in Europe.

Jakarta Islamic Index (JII)

JII, the Jakarta Islamic Index, is an Indonesian stock index that calculates the average stock price index for various types of stocks that follow sharia standards. The development of these sharia instruments supports the establishment of the Sharia Capital Market, which was inaugurated on March 14, 2003 in Jakarta. Traditional markets such as the Jakarta Stock Exchange and Surabaya Stock Exchange are integrated with the Malaysian system, replicating the Sharia Capital Market methodology. The number of sharia-compliant shares is 30. The base value for JII is 100 and the base day is January 1, 1995 (Nugroho, Wasiaturrahma, & Anggia, 2021). JII (Jakarta Islamic Index) was developed to increase investor confidence in stocks adhering to Islamic law and offer benefits to those who use Islamic law in investing in the capital market. JII is expected to support sharia-based stocks in Indonesia in terms of transparency and accountability. JII offers solutions for investors who want to invest according to sharia. JII is a forum for investors who want to make sharia investments without worrying that their money will be mixed with usury

funds. JII is also used in the selection of halal stock portfolios as a performance benchmark (benchmark) (Karerina, Wiguna, & Suhaemy, 2021).

In addition, the Covid-19 pandemic created uncertainty at the start of the global infection and daily returns for Islamic stocks experienced negative growth (Muhari's Intercession, 2021). The shock caused by the Covid-19 pandemic has even resulted in the economic situation in investment becoming unstable, which has resulted in a recession both in the short and long term for the Jakarta Islamic Index (JII) (Jahida, 2022).

Corona Virus Disease 2019 (Covid - 19)

The discovery of new viruses, especially the coronavirus SARS-CoV-2 and Coronavirus Disease 2019, shocked the world. It is known that this virus originated in Wuhan, China, at the end of December 2019. More severe coronavirus infections than the common cold include Middle East Respiratory Syndrome (MERS-CoV) and Severe Acute Respiratory Syndrome (SARS-CoV). Positive single-strain RNA virus infects the respiratory tract. Coronavirus is zoonotic and can be transmitted from humans to animals (Liu, Kuo, & Shih, 2020) China, and subsequently spread worldwide. The coronavirus was officially named severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The Wuhan Municipal Health Committee announced "Urgent vigilance for the treatment of pneumonia of unknown cause" on 30 December 2019, when the Covid-19 case in Wuhan first appeared, according to the Indonesian Ministry of Health. The Coronavirus spreads quickly, even between countries (Yuliana, 2020). One of the impacts of the Covid-19 pandemic is a negative contraction in the global economy, especially the Islamic capital market. The global spread of the Coronavirus and its consequences in other parts impact the Indonesian Islamic capital market investment industry. Then, to accelerate the handling of COVID-19, Government Regulation of the Republic of Indonesia number 21 of 2020 concerning the widest possible social restrictions was passed on March 31, 2020. The uncertainty over the slow period of COVID-19 has significantly impacted sharia stock investment in the sharia capital market (Saleem, Bárczi, & Sági, 2021).

The Jakarta Composite Index is proven to be highly influenced in the short and long term by the Dow Jones Index, Straits Times Index, and Hang Seng Index



(IHSG), according to several findings from previous research by (Situngkir, 2019). Besides that, research (Kurniawan, 2019) revealed that the Dow Jones Islamic Market Japan Index (DJJIP) and the Dow Jones Islamic World Malaysia Index (DJMY25D) have a beneficial and significant influence on the Indonesian Islamic Stock Index (ISSI).

According to studies (Herlianto & Hafizh, 2020), The Dow Jones Index, Nikkei 225, the Shang Hai Stock Exchange Composite Index, and the Singapore Straits Times Index all have a sizeable impact on the Jakarta Composite Index (IHSG) on the Indonesia Stock Exchange. (IDX). Research results (Soeharjoto & Inviah, 2021) provide evidence. The Dow Jones Islamic Market India Index, the Dow Jones Islamic Market Asia Index or the Pacific ex-Japan Index, and the Dow Jones Arabia Titans 50 Index have a positive and significant impact on the Indonesian Sharia Stock Index in the long term. According to the information provided by the research (Safitri, 2021) Hang Seng Index, Korea Composite Stock Price Index, Straits Times Index, and Dow Jones Industrial Average have a sizable impact on the JCI.

H₁: The Global Sharia Stock Market influences the Indonesian Sharia Stock market in the short and long term of the Covid-19 Era.

It would be very interesting to conduct research to determine the impact on the Indonesian Islamic stock market, both directly and in the long term, from the existence of a catastrophic phenomenon such as the COVID-19 outbreak, which caused a reaction in Islamic stock exchanges around the world market. This is because the impact of the spread of COVID-19 has seriously tested the Indonesian Islamic stock market and the weakening of the world Islamic stock market.

In addition, investors' decisions to invest in the Indonesian sharia stock market are significantly affected by the uncertainty of the Covid-19 era. Even before the COVID-19 outbreak, there was a decrease in the willingness of domestic and international investors to put their money in the stock market. In situations like this, many investors conduct in-depth studies to ensure that the companies being considered for investment and companies in Islamic stocks are healthy and able to survive and develop, especially in very challenging circumstances in the era of the Covid-19 pandemic.

RESEARCH METHOD

This research is quantitative research using an associative approach. The independent variable in this study is the global Islamic stock market which includes: Dow Jones Islamic Market United States (DJIMUS), Dow Jones Islamic Market Turkey Index (DJIMTR), Dow Jones India Islamic Market (DJIMIND), and Dow Jones Islamic Canada (DJICA). In contrast, the dependent variable in this study is the Indonesian sharia stock market which includes the Jakarta Islamic Index (JII).

This study uses time series data so that it can be generalized into research in the covid-19 period, which began in the era of the occurrence of covid-19 in Indonesia, namely the period March 2020 – November 2022 (Sihombing, 2022). The global Islamic capital market data is sourced from the Dow Jones Islamic Market World Index-S&P Global. The Indonesian Islamic capital market is sourced from the Indonesia Stock Exchange (IDX). The sampling technique uses Purposive Sampling with the following criteria: Using data on Global Sharia Stocks from 4 countries, namely America, Turkey, India, Canada and Indonesian Sharia Stocks, Islamic stocks experienced shocks in the covid era starting from March 2020 to November 2022.

The data analysis technique used in this study is the Error Correction Model (ECM) technique. The analysis procedure uses several stages of testing, namely: Descriptive Statistical Test, Degree of Integration Test, Cointegration Test, Granger Causality Test, IRF (Impulse Response Function) Test and Forecasting Error Variance Decomposition (FEVD) Test (Ghozali, 2018).

RESULTS AND DISCUSSION

Results Descriptive statistics provide an overview or description of a study where the research results are from statistical processing. Descriptive statistics explain or provide an overview of the characteristics and series of data without drawing general conclusions.



Table 1.
Descriptive Statistical Test Results

Variables	Means	Median	Maximum	Minimum	std. Dev.	N
JII	1995997	1981711	2295446	1582238	183393.1	33
DJIMUS	7865.687	7869.840	9857.310	5006.200	1171.001	33
DJIMTR	11330.39	9761.520	28125.93	6615.770	4592.741	33
DJIMIND	3518.564	3772.300	4390.820	2015.660	677.3537	33
DJICA	2378.247	2402.210	2865.460	1530.830	315.0469	33

Source: Data Processing Results (2023)

Results Descriptive statistics provide an overview or description of a study where the research results are from statistical processing. Descriptive statistics explain or provide an overview of the characteristics and series of data without drawing general conclusions. The results of the descriptive statistics in table 1 show that the Jakarta Islamic Index (JII) has a mean value 1995997, median 1981711, maximum value 2295446, minimum value 1582238, std. Dev. 183393.1 and the number of data (N) 33. United States Dow Jones Islamic Market (DJIMUS) obtained a mean of 7865.687, median 7869.840, maximum value 9857.310, minimum value 5006.200, std. Dev 1171.001 and the number of data (N) 33. On Dow Jones Islamic Market Turkey Index (DJIMTR) obtained values mean 11330.39, median 9761.520, maximum value 28125.93, minimum value 6615.770, std. Dev 4592.741 and the number of data (N) 33. Dow Jones Islamic Market India (DJIMIND) earned a mean of 3518.564, median 3772.300, maximum value 4390.820, minimum value of 2015.660, std. Dev 677.3537 and the number of data (N) 33. Dow Jones Islamic Canada (DJICA) obtained a mean of 2378.247, median 2402.210, maximum value 2865.460, minimum value 1530.830, value std. Dev 315.0469 and the number of data (N) 33.

Test the degree of integration aimsto see whether the residual is stationary. Static data is an important requirement for time series data analysis. To avoid direct spurious regression. Therefore, it is necessary to carry out a stationary test, namely data that tends to approach its average value and fluctuate around its average value.

Table 2.
Integration Degree Test Results

Variables	Prob.	Information
JII	0.0000	Stationary
DJIMUS	0.0246	Stationary
DJIMTR	0.0000	Stationary
DJIMIND	0.0000	Stationary
DJICA	0.0005	Stationary

Source: Data Processing Results (2023)

The results of testing the degree of integration in table 2 show that all data from each variable Jakarta Islamic Index (JII), Dow Jones Islamic Market United States (DJIMUS), Dow Jones Islamic Market Turkey Index (DJIMTR), Dow Jones Islamic Market India (DJIMIND), and On The Dow Jones Islamic Canada (DJICA) has a probability value below 0.05. Hence, the data is stationary and has no unit root problem.

The granger causality test is used to determine the causal relationship between variables and the future of all variables by using all past information on variables. The results of the Granger causality test serve as the basis for knowing the causal relationship between variables and the future of all variables.

Table 3.
Granger Causality Test Results

Hypothesis	Obs	F-Statistics	Prob.
DJIMUS granger cause JII	33	0.01931	0.0431
JII granger cause JII	33	0.00763	0.0241
DJIMTR granger cause JII	33	0.02182	0.0028
JII granger cause DJIMTR	33	0.00887	0.0367
DJIMIND granger cause JII	33	0.00663	0.0281
JII granger cause DJIMIND	33	0.03632	0.0147
DJICA granger cause JII	33	0.02503	0.0126
JII granger cause DJICA	33	0.01738	0.0078

Source: Data Processing Results (2023)



The results of the Granger causality test serve as the basis for knowing the causal relationship between variables and the future of all variables. The test results in the table. 3 can be known that all values shows a value below 0.05, showing a two-way relationship or mutual influence between variables. This proves that the global Islamic capital market, namely DJIMUS, DJIMTR, DJIMIND, and DJICA have a relationship and influence each other on the Indonesian Islamic capital market, namely JII, in the co-19 condition.

Error Correction Model (ECM) is a technique used to correct short-term balance towards long-term balance. Error Correction Model (ECM) is a technique for correcting short-term imbalances towards long-term balance and can explain the relationship between dependent variables and independent variables at the present and past times based on making decisions with a probability of less than 5%. It is stated that there is a relationship in the short term. The coefficient of determination test (R^2) was carried out to detect the best accuracy in this regression analysis by comparing the coefficient of determination. If (R^2) gets closer to 1 (one), then the model is more appropriate.

Table 4.
Error Correction Model (ECM) Test Results

Variables	coefficient	std. Error	t-Statistics	Prob.	Prob (F-statistics)	R-squared
DJIMUS	0.012709	0.150514	0.084435	0.0333	0.000000	0.726258
DJIMTR	0.207868	0.042865	4.849338	0.0000	0.000000	
DJIMIND	0.043406	0.085951	0.505008	0.0175	0.000000	
DJICA	0.025093	0.185762	0.135083	0.0035	0.000000	
C	5.078064	0.380291	13.35308	0.0000	0.000000	

Source: Data Processing Results (2023)

The results of the Error Correction Model (ECM) test in table 4 can be seen US Dow Jones Islamic Market (DJIMUS) obtains the probability number by number 0.0333, Dow Jones Islamic Market Turkey Index (DJIMTR) get probability numbers by numbers 0.0000, Dow Jones Islamic Market India (DJIMIND) get probability numbers by numbers 0.0175, and On Dow Jones Islamic Canada (DJICA) get

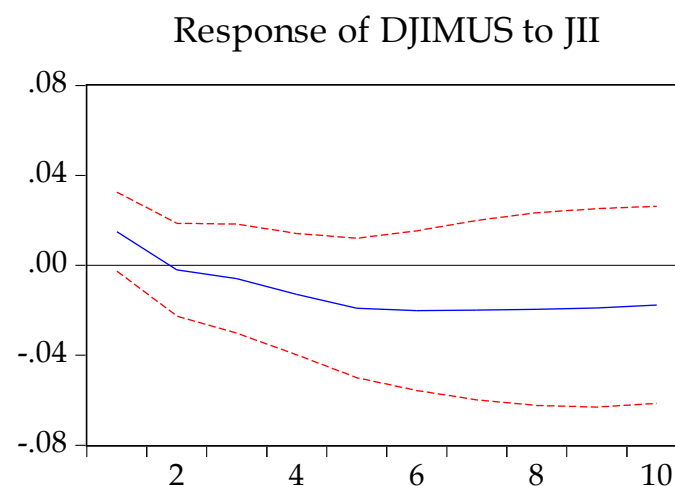
probability numbers by numbers 0.0035 and this value is below the number 0.05 so it is concluded that the global Islamic capital market consists of DJIMUS, DJIMTR, DJIMIND, DJICA have an interaction effect on the Indonesian Islamic capital market, namely the Jakarta Islamic Index (JII) in the short term in the era of co-19.

The test results in table 4 as a whole on the global Islamic capital market, namely DJIMUS, DJIMTR, DJIMIND, DJICA obtained a probability value with a number 0.000000 and this value is below the number 0.05 so that the fact is known in the long term, together with the global Islamic stock market consisting of DJIMUS, DJIMTR, DJIMIND, DJICA, they have an interaction effect on the Indonesian Islamic capital market, namely the Jakarta Islamic Index (JII) in the era of covid-19.

The test results in table 4 show that the Coefficient of Determination Test (R^2) produces an Adjusted R-squared value of 0.726258 shows that the global Islamic stock market consisting of DJIMUS, DJIMTR, DJIMIND, DJICA has a strong interaction effect of 72.6% on the Indonesian Islamic capital market, namely the Jakarta Islamic Index (JII) in the co-19 era.

The IRF (Impulse Response Function) test describes the shock of one variable against another variable within a certain time span, showing how long it takes the dependent variable to respond to the shock of the independent variable.

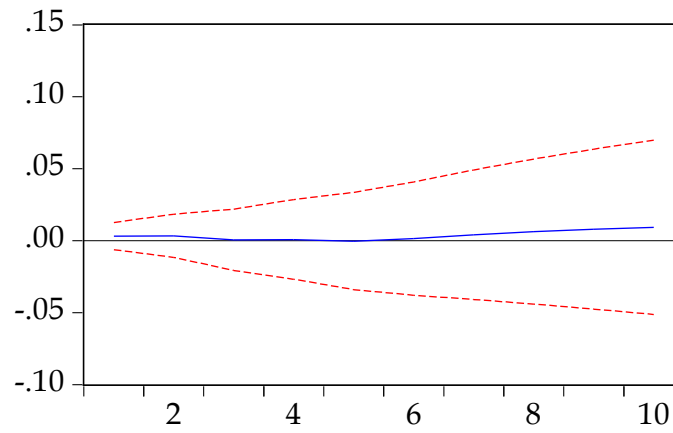
Graph 5.
IRF (Impulse Response Function) Test Results



Source: Data Processing Results (2023)

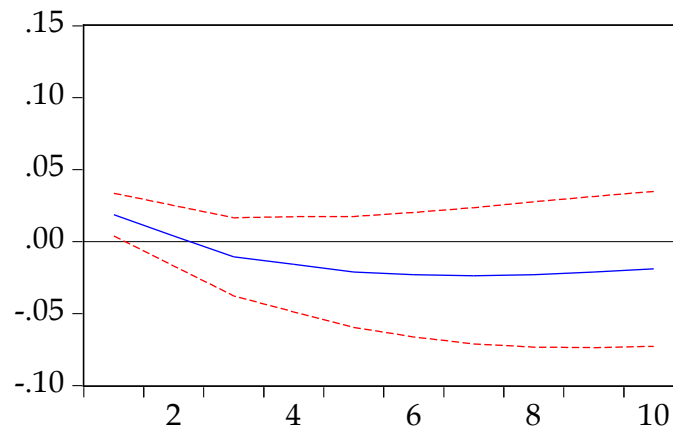


Response of DJIMTR to JII



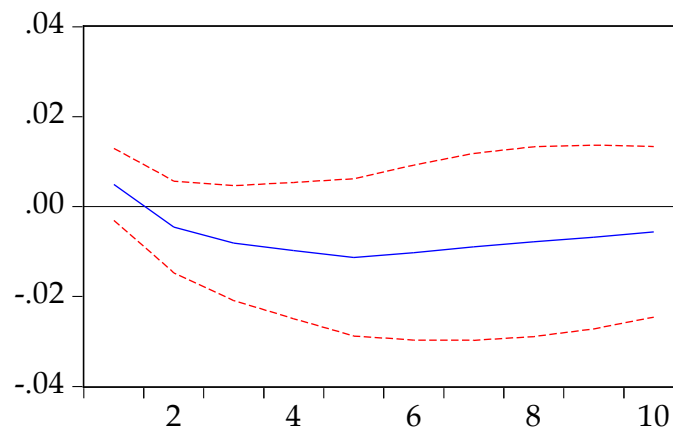
Source: Data Processing Results (2023)

Response of DJIMIND to JII



Source: Data Processing Results (2023)

Response of DJICA to JII



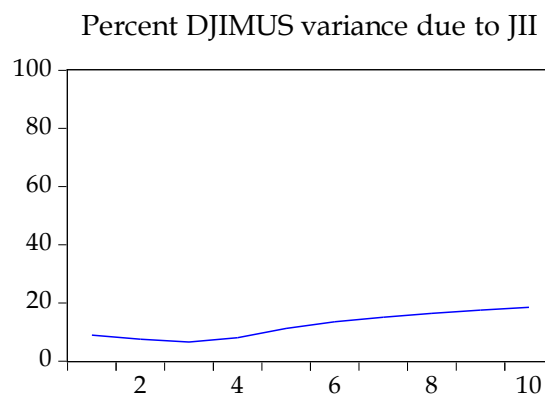
Source: Data Processing Results (2023)

The IRF test in Table 5. serves to describe the shock of one variable against another variable within a certain period, so that it can be seen how long it takes the dependent variable to respond to the shock of the independent variable. IRF (Impulse Response Function) in this study is used to show the response of the United States Dow Jones Islamic Market (DJIMUS), Dow Jones Islamic Market Turkey Index (DJIMTR), Dow Jones Islamic Market India (DJIMIND), and Dow Jones Islamic Canada (DJICA) to Jakarta Islamic Index (JII) during the Covid-19 pandemic.

United States Dow Jones Islamic Market Variable (DJIMUS) in response to variable shock at the Jakarta Islamic Index (JII) level during the Covid-19 pandemic with a fluctuating and persistent response. In addition, the Dow Jones Islamic Market Turkey Index (DJIMTR) in response to a variable shock at the Jakarta Islamic Index (JII) level during the Covid-19 pandemic era was a stagnation response that tried to survive the economic shock caused by the Covid-19 pandemic. Then the Dow Jones Islamic Market India (DJIMIND), in response to a variable shock at the Jakarta Islamic Index (JII) level in the Covid-19 pandemic era, showed a negative and persistent trend. And at the Dow Jones Islamic Canada (DJICA) in response to a variable shock at the Jakarta Islamic Index (JII) level during the Covid-19 pandemic era, it showed a sloping direction of movement in the negative direction as well as fluctuating and persistent.

The Forecasting Error Variance Decomposition (FEVD) test aims to measure the contribution or composition of influence of each independent variable to the dependent variable.

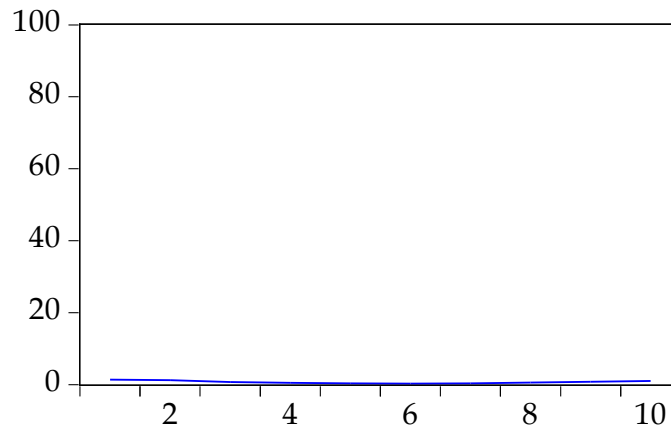
Table 6.
Forecasting Error Variance Decomposition (FEVD) Test Results



Source: Data Processing Results (2023)

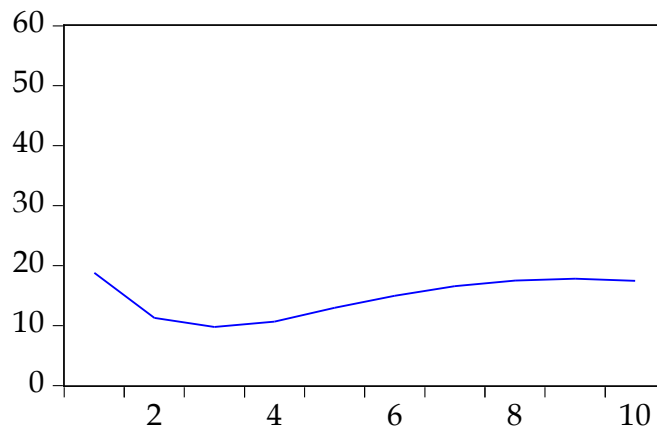


Percent DJIMTR variance due to JII



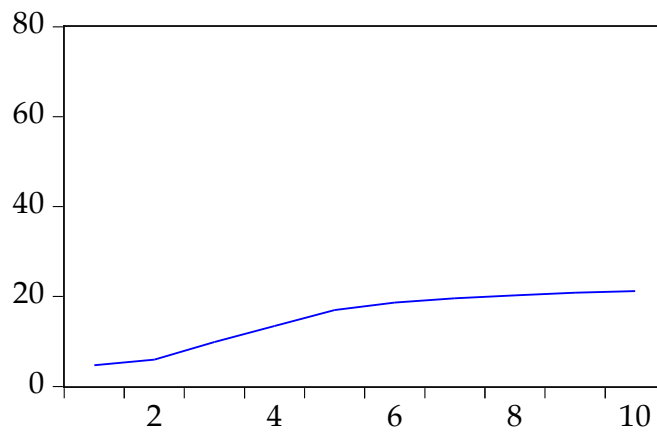
Source: Data Processing Results (2023)

Percent DJIMIND variance due to JII



Source: Data Processing Results (2023)

Percent DJICA variance due to JII



Source: Data Processing Results (2023)

The results of the FEVD test aim to measure the magnitude of the contribution or composition of the influence of each independent variable on the dependent variable. The magnitude of the influence of the research variables on the global Islamic capital market consisting of the United States Dow Jones Islamic Market (DJIMUS), Dow Jones Islamic Market Turkey Index (DJIMTR), Dow Jones Islamic Market India (DJIMIND), and Dow Jones Islamic Canada (DJICA) to The Jakarta Islamic Index (JII) has a strong interaction effect during the Covid-19 pandemic era.

The Global Islamic Capital Market in the Indonesian Sharia Capital Market in the Covid-19 Shock

Even though Covid-19 is a health crisis, the Covid-19 outbreak has become a domino effect and is increasingly turning into an economic crisis that is worsening conditions in all parts of the country and leading to economic and financial turmoil. As a result, the stock market was hit by fears of a sharp escalation of the Covid-19 crisis (Al-Awadhi, Alsaifi, Al-Awadhi, & Alhammadi, 2020). Such concerns prompted shareholders to immediately react with pessimism and then start withdrawing their holdings from the stock market, resulting in a sharp decline in share prices, including those of Islamic stocks. The Islamic stock market is attractive to investors because investors tend to choose Islamic products for their portfolios, and the risk-return characteristics of the Islamic stock market are attractive (Suleman, McIver, & Kang, 2021). Investors use the stock index to analyze the Islamic stock market because it can indicate market trends, i.e. it can show whether the market is active or sluggish at any given time. According to (Mzoughi, Ben, Belaid, & Guesmi, 2022), when a stock index moves, it usually means that most stock prices are falling. When a stock index moves, it usually means that most stock prices are going up.

Considering the returns and risks in investing in the Islamic stock market, it is very important to evaluate the impact of Covid-19 on the Islamic stock market. This condition is exacerbated by the policies of each country to prohibit people from social gatherings and impose lockdowns that limit economic activity. The covid-19 pandemic is causing suffering to Islamic capital markets around the world in an unexpected way, as it has caused a worsening decline in Islamic



stocks and Islamic stock indices of almost every stock market in the world, including in Indonesia (Rudiawarni, Sulistiawan, & Sergi, 2022).

Research results provide facts that world sharia stock markets significantly influenced Indonesia's sharia stock market in the Covid-19 shock in the short and long term. This occurs due to the interconnected nature of the Islamic stock market and overseas investors are permitted to own Islamic equity in Indonesia, enabling investors to transact on the global Islamic stock market from any location. Investors can invest in multiple countries to link each exchange globally. Investors will place their money in the Islamic stock market because it offers excellent short-term and long-term prospects for building investment portfolios. This influences the events and dynamics of Islamic stock indices between Islamic capital markets. Besides that, As a result of globalization, the impact of the global Islamic capital market on the Indonesian Islamic stock market has impacted economic, social and political ties between countries, especially in the COVID-19 era when the outbreak was not widespread. This can be avoided and causes severe economic problems in every country, including investment, which impacts the Islamic stock market in every country.

When macroeconomic conditions in a country experience both positive and negative changes, investors will calculate the impact on the company's future performance, then decide to buy or sell the company's shares in question. Foreign investors who diversify their portfolios expect investment returns in two ways: equity and foreign exchange. It also bears equity risk and foreign currency exchange rate risk. The advantage of holding Islamic shares is if the exchange rate of the investor's country of origin is less than the profits obtained by domestic investors in the country where the capital is invested, and vice versa converted to currency. Macroeconomic factors that can directly affect the performance of the global Islamic capital market include international economic conditions and a country's economic cycle, especially during the era of the Covid-19 shock. When macroeconomic conditions in a country experience both positive and negative changes, investors will calculate the impact on the company's future performance, then decide to buy or sell the company's shares in question. This buying and selling action results in changes in stock prices, which will ultimately affect and interact with the Islamic capital market index in that country with other countries. investors will calculate the impact on the

company's performance in the future, then decide to buy or sell the company's shares in question. This buying and selling action results in changes in stock prices, which will ultimately affect and interact with the Islamic capital market index in that country with other countries. investors will calculate the impact on the company's performance in the future, then decide to buy or sell the company's shares in question. This buying and selling action results in changes in stock prices, ultimately affecting and interacting with the Islamic capital market index in that country with other countries.

In addition, financial instruments traded on the Islamic capital market both globally and on the Islamic capital market in Indonesia are short-term and long-term instruments. Over time, the capital market does not only function as an investment vehicle for investors but can also become a livelihood, especially from stock instruments. The stock market itself promises quite high profits compared to other instruments. Fundamentalists and technicalists, all stock investors flock to try to make a profit in their way. In the conditions of the Covid-19 shock, financial management decisions are very important to make. Efficient financial management requires the existence of several goals or objectives, because assessing whether a financial decision is efficient must be based on certain standards. When global and Indonesian sharia stock indices experience turbulence to their lowest point, investors must manage finances properly and effectively to overcome the risk of difficulties and wait for the right time to carry out sharia stock transactions.

The findings of this study are consistent with portfolio theory, which states that investors' investment strategy choices are influenced by estimated risk and expected returns, which are statistically measured to construct their investment portfolios. As a result, investors will prefer to place their money in the Islamic stock market with promising short-term prospects. In particular, during the Covid-19 period which brought economic shocks in the investment sector to shocks between one stock market and another, it is important to consider both the short-term and long-term effects of the dynamics of the Islamic stock index between one. Islamic capital market and other Islamic capital markets (Papadamou, Fassas, Kenourgios, & Dimitriou, 2021). The Contagion Effect Theory, which states that crises can spread to neighbouring countries if they have the same economic conditions, also supports this research. Information asymmetries and investor group thinking are to blame for the contagion effect.



Information that investors share can cause changes in the Islamic capital market, which is why this can happen (Bossman *et al.*, 2022) supplemented by the time-varying parameter vector autoregressions (TVP-VAR).

This finding is in line with the hypothesis developed by the researcher (Herlianto & Hafizh, 2020) that the Dow Johns Index together has a strong influence on the JII on the Indonesian Stock Exchange (IDX). Findings This research is in line with research (Rizaldy & Rahayu, 2021), that a map of the global Islamic stock market in the Covid-19 period was used to process and analyze the performance of Islamic stock indexes including Indonesia, which was used to consider returns and risks. In addition, the research results are in harmony with the research results (Soeharjoto & Inviah, 2021) that in the long run the Index and the Dow Jones Arabia Titans have a very strong positive influence on the Indonesian Sharia Stock Index (ISSI).

Economies around the world are becoming more interconnected, and as a result, an incident like the COVID-19 epidemic that affects one region of the world can soon affect other regions as well. Shocks to the global Islamic capital market can have an impact on the Indonesian Islamic capital market. The international Islamic stock market accepts investment from foreign investors, enabling these exchanges to connect globally. Therefore, changes in one exchange affect exchanges in other countries as well.

CONCLUSION

The results of research and discussion show that the global sharia stock market has had a significant impact on the Indonesian sharia stock market both in the short and long term in the era of the Covid-19 shock. This is due to the interrelated nature of the Islamic stock market international investors are allowed to own sharia shares in Indonesia because investors will choose the sharia stock market with very promising short and long-term prospects. Then there is the influence of the global Islamic capital market on the Indonesian Islamic stock market as a result of the world's economic, social and political interdependence, especially during the Covid-19 era when the inevitable spread of the epidemic became a factor. And brought an extreme economic crisis, including an investment crisis, in all countries, impacting the Islamic stock market in every



country. Macroeconomic factors that can directly affect the performance of the global Islamic capital market include international economic conditions and a country's economic cycle, especially during the era of the Covid-19 shock.

Theoretically and practically, the findings of this study are expected to provide a reference regarding the short-term and long-term effects of the global Islamic stock market on the Indonesian Islamic stock market. Meanwhile, practically, investors can use it as a consideration for investing in the Islamic stock market to get the best returns with minimal risk after the outbreak of COVID-19.

This research is limited because it only examines global sharia market indices, which consist of the DJIMUS, DJIMTR, DJIMIND, and DJICA and uses a limited period in the covid-19 era from March 2020 to November 2022, so it is suggested that further research can expand the overall sharia stock index in the world and periods research coverage in the era of endemic covid-19.



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