Abstract

The thesis aims at the comparison of volatility between conventional stock indices and their Shariah counterparts. We study the time-varying volatility and correlation of both categories using GARCH models, during Global Financial Crisis and afterwards, from January 2008 to March 2017. We analyze the Global stock indices drilling down into their Developed and Emerging market segments, and study the U.S. market; considering U.S. as the origin of the crisis. Extending traditional approach, we study difference of time-varying volatility between conventional and Shariah indices, and thoroughly study its dynamic development during the study period. Employing DCC-GARCH, we investigate the financial contagion within markets and find Shariah indices to be significantly affected by it. We find Shariah stocks to be less risky and a diversification opportunity during crisis, but based on market; unlike other markets, Shariah stocks are more volatile in Emerging markets. We also examine correlations of stock indices with interest rates and analyze the role of gold as a safe-haven for Shariah investors. We observe Shariah indices to be having correlation with interest rates similar to that of conventional indices, hence exposed to interest rate risk. Finally, we find that gold is less correlated to Shariah indices implying risk-mitigation opportunity.

JEL Classification	C10, C16, E4, G0, G14, N2, O10
Keywords	Islamic Finance, Stock markets, Shariah Indices, Global Financial Crisis , Volatility, Financial Contagion

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