E-ISSN: XXX-XXX
P-ISSN: XXX-XXX

Jurnal Baitul Hikmah
Abu Zairi College of Sharia Sciences
Volume 01 No 01 Tahun 2025
Doi- xxxxxxxxxxxxxxxxxx
Jln. Raya Pakisan RT/RW 06/01 Pakisan Tlogosari Bondowoso 68272
Phone: 0823-3063-4877

FIRM FUNDAMENTALS, MONETARY POLICY, AND SHARIA STOCK RETURNS: THE MODERATING ROLE OF GROSS DOMESTIC PRODUCT IN THE JAKARTA ISLAMIC INDEX

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Abstract:
Indonesia's Islamic capital market has expanded rapidly, yet Sharia stock returns remain inconsistent and sensitive to both firm-level and macroeconomic conditions. This study examines the effects of profitability, liquidity, and Bank Indonesia Rate on Sharia stock returns, while assessing Gross Domestic Product as a moderating variable in the Jakarta Islamic Index. Using a quantitative explanatory design, the study analyzes secondary panel data from companies consistently listed in the Jakarta Islamic Index during 2014–2023. Return on Equity represents profitability, Current Ratio represents liquidity, Bank Indonesia Rate represents monetary policy, and Gross Domestic Product represents macroeconomic growth. The data are analyzed using panel regression and Moderated Regression Analysis after model selection and classical assumption testing.
The results show that Return on Equity has a negative but insignificant effect on Sharia stock returns, indicating that profitability is not the primary signal used by investors in the observed Islamic equity market. Current Ratio, Bank Indonesia Rate, and Gross Domestic Product have negative and significant effects on Sharia stock returns. These findings suggest that excessive liquidity may reflect inefficient asset utilization, higher policy rates may reduce the attractiveness of Islamic equities, and economic growth may encourage investors to shift capital toward alternative Sharia-compliant assets. The moderation analysis shows that Gross Domestic Product strengthens the effects of liquidity and Bank Indonesia Rate on Sharia stock returns, but does not moderate the profitability–return relationship. The study contributes to Islamic finance literature by integrating firm fundamentals and macroeconomic factors within a moderated asset-pricing framework, offering implications for investors, listed firms, and regulators in improving Islamic capital market efficiency.

Keywords: *Sharia stock returns; Jakarta Islamic Index; Return on Equity; Current Ratio; Bank Indonesia Rate; Gross Domestic Product; Islamic capital market*

Introduction

Indonesia's Islamic capital market has become an increasingly important segment of the national financial system, reflecting the expansion of Sharia-compliant investment instruments and the growing demand for ethical, transparent, and religiously permissible financial products. The development of indices such as the Jakarta Islamic Index (JII), Indonesia Sharia Stock Index (ISSI), and JII70 has provided investors with structured benchmarks for evaluating Sharia-compliant equities, while the regulatory screening of Sharia Securities List (DES) has strengthened the institutional foundation of Islamic capital market governance (Adnan et al., 2023; Hakim et al., 2021). This growth is significant not only because it broadens investment alternatives, but also because Islamic equities operate under distinctive principles that constrain excessive leverage, speculative activity, and non-halal business exposure. Nevertheless, the increasing size and visibility of Indonesia's Islamic stock market have not automatically produced stable or consistently positive returns. Prior studies suggest that Sharia stock performance remains sensitive to changes in market composition, macroeconomic shocks, investor sentiment, and regulatory screening dynamics (Rodoni et al., 2022).

The performance of Sharia-compliant stocks is therefore shaped by a combination of firm-specific fundamentals and broader macroeconomic conditions. Literature on Islamic equity markets shows that profitability, leverage, liquidity, exchange rates, inflation, GDP, monetary aggregates, and interest-rate-related instruments may influence Sharia stock returns, although the magnitude and direction of these effects vary across periods and models (Arifin & Qizam, 2021; Ghoni & Mutiara, 2022; Irfan et al., 2021; Selvi et al., 2020). Empirical evidence also indicates that Islamic indices may exhibit different volatility patterns from conventional indices, including potential diversification benefits and lower relative volatility in certain periods (Adnan et al., 2023). However, currency spillovers, macroeconomic uncertainty, and crisis-related regime shifts can still transmit risk to Sharia stock markets (Danila, 2023). These findings highlight the need to examine Islamic stock returns through an integrated framework that captures both internal corporate performance and external economic forces.

The main research problem arises from the inconsistency between the rapid development of Indonesia's Islamic capital market and the unstable return patterns observed in Sharia stocks. Although JII has become a key benchmark for liquid and investable Sharia-compliant equities, its returns do not always move in line with market expansion or macroeconomic growth. This inconsistency suggests that investors may respond differently to financial signals in Islamic markets compared with conventional markets. Profitability, for instance, is often regarded as a primary indicator of firm quality, yet its effect on Sharia stock returns is not always significant. Similarly, liquidity may signal financial resilience, but excessive liquidity can also imply inefficient asset use. Macroeconomic variables such as BI Rate and GDP may further alter investor preferences by influencing opportunity costs, capital allocation, and expectations of economic growth.

A general solution to this problem is to develop an empirical model that combines firm-level and macroeconomic determinants of Sharia stock returns. Arbitrage Pricing Theory provides a useful theoretical foundation because it argues that asset returns are influenced by multiple systematic risk factors rather than by a single market-risk variable. In the context of Islamic capital markets, this approach is particularly relevant because Sharia-compliant stocks are exposed not only to conventional financial risks, but also to screening rules, ethical constraints, and distinctive investor preferences (Mahastanti et al., 2021). By integrating profitability, liquidity, BI Rate, and GDP into a single model, researchers can better explain how microeconomic and macroeconomic signals interact in shaping Sharia stock performance.

Previous literature has proposed several specific explanations for the role of firm fundamentals in Islamic stock returns. Profitability indicators such as ROA, ROE, EPS, and net profit margin are frequently identified as important criteria in Sharia portfolio selection because they reflect a company's ability to generate earnings within Sharia-compliant boundaries (Ghoni & Mutiara, 2022). In addition, leverage and debt-related screening have been shown to affect Sharia portfolio performance, as firms must comply with financial ratio thresholds to remain eligible within Islamic indices (Arifin & Qizam, 2021). Liquidity indicators, including the Current Ratio, also matter because they represent the firm's ability to meet short-term obligations. However, the literature suggests that liquidity effects may be context-dependent, as excessive liquidity may indicate idle assets or weak investment efficiency rather than financial strength (Handri et al., 2024; Pamuncak & Wijaya, 2022).

Macroeconomic variables provide another specific explanation for Sharia stock return movements. Studies on the Jakarta Islamic Index and broader Islamic equity markets show that GDP, exchange rates, inflation, money supply, SBIS, and foreign reserves may affect stock returns through changes in purchasing power, capital flows, monetary conditions, and investor expectations (Selvi et al., 2020; Irfan et al., 2021). GDP is particularly important because it reflects real economic activity and may influence corporate earnings expectations as well as investment opportunities across asset classes. Interest-rate-related variables are also relevant, even though Islamic finance prohibits interest-based transactions, because changes in policy rates affect the broader cost of capital, savings behavior, and relative attractiveness of competing instruments. Prior findings remain mixed, with some studies reporting weak direct effects of interest rates on Sharia returns, while others suggest that monetary conditions still influence investor behavior indirectly (Rodoni et al., 2022).

A closer review of the literature reveals that existing studies often examine firm fundamentals and macroeconomic variables separately. Firm-level studies tend to emphasize profitability, liquidity, leverage, and screening criteria, while macroeconomic studies focus on GDP, inflation, exchange rates, interest rates, and monetary aggregates. Bibliometric and empirical reviews indicate that integrated micro–macro models remain relatively limited in Indonesian Sharia stock research, especially models that test whether macroeconomic conditions moderate the relationship between corporate fundamentals and stock returns (Muttaqi, 2024). This creates an important research gap. If macroeconomic growth changes the way investors interpret profitability, liquidity, or policy-rate movements, then direct-effect models may be insufficient. In particular, GDP may not only influence Sharia stock returns directly, but may also strengthen or weaken the impact of firm-level and monetary variables on those returns.

Accordingly, this study aims to analyze the effects of Return on Equity, Current Ratio, and BI Rate on Islamic stock returns in companies listed in the Jakarta Islamic Index, while examining GDP as a moderating variable. The novelty of the study lies in positioning GDP as a contextual macroeconomic moderator that links firm fundamentals and monetary conditions to Sharia stock returns. This approach is justified by the assumption that investors interpret corporate liquidity, profitability, and interest-rate changes differently under varying levels of economic growth. The scope of the study is limited to JII firms during the 2014–2023 period and uses a quantitative panel-data approach with moderated regression analysis. By doing so, the study contributes to Islamic finance literature by offering an integrated explanation of how microeconomic and macroeconomic factors jointly shape Sharia stock returns in Indonesia's emerging Islamic capital market.

Methodology

Quantitative Research Design in Islamic Capital Market Analysis

This study employed a quantitative explanatory design to examine the effects of profitability, liquidity, and BI Rate on Sharia stock returns, with Gross Domestic Product (GDP) positioned as a moderating variable. A quantitative approach was appropriate because the study sought to test statistical relationships among measurable financial and macroeconomic variables. This design is consistent with Islamic capital market research, where scholars commonly combine Sharia-screened samples, firm-level indicators, macroeconomic controls, and econometric models to explain stock return behavior (Rizaldy & Ahmed, 2019; Farhat & Hili, 2025). The research was conducted on companies listed in the Jakarta Islamic Index (JII), which represents a liquid and investable group of Sharia-compliant equities in Indonesia. The study covered the 2014–2023 period and used secondary data obtained from publicly available sources. Return on Equity (ROE) and Current Ratio (CR) were collected from annual financial reports published by the Indonesia Stock Exchange and company websites, BI Rate data were obtained from Bank Indonesia, and GDP data were derived from World Bank publications. The dependent variable was Sharia stock return, calculated from annual stock price changes. This design follows the logic of prior Islamic finance studies showing that Sharia screening is not merely a sampling procedure but a structural condition that shapes the investable universe and influences return determinants (Albar, 2025).

Moderated Regression Analysis

The study applied Moderated Regression Analysis (MRA) to test whether GDP changes the strength or direction of the relationship between ROE, CR, BI Rate, and Sharia stock returns. MRA is widely used in stock return studies when macroeconomic variables are assumed to condition the effect of firm-level or market-level determinants. Previous research has shown that moderation can be tested by incorporating interaction terms between the moderator and independent variables into the regression model (Usman & Siddiqui, 2019; Farhat & Hili, 2025). In this study, GDP was interacted with ROE, CR, and BI Rate to evaluate whether economic growth alters investor responses to profitability, liquidity, and monetary policy conditions. This approach is theoretically justified because GDP reflects real economic activity and may affect investor expectations, capital allocation, and the perceived relevance of corporate financial indicators. It is also consistent with earlier literature indicating that macroeconomic factors such as GDP, inflation, interest rates, and exchange rates influence Islamic stock returns either directly or conditionally (Albar et al., 2024).

Panel Data Regression Models

The empirical analysis used panel data regression because the dataset combined cross-sectional observations from JII firms and time-series observations from 2014 to 2023. Panel data are suitable for financial performance studies because they allow researchers to exploit variation across firms and over time, thereby improving estimation efficiency and enabling the analysis of unobserved heterogeneity. Prior studies in Islamic and macro-finance contexts commonly compare Common Effect, Fixed Effect, and Random Effect models to determine the most appropriate specification (Miyajima, 2016; Waidyarathna & Rajeshwaran, 2021). In this study, model selection was conducted using the Chow test, Hausman test, and Lagrange Multiplier test. The results supported the use of the Common

Effect Model, indicating that firm-specific differences were not dominant in explaining return variation within the selected JII sample. Before hypothesis testing, classical assumption tests were performed, including normality, multicollinearity, and heteroskedasticity tests, to ensure the validity of the regression estimates. The hypotheses were evaluated by examining coefficient signs and probability values for both direct effects and interaction terms. No methodology table or figure was provided in the research notes; therefore, no table or figure caption is inserted in this section. The methodological structure is consistent with the original research design, which used EViews-assisted MRA to test direct and moderating effects on Sharia stock returns.

Results

Empirical Evidence on the Effect of Return on Equity (ROE) on Sharia Stock Returns

The panel regression results indicate that profitability, measured by Return on Equity (ROE), has a negative but statistically insignificant effect on Sharia stock returns in companies listed in the Jakarta Islamic Index (JII). As shown in Table 1, the coefficient of ROE is -4.655306, with a probability value of 0.7323. This result suggests that variations in ROE do not significantly explain changes in Sharia stock returns during the 2014–2023 observation period. Although ROE is theoretically expected to reflect a firm's ability to generate profits from shareholders' equity, the finding implies that investors in the selected Sharia stock sample did not treat profitability as a dominant signal in forming return expectations. This result is consistent with the argument that Sharia stock returns may be shaped not only by firm profitability but also by ethical screening, macroeconomic conditions, liquidity constraints, and investor preferences specific to Islamic capital markets.

Table 1. Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	rob.
C	3.327294	7.325270	0.454221	.6548
D(X1,2) / ROE	-4.655306	13.41044	-0.347140	.7323
D(X2,2) / CR	-225.8547	69.61939	-3.244135	.0043
D(X3,2) / BI Rate	-372.3987	155.6207	-2.392990	.0272
D(Z,2) / GDP	-461.7314	154.2303	-2.993778	.0075

Source: Processed data, 2025.

The insignificant ROE effect differs from several prior studies that reported a positive association between ROE and Islamic stock prices, especially in the Indonesian Islamic banking sector. Handri et al., 2024 and Nurmalia & Ardana, 2024, for example, found that ROE positively affected stock prices in Islamic banking samples, indicating that profitability can be an informative valuation signal in some Sharia-compliant firms. However, the broader literature also shows that ROE effects vary across markets, sectors, and model specifications. Almonifi & Bhosle, 2023 found a positive but insignificant ROE effect in the S&P BSE 500 Sharia index, suggesting that profitability does not always operate as a

universal predictor of Sharia stock returns. Thus, the present finding supports the view that ROE's explanatory power in Islamic capital markets is heterogeneous and may depend on the sectoral composition of the sample, the inclusion of macroeconomic controls, and the characteristics of Sharia investors.

In the context of this study, the insignificant ROE result may also reflect the distinctive orientation of Sharia stock investors. Unlike conventional equity investors who may prioritize short-term profitability, Sharia investors may consider broader dimensions such as compliance, sustainability, business ethics, balance-sheet prudence, and long-term value creation. Previous literature on Islamic capital markets emphasizes that return formation in Sharia-compliant equities is influenced by both financial and non-financial considerations, including Sharia screening and ethical investment principles. Therefore, although ROE remains an important accounting indicator, it may not be sufficient by itself to explain stock return variation in the JII sample. This interpretation is also aligned with the methodological premise that Sharia-screened samples may have different risk-return characteristics from conventional portfolios.

Why Current Ratio (CR) Shows a Negative Relationship with Stock Returns

The regression results show that liquidity, proxied by Current Ratio (CR), has a negative and statistically significant effect on Sharia stock returns. Table 1 reports a CR coefficient of -225.8547 with a probability value of 0.0043. This result indicates that higher liquidity is associated with lower Sharia stock returns in the sample. Although liquidity is often interpreted as a signal of a firm's ability to meet short-term obligations, excessive liquidity may also indicate inefficient use of current assets. In other words, firms that hold too many liquid assets may be perceived as less capable of converting available resources into productive investment, expansion, or earnings growth.

This finding is supported by prior empirical evidence showing that CR may negatively affect Islamic stock prices in certain contexts. Handri et al. (2024) reported a significant negative effect of CR on stock prices in the Indonesian Islamic banking sector, suggesting that investors may interpret high liquidity as a sign of underutilized assets rather than financial strength. However, the broader literature remains mixed. Some studies find that liquidity indicators are significant, while others report weak or context-dependent effects. Aldiena & Hakim, 2019, Nikmah & Hung, 2024, and Subqi, 2016 indicate that the significance and direction of internal financial indicators may vary depending on sector, period, and model specification. This suggests that CR should not be treated as a universal predictor of Sharia stock returns but should instead be interpreted in relation to asset management efficiency and the specific structure of the firms under analysis.

The negative CR coefficient in this study is economically meaningful because it reflects a possible efficiency concern in Sharia-compliant firms. In Islamic finance, efficient asset utilization is important not only for profitability but also for the ethical use of capital. A high CR may increase confidence in short-term solvency, but if it is not accompanied by productive investment, it can reduce investor expectations about future growth. This interpretation is consistent with the study's theoretical framework, which assumes that stock returns are affected by multiple firm-level and macroeconomic factors rather than by a single financial ratio. The result also reinforces the importance of evaluating liquidity together with profitability, monetary conditions, and economic growth when explaining Sharia stock returns.

How Studies Interpret the Negative Effect of Interest Rates or BI Rate on Stock Returns in Islamic Capital Markets

The results further show that BI Rate has a negative and statistically significant effect on Sharia stock returns. As presented in Table 1, the coefficient of BI Rate is -372.3987, with a probability value of 0.0272. This indicates that an increase in BI Rate tends to reduce Sharia stock returns. Although Islamic stocks do not directly rely on interest-based mechanisms, the broader monetary policy environment can still affect investor behavior, financing costs, opportunity costs, and expectations about corporate performance. When the policy rate rises, investors may shift funds toward lower-risk instruments or become more cautious about equity investment, including Sharia-compliant equities.

The literature provides a nuanced interpretation of this relationship. Some studies suggest that interest-rate effects on Islamic stocks are not always direct or consistently significant. Handri et al. (2024), for instance, found that interest rates were not significant when tested separately in Indonesian Islamic banking stocks, while Almonifi and Bhosle (2023) reported that Islamic stock prices in Saudi Arabia appeared relatively insulated from conventional interest-rate fluctuations. However, other studies argue that interest rates may influence Islamic equities indirectly through financing costs, profit margins, liquidity conditions, and investor preferences. This indirect channel is particularly relevant because Islamic financial institutions and Sharia-compliant firms operate within the same macroeconomic system as conventional firms, even though their contracts are structured differently.

In this study, the significant negative BI Rate effect suggests that monetary policy remains relevant for Sharia stock return formation in Indonesia. The result is consistent with the Arbitrage Pricing Theory perspective, which holds that asset returns are influenced by multiple systematic risk factors, including macroeconomic and monetary variables. It also supports previous arguments that Sharia stock returns are shaped by macroeconomic

conditions such as interest rates, GDP, inflation, and exchange rates, even when the investment universe follows Islamic principles.

The direct effect of GDP is also negative and statistically significant, with a coefficient of -461.7314 and a probability value of 0.0075. This result is somewhat counterintuitive because GDP growth is often expected to improve stock market performance by increasing production, income, and purchasing power. However, in the context of this sample, rising GDP may have encouraged investment switching into alternative assets, such as property, real-sector ventures, commodities, or other financial instruments. This suggests that economic growth does not automatically translate into higher Sharia stock returns, especially when market liquidity, investor preferences, or sectoral structures limit the transmission of macroeconomic expansion into equity performance.

The moderated regression results provide further evidence regarding the conditional role of GDP. As shown in Table 2, GDP does not significantly moderate the relationship between ROE and Sharia stock returns, as indicated by the ROE–GDP interaction coefficient of 1.009763 and probability value of 0.7006. However, GDP significantly moderates the effect of CR on Sharia stock returns, with a coefficient of 46.94521 and probability value of 0.0032. GDP also significantly moderates the relationship between BI Rate and Sharia stock returns, with a coefficient of 71.04784 and probability value of 0.0363. These findings indicate that economic growth changes the way investors respond to liquidity and monetary policy, but not to profitability.

Table 2. Moderated Regression Analysis Results

Variable	Coefficient	Std.Error	t-Statistic	rob.
C	3.327294	7.325270	0.454221	.6548
D(X1_Z,2) / ROE × GDP	1.009763	2.586703	0.390367	.7006
D(X2_Z,2) / CR × GDP	46.94521	13.92264	3.371861	.0032
D(X3_Z,2) / BI Rate × GDP	71.04784	31.54536	2.252244	.0363

Source: Processed data, 2025.

These moderation results are consistent with the methodological literature indicating that macroeconomic variables can function as moderators by changing the strength or direction of the relationship between explanatory variables and stock returns. Moderated regression studies commonly use interaction terms to test whether macroeconomic conditions such as GDP, inflation, or capital flows alter return determinants (Usman & Siddiqui, 2019; Farhat & Hili, 2025); Ikhsan et al., 2022). In this study, GDP strengthens the relationship between liquidity and stock returns as well as between BI Rate and stock returns, suggesting that investors become more responsive to liquidity management and monetary policy when the economy is expanding. However, the insignificant ROE–GDP

interaction confirms that profitability remains a weak signal in this sample, even under changing macroeconomic conditions.

Overall, the results show that Sharia stock returns in the JII sample are more strongly explained by liquidity and macroeconomic factors than by profitability. CR, BI Rate, and GDP have significant direct effects, while GDP significantly moderates the influence of CR and BI Rate. These findings support the view that Islamic stock returns are shaped by both internal financial management and broader macroeconomic dynamics. They also reinforce the need for investors, managers, and regulators to interpret financial ratios within the wider economic environment rather than relying on profitability indicators alone.

Discussion

Profitability and Sharia Stock Returns

The finding that Return on Equity (ROE) has a negative but insignificant effect on Sharia stock returns, as reported in Table 1, indicates that profitability does not function as a dominant explanatory factor in the selected Jakarta Islamic Index (JII) sample. This result requires careful interpretation because ROE is conventionally viewed as an important signal of managerial efficiency and shareholder value creation. In standard equity valuation, firms with higher ROE are often expected to attract stronger investor demand because they demonstrate the capacity to generate earnings from equity capital. However, in Sharia-compliant capital markets, the relationship between profitability and stock returns may be more complex because investors evaluate financial performance alongside Sharia compliance, ethical screening, governance quality, leverage restrictions, and long-term sustainability considerations.

This interpretation is consistent with prior evidence showing that the effect of ROE on Sharia stock prices and returns is heterogeneous across markets and samples. Mafaza et al., 2022 found that EPS, ROA, and ROE did not significantly affect Sharia stock prices, while the price–earnings ratio remained significant, suggesting that investors may rely more heavily on valuation expectations than on accounting profitability alone. Similarly, Almonifi and Bhosle (2023) reported that ROE, ROA, and EPS had insignificant effects on share prices in the S&P BSE 500 Sharia index. These findings support the argument that the profitability–return channel can be weakened when Sharia screening, market microstructure, and investor preferences reshape the information content of financial ratios. The present result therefore does not necessarily imply that profitability is irrelevant; rather, it suggests that ROE may not be sufficient as a stand-alone predictor of return variation in a Sharia-screened equity universe.

The insignificant ROE effect may also be explained by the capital-structure environment of Sharia-compliant firms. Zein et al., (2020) show that profitability in JII-listed firms is influenced by debt-to-asset and debt-to-equity structures, indicating that profitability must be interpreted together with leverage constraints. In Islamic capital markets, firms are subject to debt-related screens that restrict excessive interest-bearing obligations, and these restrictions may alter how investors interpret profitability signals. A firm may report a high ROE, but if that profitability is not supported by efficient asset deployment, prudent capital structure, or sustainable Sharia-compliant operations, the

market may not translate it into higher stock returns. This explains why ROE may be significant in some Islamic banking or sector-specific studies but insignificant in broader Sharia index samples.

The finding also highlights a distinction between conventional and Islamic stock valuation. In conventional markets, profitability indicators are often central to valuation because they signal future cash-flow potential and managerial effectiveness. In Islamic capital markets, however, investors may evaluate profitability through a broader ethical and compliance-based lens. Islamic investors are likely to consider whether profits are generated through permissible business activities, whether the firm maintains acceptable leverage levels, and whether corporate conduct aligns with Sharia principles and broader sustainability values. Gunawan et al., (2021) argue that Islamic investment increasingly intersects with ESG and responsible investment frameworks through maqasid al-sharia, which emphasizes justice, welfare, and the avoidance of harm. Thus, profitability remains relevant, but its pricing power is moderated by ethical, governance, and Sharia-compliance considerations.

Liquidity and Sharia Stock Returns

The negative and significant coefficient of Current Ratio (CR) in Table 1 provides one of the strongest empirical findings of the study. The result indicates that higher liquidity is associated with lower Sharia stock returns. At first glance, this may appear counterintuitive because liquidity is commonly interpreted as a sign of short-term solvency and financial stability. A firm with a high CR is generally considered capable of meeting its current obligations. However, from an investor's perspective, excessive liquidity may also signal that current assets are not being deployed efficiently to generate revenue, expansion, or productive investment. In this sense, liquidity can become a negative signal when it reflects idle resources rather than financial resilience.

This interpretation is supported by Handri et al. (2024), who reported a significant negative effect of CR on stock prices in the Indonesian Islamic banking sector. Their findings suggest that investors may interpret excessive liquidity as evidence of poor asset utilization or conservative liquidity management that limits earnings potential. In Sharia-compliant firms, this interpretation becomes especially important because capital is expected to be allocated productively into permissible and socially beneficial activities. When firms hold high levels of liquid assets without converting them into Sharia-compliant productive investments, investors may perceive management as unable to identify profitable opportunities or optimize asset turnover. This perception can weaken market valuation and reduce stock returns.

The negative CR effect also aligns with the broader argument that liquidity management in Islamic firms is context-dependent. Alsharari & Alhmoud, 2019 and Juwita and Diana (2020) indicate that liquidity and profitability signals do not operate uniformly across Sharia-listed companies. A moderate level of liquidity may support investor confidence, but excessive liquidity may reduce expected profitability if it is not linked to productive deployment. Thus, the market does not reward liquidity automatically. Instead, investors appear to distinguish between liquidity as a risk-management tool and liquidity

as a sign of inefficiency. In this study, the negative CR coefficient suggests that the latter interpretation dominated during the research period.

This result has implications for firm strategy. Sharia-listed companies should not merely maintain high liquidity to signal safety; they must also demonstrate that liquid resources are actively managed to support sustainable growth, operational efficiency, and Sharia-compliant expansion. The finding indicates that liquidity ratios should be interpreted together with profitability, investment policy, and asset utilization. For investors, CR should be treated not as a simple positive indicator, but as a diagnostic measure that requires contextual evaluation. A high CR may be attractive when it reflects prudent working-capital management, but it may be penalized when it signals cash drag, weak investment pipelines, or inefficient resource allocation.

BI Rate and Sharia Stock Returns

The negative and significant effect of BI Rate on Sharia stock returns, as shown in Table 1, confirms that Islamic equities remain sensitive to monetary policy conditions. Although Sharia-compliant stocks do not directly involve interest-based contracts, they operate within a broader financial system in which policy-rate changes influence discount rates, capital costs, investor preferences, and relative asset attractiveness. When the BI Rate increases, investors may become more cautious toward equities and may shift toward lower-risk instruments or alternative Sharia-compliant financial assets that offer more stable returns. This mechanism helps explain the negative coefficient observed in the study.

The literature indicates that the relationship between interest rates and Islamic stock returns is not uniform. In some markets, Islamic stock prices appear relatively insulated from interest-rate movements because Sharia principles prohibit direct reliance on interest-based instruments. Almonifi and Bhosle (2023), for instance, reported that Islamic stock prices in Saudi Arabia were less directly affected by conventional interest-rate fluctuations. In Indonesia, Handri et al. (2024) found that interest rates were not always significant when tested separately in Islamic banking stock models. Nevertheless, these studies also acknowledge that interest rates can influence Islamic financial markets indirectly through financing costs, profit margins, liquidity behavior, and investor allocation decisions.

The present finding suggests that, in the JII context, the indirect and macro-financial channels of BI Rate transmission are sufficiently strong to affect Sharia stock returns. This result is consistent with Arbitrage Pricing Theory, which views asset returns as outcomes of multiple systematic risk factors rather than a single market factor. Arifin and Qizam (2021) argue that asset pricing in Islamic portfolios should account for Sharia screening, debt constraints, and macroeconomic risk exposures. Therefore, BI Rate can be interpreted as a systematic factor that influences investor expectations and return requirements, even when the underlying securities are Sharia-compliant.

The finding also suggests that Islamic investors do not operate in isolation from conventional monetary conditions. Even if Islamic equity investment is guided by Sharia principles, investors remain responsive to changes in macroeconomic risk, expected returns, and opportunity costs. This reinforces the need for Sharia investors and asset managers to incorporate monetary policy expectations into portfolio construction. It also suggests that

regulators should provide transparent and accessible macroeconomic information to support more efficient price formation in Islamic capital markets.

GDP and Sharia Stock Returns

The negative and significant direct effect of GDP, reported in Table 1, provides an important contribution to the discussion of macroeconomic influences on Sharia stock returns. GDP growth is typically expected to support stock returns by improving income, productivity, consumption, and corporate earnings prospects. However, the negative coefficient in this study suggests that economic growth did not automatically translate into higher JII stock returns during the observation period. This finding is consistent with literature indicating that GDP effects in emerging and Islamic capital markets may be positive, negative, or ambiguous depending on market structure, sectoral composition, liquidity conditions, and investor behavior.

One plausible explanation is investment switching. During periods of stronger economic growth, investors may allocate capital toward real-sector businesses, property, commodities, or other Sharia-compliant assets that are perceived to provide better growth opportunities or more tangible asset backing. In Islamic finance, such allocation behavior is theoretically plausible because Sharia investment principles often emphasize real economic activity, asset-backed transactions, and productive ventures. Gunawan et al. (2021) note that Sharia investment can intersect with sustainable and real-sector-oriented allocation decisions, while Idris and Irawan (2024) argue that macroeconomic growth can shape investor preferences across asset classes. Consequently, GDP growth may reduce demand for Sharia equities if alternative investment channels become more attractive.

The ambiguity of GDP effects is also linked to the composition of Sharia indices. Sharia screening can narrow sector exposure and alter the sensitivity of index constituents to macroeconomic expansion. If GDP growth is driven by sectors that are underrepresented in the JII or by activities outside the listed Sharia equity universe, its positive effect may not be transmitted directly into Sharia stock returns. This supports the argument that GDP should not be interpreted merely as a direct return driver but as part of a broader macroeconomic environment that interacts with firm-level signals, sectoral structure, and investor expectations.

GDP as a Moderating Variable

The moderated regression results in Table 2 show that GDP significantly moderates the relationship between CR and Sharia stock returns and between BI Rate and Sharia stock returns, but it does not significantly moderate the relationship between ROE and Sharia stock returns. These findings deepen the interpretation of the direct-effect results. The insignificant ROE–GDP interaction indicates that economic growth does not materially change the weak role of profitability in explaining returns. This reinforces the earlier interpretation that profitability, as measured by ROE, is not the primary signal used by investors in this sample.

By contrast, the significant CR–GDP interaction suggests that macroeconomic growth changes how investors interpret liquidity. In stronger economic conditions, liquidity may become more valuable if it enables firms to respond quickly to expansion opportunities, finance working capital, or support Sharia-compliant investment projects.

The positive moderation coefficient indicates that GDP can reduce or reverse the negative perception of liquidity when the broader economy provides productive opportunities for asset deployment. This supports the view that liquidity is not inherently negative; its market value depends on whether the economic environment allows firms to convert liquid resources into growth.

The significant BI Rate–GDP interaction indicates that economic growth also conditions investor sensitivity to monetary policy. Under stronger GDP conditions, investors may interpret rising BI Rate differently if growth prospects remain favorable. A higher policy rate may still increase discount rates and opportunity costs, but if GDP growth signals stronger business activity, investors may be less likely to withdraw from Sharia equities entirely. This finding aligns with APT-based reasoning, which suggests that stock returns reflect the combined effects of multiple risk factors rather than isolated macroeconomic variables. It also supports the methodological argument that moderation models are useful in Islamic finance research because macroeconomic variables may alter the strength and direction of firm-level and policy-related effects.

Conclusion

This study demonstrates that Sharia stock returns in the Jakarta Islamic Index are shaped more strongly by liquidity and macroeconomic conditions than by profitability alone. Return on Equity shows a negative but insignificant effect, indicating that profitability is not the dominant signal used by investors in this sample. This finding reflects the distinctive nature of Islamic capital markets, where financial performance is interpreted together with Sharia compliance, ethical investment principles, governance quality, and long-term sustainability considerations. Current Ratio, BI Rate, and GDP show significant negative effects on Sharia stock returns. The negative effect of liquidity suggests that excessive current assets may be perceived as inefficient asset utilization rather than financial strength. The negative BI Rate effect indicates that Islamic equities remain sensitive to monetary policy through investor preferences, opportunity costs, and broader macro-financial channels. The negative GDP effect suggests that economic growth may encourage capital allocation toward alternative Sharia-compliant assets, including real-sector investment, property, or commodities.

The moderation results further show that GDP strengthens the effects of liquidity and BI Rate on Sharia stock returns, but does not moderate the profitability–return relationship. This confirms that macroeconomic growth changes how investors evaluate liquidity management and monetary policy sensitivity, while profitability remains a weaker explanatory factor. The study contributes to Islamic finance literature by integrating firm-level and macroeconomic variables within a moderated asset-pricing framework. Future research should expand the sample beyond consistently listed JII firms, include variables such as leverage, firm size, governance, inflation, and exchange rates, and compare sectoral or cross-country Sharia stock responses to macroeconomic change.

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