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ISLAMIC VERSUS CONVENTIONAL STOCK INDICES IN MALAYSIA: LONG-SAMPLE EVIDENCE FROM THE FBM HIJRAH SHARIAH INDEX AND FBM KLCI

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Abstract: *This paper examines the performance and information transmission between Malaysia's main Shariah-compliant equity index, the FBM Hijrah Shariah Index, and its conventional counterpart, the FBM KLCI. Using daily data from February 2007 to October 2025, we analyse simple returns through descriptive statistics, a two-sample test of mean returns, correlation analysis, and multi-horizon Granger causality tests with 1-day, 5-day, 30-day, and 120-day lags. The results show that the two indices have very similar distributional properties: mean daily returns are statistically indistinguishable, volatility is comparable, and both series display non-normal return characteristics. Contemporaneous correlation is high and there is no evidence of systematic lead-lag effects at short horizons, while only modest bidirectional Granger causality appears at longer horizons. These findings suggest that in Malaysia Shariah screening mainly affects index composition without generating a separate risk-return regime. The study provides long-sample evidence on the integration of Islamic and conventional equity indices and offers practical guidance for benchmark selection and Shariah-based equity investment.*

Keywords: *Shariah-compliant equity, FBM Hijrah Shariah Index, FBM KLCI, Granger causality, performance analysis, Islamic finance.*

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Introduction

The rapid expansion of Islamic capital markets over the past two decades has renewed interest in whether Shariah-compliant equity indices differ in a systematic way from their conventional counterparts in terms of performance, risk characteristics, and information transmission. Recent industry reports estimate that global Islamic finance assets reached about USD4.5 trillion in 2022, with continued growth expected over the medium term (LSEG, 2023; IFSB, 2023). Malaysia offers a particularly informative setting for such an analysis. It has developed a comprehensive Islamic finance ecosystem in which Islamic banking, sukuk, and Islamic collective investment schemes account for a substantial share of the domestic financial system, supported by a dedicated regulatory and Shariah-governance framework (Securities Commission Malaysia [SC], 2024). In recent years, Shariah-compliant securities have consistently represented around 75-80% of listed securities on Bursa Malaysia, with the figure standing at 81.51% of all listed securities as of end 2024 (SC, 2025).

Theoretical arguments point in different directions. Shariah screening rules exclude companies involved in prohibited activities and apply quantitative thresholds on financial ratios such as interest-bearing debt and conventional cash holdings (SC, n.d). These restrictions narrow the investable universe and can alter sectoral and factor exposures, which might generate performance differentials or segmented market dynamics. At the same time, index providers and policy reports emphasise that Shariah-compliant firms remain exposed to the same broad macroeconomic conditions and systematic risk factors as the wider market, implying that screening may affect portfolio composition more than underlying fundamentals (Ayedh, 2019; Bhoyroo, 2024). Under this view, Islamic and conventional indices would be expected to display similar average performance, strong co-movement, and limited directional predictability.

A growing empirical literature tends to support this latter interpretation. Studies on global and Malaysian markets document high correlations, evidence of long-run integration, and broadly comparable risk–return profiles between Islamic and conventional indices (Al-Khazali et al., 2014; Al Shaari & Hussin, 2019; Majid & Kassim, 2010). Although these contributions provide useful benchmarks, several gaps remain. Much of the existing work focuses on contemporaneous relationships or limited horizons, and relatively few studies employ long daily samples at the market-index level to examine whether integration and co-movement persist across multiple time scales. Moreover, because Islamic indices differ from their conventional benchmarks in sectoral structure and in the timing of Shariah screening, the possibility of gradual or asymmetric information spillovers cannot be dismissed without explicit time-series evidence (Bayram & Othman, 2019; Dewandaru et al., 2014).

Despite extensive studies on Islamic versus conventional equity performance, Malaysian evidence based on long daily samples at the market index level, particularly those examining multi-horizon information transmission, remains limited. Most existing studies focus on shorter samples, fund-level data, or contemporaneous relationships, leaving uncertainty about whether integration between Islamic and conventional equity indices persists across different time horizons. This study addresses this gap by providing long-sample evidence from February 2007 to October 2025 on performance, integration, and information flow between Malaysia's main conventional equity benchmark, the FTSE Bursa Malaysia KLCI (FBM KLCI), and its Shariah-compliant counterpart, the FBM Hijrah Shariah Index.

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Building on earlier work comparing Islamic and conventional indices using daily data in other markets (Bayram & Othman, 2019), the analysis employs mean comparison tests, correlation analysis, and multi-horizon Granger causality tests to assess whether the two indices exhibit distinct dynamics or behave as components of an integrated equity market. The empirical findings support the integrated-market perspective: mean returns are statistically indistinguishable, daily return correlations are high, and no short-term lead-lag effects are observed, while only modest spill overs emerge at longer horizons.

This study contributes to the Malaysian literature in three ways. First, it provides one of the longest daily index-level samples comparing Islamic and conventional equity benchmarks. Second, it evaluates market integration and predictability across multiple time horizons, rather than focusing solely on contemporaneous relationships. Third, by concentrating on broad market indices, it offers direct and practical insights for benchmark selection, asset allocation, and the design of Shariah-based investment products in Malaysia. Section 2 reviews the relevant literature and develops the hypotheses. Section 3 describes the data and methodology. Section 4 presents the empirical findings, and Section 5 concludes.

Literature Review and Hypothesis Development

A sizeable empirical literature compares the performance of Islamic equity indices with their conventional counterparts, with emphasis on risk–return profiles and the degree of market integration. At the global level, most studies report that Islamic indices do not suffer systematic underperformance; in several cases they perform comparably to, or slightly better than, conventional benchmarks in particular subperiods or market conditions (Ben Rejab & Arfaoui, 2019; Hassan & Girard, 2010). For Malaysia, however, long-span evidence based on index-level daily data is still relatively scarce, as many contributions focus either on mutual funds or on shorter samples of individual stocks (Alwi et al., 2019; Ling et al., 2020). The present study adds to this literature by examining the FBM Hijrah Shariah Index and the FBM KLCI over an extended period, thereby providing a more comprehensive view of integration and relative performance in a mature Islamic finance market.

With respect to average returns, the existing evidence generally points to no statistically significant differences between Islamic and conventional indices. Bayram and Othman (2019), for example, show that mean daily returns on Turkey's KATILIM 50 Islamic Index are statistically indistinguishable from those on the BIST 100. A similar pattern emerges in Malaysian fund-level studies, where Islamic and conventional equity funds tend to generate broadly comparable performance (Bakar & Ali, 2014). Taken together, these studies suggest a broad consensus that Shariah screening does not impose a systematic return penalty, although the strength of this conclusion depends on sample length and the level of analysis (index versus fund level). In light of this evidence, the first hypothesis is stated as follows:

H1: The mean daily returns of the FBM Hijrah Shariah Index do not differ significantly from those of the FBM KLCI.

Regarding risk characteristics, Islamic indices often display volatility levels that are close to those of their conventional benchmarks, although differences in sectoral composition and leverage constraints can produce small deviations. Several studies report slightly higher volatility in some Islamic indices, reflecting more concentrated exposures to specific sectors (Hassan & Girard, 2011; Rizvi & Arshad, 2018). Return distributions for both Islamic and conventional indices tend to exhibit non-normal features, including skewness and fat tails,

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which call for care when interpreting standard risk measures (Min et al., 2023). Overall, the literature portrays Islamic equity indices as broadly comparable to conventional indices in terms of unconditional risk-return behaviour.

Market integration between Islamic and conventional segments has attracted increasing attention. In markets with well-developed Islamic finance sectors, many studies report a high degree of contemporaneous co-movement between Islamic and conventional indices (Sahabuddin et al., 2020). For Malaysia, Majid and Kassim (2010) document strong long-run relationships between Islamic and conventional indices, while Akbar et al. (2021) report significant co-movement at the global level. Dewandaru et al. (2014) also find strong integration in Malaysia, which they attribute to overlapping investor bases and shared macroeconomic exposures. These findings indicate that Islamic and conventional indices in integrated markets tend to respond similarly to aggregate shocks. While these studies consistently document strong co-movement, they differ in their treatment of time horizons, leaving open the question of whether integration is equally strong in short-run versus longer-run dynamics. This motivates the second hypothesis:

H2: Daily returns on the FBM Hijrah Shariah Index and the FBM KLCI are highly and positively correlated.

Information transmission between Islamic and conventional markets is typically assessed using Granger causality tests, which allow for potential lead–lag relations in returns. The empirical results reported in the literature generally point to limited short-run causality, which is consistent with efficient and rapid price adjustment across market segments. Majid and Kassim (2010) show that Malaysian Islamic and conventional indices share long-run integration but exhibit minimal short-run causal influence. Abu Bakar and Masih (2014) similarly report symmetric information flows between the two segments, indicating that neither index persistently leads the other. Evidence from the GCC region supports this view: Arouri et al. (2013) find weak short-run causality between Islamic and conventional equity markets. At higher frequencies, Dewandaru et al. (2014) also report fairly balanced information flows. Taken together, these findings suggest that short-horizon price discovery is shared rather than dominated by one segment. Overall, the literature suggests limited short-run causality but provides less conclusive evidence on longer-horizon information transmission, particularly in the Malaysian context. Accordingly, the third hypothesis is formulated as:

H3: At short horizons (1-day and 5-day lags), neither index Granger-causes the other.

Although short-run dynamics are largely symmetric, some studies document mild spillovers at longer horizons. Sectoral specialisation, the timing of Shariah screening, and gradual capital reallocation may induce low-intensity, delayed effects. Majdoub and Mansour (2014) report modest long-term volatility spillovers between Islamic and conventional markets, with stronger linkages emerging only over extended horizons. Kenourgios et al., (2016) also find that cross-market contagion between Islamic and conventional indices is limited, even during episodes of financial stress. These results suggest that long-run causality may appear without implying that either segment systematically leads the other. The final hypothesis therefore states:

H4: Any Granger causality observed at longer horizons (30-day and 120-day lags) is modest and does not indicate a dominant leading index.

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Data and Methodology

This section describes the data and sample construction, the return measure, the descriptive statistics and correlation analysis, the Granger causality framework, and the test of mean returns.

Data and Sample Construction

The empirical setting is the dual-index structure of the Malaysian equity market, in which conventional and Shariah-compliant stocks are traded in parallel. The conventional segment is represented by the FTSE Bursa Malaysia KLCI (FBM KLCI), while the Islamic segment is proxied by the FBM Hijrah Shariah Index. Both indices are broad, capitalisation-weighted benchmarks and are designed to reflect overall market conditions in their respective segments rather than the performance of individual constituent firms.

Daily closing levels of the FBM KLCI and FBM Hijrah Shariah indices are obtained for the longest period over which both series are jointly available. Non-trading days are removed, and the two series are aligned so that the sample retains only dates on which valid observations exist for both indices. The FBM Hijrah Shariah Index begins in 2007, which anchors the starting point of the common sample. After transforming index levels into daily returns, the final dataset contains 4,581 observations for each index, covering a continuous period from the early years of the Hijrah index through to the end of October 2025.

The empirical design follows Bayram and Othman (2019), who analyse the Turkish market by comparing the KATILIM 50 Islamic index with the BIST 100 conventional index using daily data. In the Malaysian context, this study adopts their two central objectives: first, to test whether mean daily returns differ between the Islamic and conventional indices; and second, to examine whether there is any short-run causal relation between their daily returns.

Return Construction

Consistent with Bayram and Othman (2019), index performance is measured using simple daily percentage returns. Let $P_{i,t}$ denote the closing level of index i (FBM KLCI or FBM Hijrah Shariah) on trading day t. The simple daily return in percentage terms is defined as

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}} \times 100$$

This measure corresponds directly to the percentage gain or loss from one trading day to the next. The first observation for each index is lost due to differencing. Because the alignment of the two series is imposed at the level of index levels, the number of usable daily returns remains identical across indices, yielding 4,581 daily return observations for each series.

Descriptive Statistics and Correlation

As a preliminary step, the unconditional behaviour of daily returns on each index is summarised using standard descriptive statistics. For both the FBM KLCI and the FBM Hijrah Shariah indices, the analysis reports the sample size, mean, median, standard deviation, minimum and maximum returns, and skewness and kurtosis. These statistics describe central tendency, dispersion, and tail behaviour, and provide a baseline comparison of the risk–return profiles of the Islamic and conventional indices.

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To assess the degree of co-movement between the two market segments, the Pearson correlation coefficient between daily returns on the FBM KLCI and FBM Hijrah Shariah indices is also computed. A high positive correlation would indicate that the two indices tend to respond in a similar way to macroeconomic and market-wide shocks, and would suggest that the scope for diversification between the conventional and Shariah-compliant segments at the index level is limited.

Granger Causality Tests

To examine whether one market contains information useful for forecasting the other, pairwise Granger causality tests are applied to the daily return series within a linear autoregressive framework. For each ordered pair of indices (X, Y), the following regression is estimated:

$$R_{Y,t} = \alpha_0 + \sum_{j=1}^{p} \alpha_j R_{Y,t-j} + \sum_{j=1}^{p} \beta_j R_{X,t-j} + \varepsilon_t$$

where $R_{Y,t}$ denotes the return on the "dependent" index, $R_{X,t}$ the return on the potential "causal" index, and p the lag length. The null hypothesis that X does not Granger-cause Y is

$$H_0: \beta_1 = \beta_2 = \cdots = \beta_p = 0$$

which is evaluated using an F-statistic.

Following Bayram and Othman (2019), four lag lengths are considered: 1, 5, 30, and 120 trading days. These horizons are intended to capture, respectively, very short-run (one-day), weekly, approximately monthly, and roughly six-month dynamics. For each lag order $p \in \{1,5,30,120\}$, both directions of potential causality are tested: whether FBM KLCI returns Granger-cause FBM Hijrah Shariah returns, and whether FBM Hijrah Shariah returns Granger-cause FBM KLCI returns.

Two-sample Test of Mean Returns

To assess whether the Islamic and conventional indices differ in average performance, a parametric two-sample test of means, as in Bayram and Othman (2019), is employed. Let $\bar{R}_{\text{KLCI}}$and $\bar{R}_{\text{Hijrah}}$ denote the sample mean daily returns on the FBM KLCI and FBM Hijrah Shariah indices, respectively, and let $s^2_{\text{KLCI}}$and s^2_{Hijrah} denote the corresponding sample variances. With $N_{\text{KLCI}} = N_{\text{Hijrah}} = 4{,}581$, the difference in mean returns is

$$\Delta\bar{R} = \bar{R}_{\text{KLCI}} - \bar{R}_{\text{Hijrah}}$$

with standard error

$$\text{SE}(\Delta\bar{R}) = \sqrt{\frac{s^2_{\text{KLCI}}}{N_{\text{KLCI}}} + \frac{s^2_{\text{Hijrah}}}{N_{\text{Hijrah}}}}$$

The corresponding test statistic is

$$Z = \frac{\Delta\bar{R}}{\text{SE}(\Delta\bar{R})}$$

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which is compared with the standard normal distribution. The null hypothesis is that mean daily returns on the Islamic and conventional indices are equal. A statistically significant Z-value would indicate that the FBM Hijrah Shariah Index and the FBM KLCI differ in average daily performance over the sample period.

Empirical Findings

Figure 1 plots the daily levels of the FBM KLCI and the FBM Hijrah Shariah Index over the full sample from February 2007 to October 2025. The left-hand vertical axis reports FBM KLCI values (500–2,100 points), while the right-hand axis reports FBM Hijrah Shariah values (5,000–17,000 points). The different scales reflect only the index bases; visually, the two series move very closely together. Both indices rise in the pre-crisis years, experience a sharp collapse during the Global Financial Crisis of 2008–2009, and subsequently recover while trading within a relatively contained band.

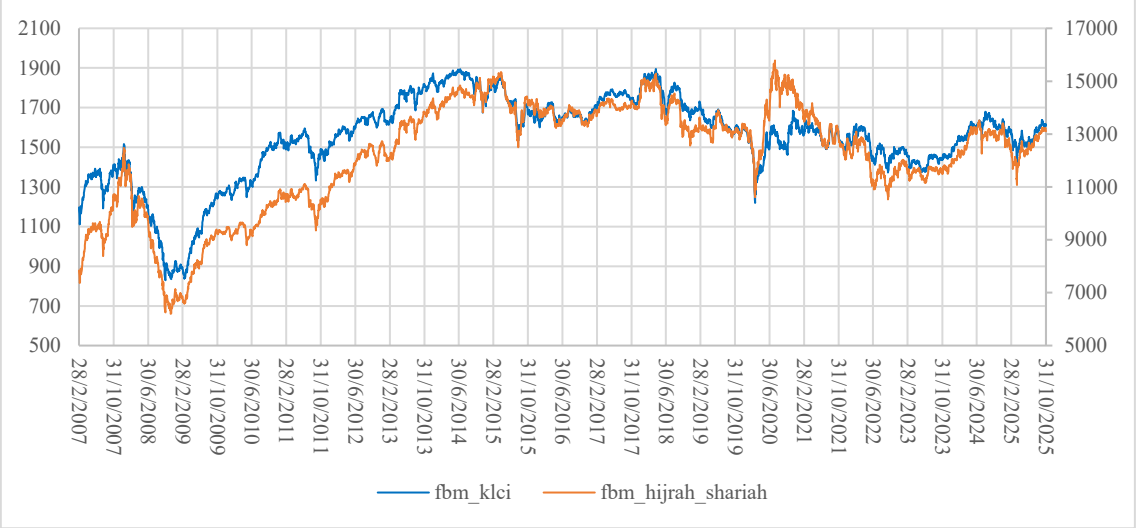

Figure 1: Daily Index Levels: FBM KLCI vs. FBM Hijrah Shariah

The COVID-19 episode in early 2020 constitutes a second marked break, with a steep but short-lived decline followed by a rapid rebound. During this phase, the Hijrah index tends to recover more quickly and for some time trades above the conventional benchmark before the two indices settle into a lower, more volatile range in the early 2020s. Overall, Figure 1 suggests that the Islamic and conventional segments share essentially the same market cycle, with only temporary differences in index levels around periods of stress. This visual impression is in line with earlier work reporting close co-movement between Islamic and conventional indices in Malaysia and other markets (Majid & Kassim, 2010; Al-Khazali et al., 2014; Dewandaru et al., 2014).

Figure 2 shows the corresponding series of daily simple percentage returns for the FBM KLCI and the FBM Hijrah Shariah Index. The two-return series display very similar time variation, with pronounced spikes in volatility during the Global Financial Crisis and the onset of COVID-19. Periods of elevated volatility and large daily swings in one index are typically mirrored by the other, indicating strong short-run co-movement between the two market segments. This pattern already points towards the integrated-market view emphasised in the literature (Al-Khazali et al., 2014; Al Shaari & Hussin, 2019) and anticipates the high contemporaneous correlation documented below.

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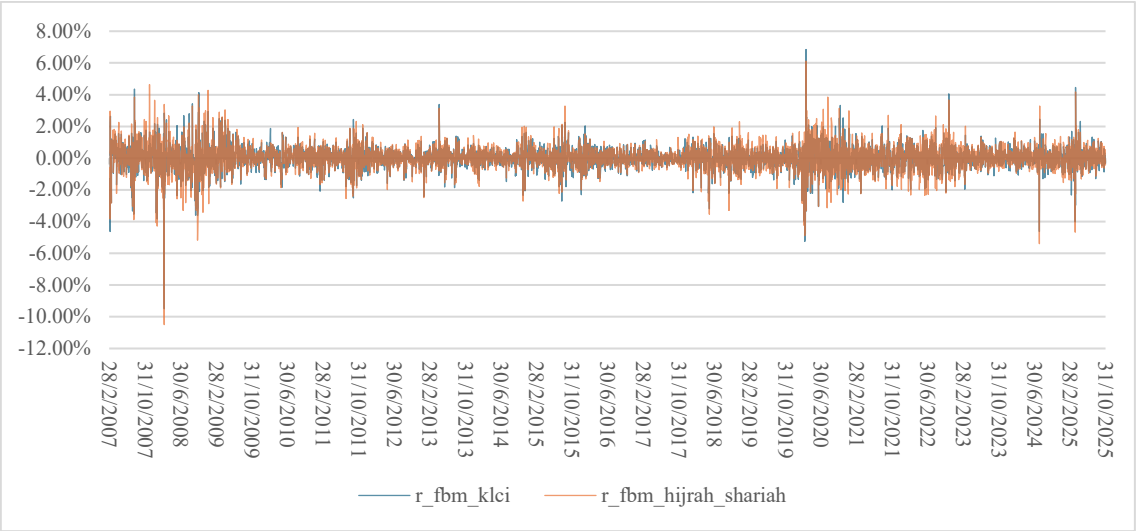

Figure 2: Daily Log Returns (%): FBM KLCI vs. FBM Hijrah Shariah

Descriptive Statistics

Table 1 reports descriptive statistics for daily simple percentage returns on the FBM KLCI and FBM Hijrah Shariah indices. For each series, the table presents the sample size, mean, median, standard deviation, minimum and maximum returns, and the skewness and kurtosis of the empirical distribution.

For the FBM KLCI, the average daily return is small but positive, with a mean of 0.0093% and a median of 0.0156%. The standard deviation of 0.7460% indicates a moderate level of day-to-day variability. The minimum and maximum daily returns, -9.4968% and 6.8508%, show that the conventional index occasionally experiences sizeable one-day losses and gains. The distribution is left-skewed (skewness = -0.6035) and strongly leptokurtic (kurtosis = 14.6695), which points to a relatively high incidence of extreme outcomes compared with a normal distribution.

Table 1: Descriptive Statistics of Daily Log Returns (%)

Index	N	Mean	Median	Std. Dev.	Min	Max	Skewness	Kurtosis
FBM KLCI	4,581	0.0093	0.0156	0.7460	-9.4968	6.8508	-0.6035	14.6695
FBM Hijrah Shariah	4,581	0.0146	0.0228	0.8133	-10.4948	6.1229	-0.5730	13.9711

The FBM Hijrah Shariah Index exhibits a broadly similar pattern. The mean daily return is slightly higher at 0.0146%, with a median of 0.0228%, while the standard deviation is somewhat larger at 0.8133%. The most negative and most positive daily returns are -10.4948% and 6.1229%, respectively, again indicating occasional large negative shocks and substantial positive reversals. Skewness (-0.5730) and kurtosis (13.9711) are close to the KLCI values, suggesting that tail behaviour is very similar across the two indices.

As a whole, the descriptive statistics portray the Islamic and conventional indices as having comparable risk–return characteristics at the daily frequency. The Islamic index records marginally higher average daily returns but at the cost of slightly higher volatility. Both series depart strongly from normality, with negative skewness and pronounced excess kurtosis. These features echo the non-normal return distributions documented for Islamic and conventional indices in earlier studies (Al-Khazali et al., 2014; Min et al., 2023) and are relevant for risk assessment and modelling. However, they do not indicate a clear systematic performance

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advantage for either index and are consistent with H1, which posits no meaningful difference in average returns.

Correlation and Co-movement

Table 2 presents the contemporaneous correlation matrix for daily returns on the FBM KLCI and FBM Hijrah Shariah indices. The Pearson correlation coefficient between the two series is 0.9061, indicating very close co-movement on a day-to-day basis. The visual evidence in Figure 2 is consistent with this result: episodes of high volatility and sharp return shifts in one index are typically matched by similar movements in the other.

Table 2: Correlation Matrix of Daily Log Returns

Index	KLCI	Hijrah
KLCI	1.0000	0.9061
Hijrah	0.9061	1.0000

From a portfolio perspective, such a high correlation implies that allocating only between these two broad indices offers limited potential for short-term diversification. From a market-structure perspective, the result suggests that Shariah screening does not insulate the Islamic segment from the aggregate shocks that shape the Malaysian equity market. Instead, the Islamic and conventional indices appear to be driven largely by the same macroeconomic and market-wide forces, with differences between them reflecting composition and screening rather than exposure to distinct sources of risk.

The magnitude of the correlation is very close to those reported for Islamic and conventional indices in previous work on Malaysia and other markets (Majid & Kassim, 2010; Al-Khazali et al., 2014; Al Shaari & Hussin, 2019), and it supports H2, which anticipates high and positive correlation between the FBM Hijrah Shariah and FBM KLCI indices. In that sense, the Malaysian evidence reinforces the view that, at the index level, Islamic and conventional segments function as parts of an integrated equity market rather than as largely separate markets.

Granger causality results

Table 3 reports Granger causality tests for daily returns on the FBM KLCI and FBM Hijrah Shariah indices for four lag lengths: 1, 5, 30, and 120 trading days. At the shortest horizons, the results provide little indication of incremental predictive content in either direction. With a single lag, the null that FBM KLCI returns do not Granger-cause FBM Hijrah Shariah returns cannot be rejected ($F = 0.0363$, $p = 0.8489$), and the reverse null that FBM Hijrah Shariah returns do not Granger-cause FBM KLCI returns is also retained ($F = 1.9730$, $p = 0.1602$). Using five lags leads to the same conclusion: the F-statistics remain close to unity (1.2477 for KLCI → Hijrah and 0.9381 for Hijrah → KLCI), and the associated p-values (0.2839 and 0.4549) lie well above conventional significance levels. These findings are consistent with H3 and with earlier studies for Malaysia and the GCC region, which generally report weak or absent short-run causality between Islamic and conventional indices (Majid & Kassim, 2010; Abu Bakar & Masih, 2014; Arouri et al., 2013).

At longer horizons, the results become more suggestive of predictive linkages. With 30 trading-day lags, the hypothesis that KLCI returns do not Granger-cause Hijrah returns is marginally rejected at the 10% level ($F = 1.4216$, $p = 0.0638$), whereas the converse hypothesis is rejected at the 5% level ($F = 1.5438$, $p = 0.0296$). Over roughly one-and-a-half-month windows, lagged

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returns on the Islamic index therefore appear to contain more information about subsequent conventional returns than vice versa. The difference is modest in absolute terms, but it is sufficiently systematic to register in a formal Granger framework.

Table 3: Granger Causality Test for Daily Returns

Null Hypothesis	Lag	F-statistic	p-value
KLCI does not Granger-cause Hijrah	1	0.0363	0.8489
Hijrah does not Granger-cause KLCI	1	1.9730	0.1602
KLCI does not Granger-cause Hijrah	5	1.2477	0.2839
Hijrah does not Granger-cause KLCI	5	0.9381	0.4549
KLCI does not Granger-cause Hijrah	30	1.4216	0.0638
Hijrah does not Granger-cause KLCI	30	1.5438	0.0296
KLCI does not Granger-cause Hijrah	120	1.3873	0.0037
Hijrah does not Granger-cause KLCI	120	1.2651	0.0284

The 120-day specification strengthens this impression of long-horizon interaction. When six months of lags are included, the null that KLCI returns do not Granger-cause Hijrah returns is rejected with an F-statistic of 1.3873 and a p-value of 0.0037, while the null that Hijrah returns do not Granger-cause KLCI returns is rejected with an F-statistic of 1.2651 and a p-value of 0.0284. Taken at face value, the long-lag regressions point to bidirectional Granger causality: shocks that first appear in one index are associated with gradual spillovers into the other over extended horizons. This pattern is broadly in line with H4, which anticipates modest long-run causal effects without a clearly dominant leading index, and it echoes the low-intensity spillovers documented by Majdoub and Mansour (2014) and the limited contagion reported by Kenourgios et al., (2016).

The economic content of these long-horizon findings, however, appears limited. The 30- and 120-day specifications involve a large number of lagged regressors in a simple bivariate system, so that even mild misspecification or departures from linear dynamics may lead to rejections of the no-causality null. Moreover, all F-statistics are only moderately above one, suggesting that, although the null is rejected in a large sample, the incremental explanatory power contributed by lagged returns on the other index is likely to be small. Overall, Table 3 is most consistent with a situation in which Islamic and conventional indices move very closely together contemporaneously and, beyond that, exhibit at most modest and gradual spill overs at longer horizons, which is consistent with the efficient, integrated-market view set out in earlier work (see e.g., Majid & Kassim, 2010; Dewandaru et al., 2014).

Difference in Mean Returns

Table 4 summarises the two-sample test of equality of mean daily returns. The FBM KLCI records a mean daily simple return of 0.0093%, with a sample variance of 0.5565, whereas the FBM Hijrah Shariah Index records a mean of 0.0146% and a variance of 0.6615. The implied difference in mean returns, defined as KLCI minus Hijrah, is therefore −0.0053 percentage points per day. If interpreted mechanically and scaled to a representative 252-trading-day year, this would correspond to roughly 1.3 percentage points lower annual return for the conventional index relative to the Islamic index.

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Table 4: Mean Daily Returns (%) and Sample Variances

KLCI (N = 4,581)		Hijrah (N = 4,581)		Diff. (KLCI minus Hijrah)			
Mean	**Variance**	**Mean**	**Variance**	**Mean**	**Std. error**	**Z-stat.**	**p-value**
0.0093	0.5565	0.0146	0.6615	-0.0053	0.0163	-0.3249	0.7453

Sampling variability is large relative to this point estimate. The standard error of the mean difference is 0.0163, which yields a Z-statistic of -0.3249 and an associated p-value of 0.7453. The null hypothesis that means daily returns on the Islamic and conventional indices are equal cannot be rejected even at very loose significance thresholds. Statistically, the data are consistent with equal expected daily returns, and the observed difference lies well within the range that could arise by chance.

The Malaysian results accord with the evidence reported by Bayram and Othman (2019) for the Turkish market, where the KATILIM 50 and BIST 100 indices also show no reliable difference in average performance. They are also consistent with fund-level studies for Malaysia that report broadly similar returns for Islamic and conventional equity funds (Bakar & Ali, 2014). Viewed alongside these earlier findings, Table 4 indicates that, at the level of broad market indices, investors who choose a Shariah-compliant benchmark for religious or ethical reasons do not, over the sample period considered, appear to forgo expected financial performance relative to the corresponding conventional benchmark. This reinforces the interpretation of H1 that Shariah screening in a mature market such as Malaysia does not entail a systematic return penalty at the index level.

Conclusion

This paper has examined whether Islamic equity investment in Malaysia differs materially from the conventional benchmark at the aggregate index level. Using nearly two decades of daily data for the FBM Hijrah Shariah Index and the FBM KLCI, we compared simple return distributions and tested for differences in mean performance. The descriptive statistics show that both indices register small positive average daily returns, similar volatility, and pronounced departures from normality. The Islamic index records a slightly higher mean daily return, but the estimated gap is economically modest and statistically indistinguishable from zero. In line with earlier evidence for other markets (for example Bayram & Othman, 2019), the results indicate that investors who adopt the Shariah-compliant benchmark do not, over the sample period considered, appear to sacrifice expected financial performance at the broad index level.

A second contribution has been to analyse the dynamic relation between the Islamic and conventional segments across multiple horizons. Contemporaneous correlations in daily returns are very high, and there is no sign of systematic lead–lag effects at one-day or five-day lags, which supports the view that price discovery is shared across the two indices. At longer horizons, some Granger-causal effects arise in one or both directions, but the corresponding F-statistics remain moderate and the incremental explanatory power is small. These findings are consistent with earlier studies that report strong co-movement and limited short-run causality between Islamic and conventional indices (Majid & Kassim, 2010; Abu Bakar & Masih, 2014; Majdoub & Mansour, 2014). Overall, the Malaysian evidence points to a highly integrated market in which Shariah screening generates at most mild and gradual spill overs over several months rather than distinct return dynamics.

More broadly, the results suggest that Shariah-compliant equity investment in Malaysia can be viewed primarily as a question of screening and portfolio composition, rather than a choice

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between separate risk–return regimes. For investors, this implies that benchmark selection between the FBM KLCI and the FBM Hijrah Shariah Index can be guided by religious or ethical considerations without a clear expectation of persistent return differentials. For policymakers and product providers, the findings support the notion that the continued growth of Islamic index products can be accommodated within an integrated equity market without undermining market efficiency or investor protection objectives.

The analysis has focused deliberately on index-level behaviour in a bivariate time-series framework. Future research could extend this work along several dimensions. Firm- or sector-level data would allow a closer examination of whether the absence of a return gap at the aggregate level masks systematic differences across industries, size groups, or liquidity tiers. It would also be informative to study whether integration and spillovers vary across market regimes, for example during periods of financial stress or regulatory change, and to relate such patterns more directly to the mechanics of Shariah screening and investor clienteles.

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