

# Analysis of the Performance of the Jakarta Islamic Index (JII) compared to the Composite Stock Price Index (CSPI)

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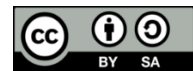
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## ABSTRACT

This literature review analyzes the performance of the Jakarta Islamic Index (JII) compared to the Composite Stock Price Index (CSPI) in Indonesia, focusing on key factors such as return performance, risk and volatility, market reactions to economic factors, and the role of Shariah compliance. The review highlights that while the JII generally demonstrates lower returns, it offers greater stability, lower volatility, and resilience during economic downturns due to its ethical and Shariah-compliant nature. In contrast, the CSPI, which includes a broader spectrum of sectors, tends to provide higher returns during periods of economic growth but carries higher risk due to exposure to more volatile industries. The JII's focus on stable and ethical companies makes it an attractive option for risk-averse and socially responsible investors, while the CSPI is more suitable for those seeking higher returns with a higher risk tolerance. The findings suggest that both indices offer distinct advantages depending on investor preferences and market conditions.

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## 1. INTRODUCTION

The performance of stock market indices serves as a critical barometer for understanding the overall health and development of a nation's financial market. In Indonesia, two significant indices—the Jakarta Islamic Index (JII) and the Composite Stock Price Index (CSPI)—represent distinct segments of the stock market, each with its own unique characteristics and investor appeal. The JII is a Shariah-compliant index that tracks the performance of companies meeting Islamic investment criteria, while the

CSPI provides a broader reflection of the Indonesian stock market, encompassing all sectors without such religious constraints. Various factors, including profitability, market ratios, and macroeconomic conditions influence the performance and appeal of these indices. In terms of profitability and market ratios, research indicates that metrics such as Return on Assets (ROA), Return on Equity (ROE), and Earnings Per Share (EPS) significantly influence the returns of Shariah-compliant stocks in the JII, suggesting that financially robust companies are more

attractive to investors [1]. However, macroeconomic factors such as inflation and exchange rates, as well as systematic risks measured by beta, do not significantly impact JII returns, indicating a lower sensitivity to broad economic fluctuations [2]. Furthermore, asset growth and liquidity also play a crucial role in shaping JII stock prices, with companies demonstrating operational expansion and higher liquidity more likely to experience favorable stock movements [3]. On the other hand, the CSPI, as a more comprehensive index, reflects the overall state of Indonesia's stock market, encompassing various sectors and responding to broader economic indicators like market capitalization and interest rates, which significantly affect its performance [4]. When assessed through performance metrics such as the Sharpe Index and Treynor Ratio, the CSPI and other indices exhibit varied performance levels, with only a few outperforming risk-free instruments, thereby underscoring the difficulty in achieving superior returns across the general market [5].

The Jakarta Islamic Index (JII) and the Composite Stock Price Index (CSPI) represent two distinct approaches to stock market investment in Indonesia, with JII focusing on Shariah-compliant stocks and CSPI encompassing a broader range of sectors without religious constraints. The JII includes companies that adhere to Islamic principles, avoiding industries like alcohol and gambling, while the CSPI reflects the overall market performance. Research comparing these indices highlights differences in risk and return, as well as the factors influencing stock prices. Studies indicate that the average return of Shariah-compliant stocks in the JII is generally lower than that of conventional stocks in indices like IDX30 and LQ45—for instance, during 2014–2016, the average return for JII stocks was 0.56%, compared to 0.91% for conventional stocks [6]. The risk associated with JII stocks is slightly higher than that of conventional stocks, with a risk level of 8.7% compared to 8.55% in the same period [6], and a similar pattern was observed from 2016–2019, where JII stocks exhibited

higher risk but lower return than LQ45 stocks [7]. Influencing factors on JII stock prices include fundamental, technical, and bandarmological analyses, particularly liquidity, market capitalization, and daily transaction values [8]. Additionally, activity ratios, profitability ratios, and market ratios such as Total Assets Turnover (TATO) and Return on Equity (ROE) have a positive influence on stock returns [1]. However, macroeconomic variables like inflation and exchange rates do not significantly affect JII stock returns, indicating lower sensitivity to external economic shocks [2].

The purpose of this paper is to analyze and compare the performance of the JII and CSPI by examining key literature on their respective returns, risks, and behaviors. As the global interest in Islamic finance continues to grow, understanding how the JII performs relative to the broader stock market index (CSPI) becomes increasingly important for investors, policymakers, and financial analysts. Several factors may contribute to variations in the performance of these two indices, including market conditions, investor sentiment, economic events, and the unique ethical frameworks governing the JII.

## 2. LITERATURE REVIEW

### 2.1 *Jakarta Islamic Index (JII)*

The Jakarta Islamic Index (JII) serves as a benchmark for Shariah-compliant investments in Indonesia, offering stable and ethical investment options. While its exclusion of high-risk sectors contributes to lower volatility, it may also limit gains during market upswings. Studies show that JII stocks perform comparably to conventional indices like IDX30 in terms of return and risk [9], [10], with lower volatility attributed to conservative stock selection [9]. Financial health strongly influences stock returns in the JII [11], and Islamic Corporate Social Responsibility (CSR) further enhances profitability, aligning financial performance with ethical investment principles [12].

### 2.2 *Composite Stock Price Index (CSPI)*

The Composite Stock Price Index (CSPI) is a key indicator of Indonesia's stock

market, reflecting economic conditions and investor sentiment, and is influenced by macroeconomic factors such as inflation, interest rates, and exchange rates. Its high sensitivity to these variables makes the CSPI more volatile yet potentially more rewarding than stable indices like the Jakarta Islamic Index (JII). Inflation shows mixed effects—both negative and positive—depending on context [13]–[15], while interest rates generally have a negative impact [13], [16], and stronger exchange rates tend to boost stock prices [13]. Globally, rising oil prices benefit the CSPI [15], but foreign market declines, like those in the Dow Jones, reduce its performance [17]. Government policies on foreign investment and stability also significantly affect the index [16].

### 3. METHODS

This study adopts a descriptive and exploratory research design to review and synthesize existing literature on the performance of the Jakarta Islamic Index (JII) and the Composite Stock Price Index (CSPI). With a focus on comparing the two indices in terms of risk, returns, volatility, and responsiveness to economic factors, the review aims to map existing knowledge and identify recurring patterns across various market conditions and timeframes. As a non-experimental study, it does not involve primary data collection but relies entirely on secondary data from previous research. The data are gathered through a systematic literature review involving academic journals, government publications, financial reports, and reputable databases such as Bloomberg and Reuters. Literature selection is guided by inclusion criteria that prioritize studies published between 2013 and 2023, focusing specifically on the JII and CSPI's performance, return metrics, and macroeconomic influences. Studies that lack empirical analysis or do not directly compare both indices are excluded to maintain the validity of the review. Relevant literature is categorized based on themes such as risk-adjusted returns, macroeconomic sensitivity, and the influence of Shariah compliance.

The analysis is conducted using qualitative content analysis, enabling the identification and interpretation of key themes from the reviewed literature. The process begins with coding and categorization of data according to performance indicators like ROI, volatility, Sharpe ratio, and market reactions. Special attention is given to how both indices perform during economic downturns, bull markets, and financial crises. A comparative analysis is then performed to highlight the similarities and differences between the JII and CSPI, particularly in terms of returns, risk profiles, and sensitivity to macroeconomic variables. This includes an exploration of whether the ethical screening inherent in the JII affects its performance relative to the more inclusive CSPI. Through pattern recognition across multiple studies, the research identifies trends such as the JII's consistently lower volatility and the CSPI's greater responsiveness to global events. Finally, the findings are synthesized into a cohesive overview of the strengths and limitations of each index, offering insights for investors—especially those interested in stable, ethical investments or evaluating market behavior from a Shariah-compliant perspective.

### 4. RESULTS AND DISCUSSION

#### 4.1 Return Performance

One of the key factors in comparing the performance of the Jakarta Islamic Index (JII) and the Composite Stock Price Index (CSPI) is return on investment (ROI). Multiple studies have shown that the CSPI, as a broader and more inclusive index, generally offers higher returns compared to the JII due to its composition of companies from all sectors, including high-growth industries such as mining, energy, and infrastructure. In contrast, the JII consists only of companies that comply with Shariah principles, excluding sectors like alcohol, gambling, and pork-related businesses. While these ethical restrictions may limit the JII's exposure to high-yield sectors, they also contribute to more stable returns, as the index comprises

companies that tend to be financially sound and less affected by market volatility.

The performance differences between the JII and CSPI become more pronounced under varying economic conditions. The JII typically performs better during economic stability and downturns due to its lower exposure to volatile sectors such as banking and commodities, which are significant contributors to economic vulnerability [18], [19]. Its focus on stable sectors enhances its resilience to capital flow disruptions and macroeconomic shocks [20]. Conversely, during economic growth periods, the CSPI tends to outperform the JII because its broader sectoral diversification includes high-growth companies that thrive in bullish markets [21]. Although this diversification increases volatility, it also opens opportunities for higher [21]. Furthermore, strategic adaptability during crises, as demonstrated by companies that balance resilience and performance, can lead to sustained profit growth—a principle that aligns closely with the JII's stability-oriented investment approach [22].

#### **4.2 Risk and Volatility**

The comparison between the Jakarta Islamic Index (JII) and the Composite Stock Price Index (CSPI) in terms of risk and volatility offers important insights for investors, particularly those with conservative risk profiles. Generally, the JII exhibits lower volatility compared to the CSPI, consistent with the nature of Shariah-compliant stocks. These companies tend to be more established and operate in stable sectors such as manufacturing, healthcare, and infrastructure, while avoiding speculative and high-risk activities, resulting in more stable market performance over time [6], [23]. On the other hand, the CSPI, as a broader market index, includes firms from more volatile sectors like mining, energy, and technology, which contributes to greater fluctuations in the index's value [24].

Although there is a common perception that Shariah-compliant stocks are less risky, empirical studies reveal mixed results regarding the statistical significance of

risk differences between Islamic and conventional stocks. For instance, research by Kasanah and Worokinasih (2018) found that Shariah stocks had a slightly higher risk level (8.7%) than conventional ones (8.55%), but the difference was not statistically significant. Similarly, Marlinda and Syahputra (2024) reported no significant difference in risk levels, with a significance value of 0.209. Listyawati and Nurchayati (2020) also observed a higher risk in Islamic stocks, though the difference remained statistically insignificant. These findings suggest that the variation in risk characteristics between Shariah and conventional stocks may not be strong enough to serve as the sole basis for investment decisions.

The implications of these findings are especially relevant for risk-averse investors. While the JII may appeal to those seeking lower volatility due to its focus on financially stable and ethically sound companies [6], [23], the perception of lower risk is not always supported by significant empirical evidence. In fact, the lack of statistically significant differences in both risk and return between Islamic and conventional stocks indicates that other factors—such as ethical preferences, portfolio diversification strategies, and long-term investment goals—also play a critical role in shaping investor behavior [7], [9].

#### **4.3 Market Reaction to Economic Factors**

The Jakarta Islamic Index (JII) and the Composite Stock Price Index (CSPI) demonstrate varying degrees of sensitivity to macroeconomic factors, primarily due to the differing industrial compositions of each index. The CSPI, which includes sectors such as mining, energy, and banking, is more susceptible to global economic changes, including shifts in commodity prices, exchange rates, and international trade policies. For instance, a decline in global oil prices can significantly affect energy companies, leading to substantial losses and a sharper decline in the CSPI [25], [26]. In contrast, the JII comprises Shariah-compliant firms that tend to avoid speculative and high-risk sectors, making it less exposed to such external shocks. As a result, the JII is generally

more stable and less volatile, especially during periods of financial crises, when global economic uncertainty is high [23], [27]

Moreover, several studies indicate that the JII's performance is more influenced by domestic macroeconomic conditions, such as Indonesia's GDP growth, inflation, and political stability, rather than external global shocks. Ananda (2020) and Prasetyo (2022) found that while the JII is affected by variables like the international Islamic stock market and monetary supply, it shows a quicker recovery and greater resilience compared to the CSPI. This is largely attributed to the JII's focus on ethically sound and financially stable industries, which insulates it from extreme market speculation. Shariah compliance plays a critical role in this context, as it filters out companies involved in high-risk activities, reinforcing the index's stability. Therefore, during times of economic distress, the JII often outperforms the CSPI, offering a more secure option for risk-averse investors seeking insulation from global economic volatility [27].

#### **4.4 The Role of Shariah Compliance**

The influence of Shariah compliance on the performance of the Jakarta Islamic Index (JII) presents both opportunities and constraints, reflecting a balance between ethical considerations and financial outcomes. On the positive side, Shariah-compliant companies are typically viewed as more transparent, ethically responsible, and financially conservative, which enhances their long-term sustainability and reduces exposure to speculative risks [28], [29]. These attributes appeal to socially responsible investors (SRI), leading to increased demand for Shariah-compliant stocks and potentially improving the JII's overall performance [29]. Moreover, studies such as those by Sherif (2016) highlight that Islamic index, including the JII, often demonstrate greater resilience during financial crises due to their ethical screening mechanisms and emphasis on stable sectors.

However, the same ethical constraints that define Shariah compliance may also restrict the growth potential of the JII. The exclusion of profitable yet non-compliant sectors like tobacco, alcohol, and gambling can limit diversification and reduce the opportunity to capitalize on broader market trends during periods of economic expansion [30]. This limited exposure makes the JII more susceptible to sector-specific risks, which may negatively impact its comparative performance. As noted by Saripudin et al. (2021) and Sherif (2016), while Shariah-compliant investments uphold high moral standards, they may lag behind conventional indices like the CSPI in terms of returns and risk-adjusted performance. Ultimately, the trade-off between ethical compliance and financial optimization remains a central theme in evaluating the performance dynamics of the JII.

## **5. CONCLUSION**

In conclusion, the Jakarta Islamic Index (JII) and the Composite Stock Price Index (CSPI) each exhibit distinct performance characteristics that cater to different types of investors. The JII's Shariah-compliant framework offers stability and ethical investment opportunities, making it more suitable for conservative and socially responsible investors. However, its exclusion of certain high-growth sectors results in relatively lower returns compared to the CSPI, which is more diversified and responsive to economic cycles. While the CSPI offers higher returns during periods of economic expansion, it also presents higher risk and volatility. Ultimately, the choice between the JII and CSPI depends on an investor's risk tolerance, ethical values, and market outlook. Further empirical research is recommended to refine the understanding of the long-term performance dynamics of both indices and to offer more precise insights for strategic investment decisions.

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