

Geopolitical Risk, Commodity Prices, and Islamic Stock Index Performance: The Role of Macroeconomic Factors

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Abstract

This study analyzes the influence of geopolitical risk, oil prices, and gold prices on the performance of Islamic stock indices and examines the role of exchange rates and inflation as moderating variables. Monthly data from the Dow Jones Islamic Market (DJIM) during the conflict in Ukraine and the Middle East between February 2022 and October 2024 were analyzed using Moderated Regression Analysis (MRA) with STATA. The results show that geopolitical risk, oil prices, and gold prices have a negative and significant effect on the DJIM. The exchange rate significantly moderates the relationship between gold prices and the DJIM, while moderation in the relationship between oil prices is only significant at the 10% level. Inflation does not moderate either relationship. Practically, these findings emphasize the importance of considering global risks, commodities, and foreign exchange conditions in Islamic stock portfolio management and Islamic financial market stability policies.

Keywords: Geopolitical Risk, Oil Prices, Gold Prices, Exchange Rates, Inflation, Islamic Stock Prices

Risiko Geopolitik, Harga Komoditas dan Kinerja Indeks Saham Syariah: Peran Faktor Makroekonomi

Abstrak

Penelitian ini menganalisis pengaruh risiko geopolitik, harga minyak, dan harga emas terhadap kinerja indeks saham syariah serta menguji peran nilai tukar dan inflasi sebagai variabel moderasi. Data bulanan Dow Jones Islamic Market (DJIM) ketika terjadi konflik di Ukraina dan timur Tengah pada periode Februari 2022–Oktober 2024 dianalisis menggunakan Moderated Regression Analysis (MRA) dengan STATA. Hasil menunjukkan bahwa risiko geopolitik, harga minyak, dan harga emas berpengaruh negatif dan signifikan terhadap DJIM. Nilai tukar secara signifikan memoderasi hubungan harga emas dengan DJIM, sedangkan moderasi pada hubungan harga minyak hanya signifikan pada tingkat 10%. Inflasi tidak memoderasi kedua hubungan tersebut. Secara praktis, temuan ini menegaskan pentingnya mempertimbangkan risiko global, komoditas, dan kondisi valuta asing dalam pengelolaan portofolio saham syariah dan kebijakan stabilitas pasar keuangan Islam.

Kata kunci: Risiko Geopolitik, Harga Minyak, Harga Emas, Nilai Tukar, Inflasi, Indeks Saham Syariah

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INTRODUCTION

The Islamic capital market is growing rapidly and is regarded as an alternative investment based on Islamic principles amid geopolitical instability and global crises. Because it is operated without usury, gharar, and haram investments, stability is offered by this market through real assets, and both Muslim and non-Muslim investors are attracted to it. One of

the main indices is *the Dow Jones Islamic Market (DJIM)*, in which the performance of global Islamic stocks is reflected. Although challenges such as performance differences with conventional markets are faced, a role in creating a fairer, more inclusive, and more sustainable financial system is still played by the Islamic capital market. The chart of the Dow Jones Islamic Market (DJIM) from around the world in the last five years is presented below.

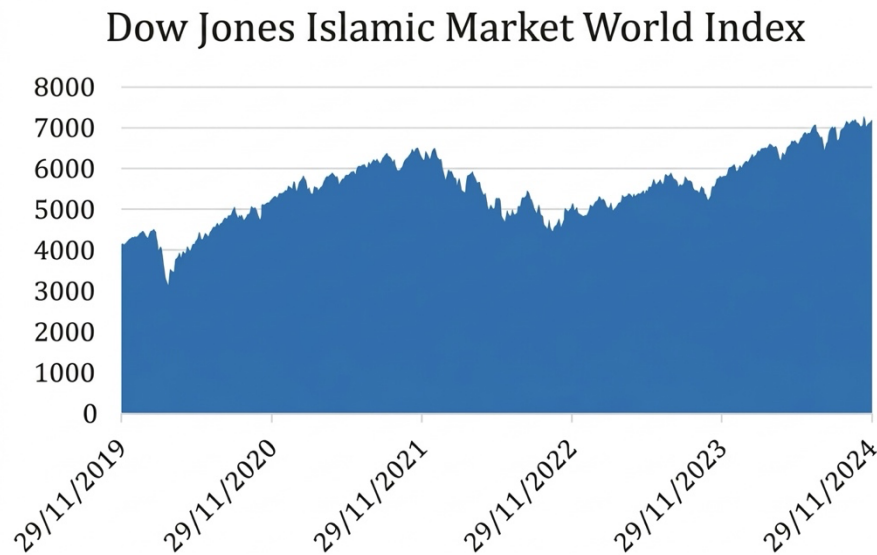


Figure 1. Dow Jones Islamic Market World Index

Significant fluctuations were experienced by the Dow Jones Islamic Market Index (DJIMI) from November 2019 to November 2024 due to global factors, including geopolitical conflicts. Because of Russia's invasion of Ukraine in February 2022, DJIMI was dropped from 5,942.34 (January 2022) to 5,053.4 (August 2022) due to increasing market uncertainty. Meanwhile, a more limited impact was caused by the Hamas-Israel conflict in October 2023, with DJIMI falling from 5,283.93 (October 2023) to 5,791.71 (November 2023). This difference in impact is caused by the intensity and risk perception of each conflict. Overall, DJIMI's movements are influenced by geopolitical factors, global economic conditions, commodity prices, exchange rates, inflation, and the internal and external factors of companies.

According to (Caldara & Iacoviello, 2022), geopolitical risk is defined as the threat, realization, and increase of adverse impacts associated with war, terrorism, and tensions between countries and political actors that affect the course of peaceful international relations. Geopolitical risk can be measured using the geopolitical risk index (GPR) introduced by Caldara & Iacoviello (2022). The issues of terrorism, war, and nuclear threats are covered by this index. The GPR index from 2014 to 2023 is presented below.

A surge in commodity prices, especially oil and gas, was triggered by Russia's invasion of Ukraine in February 2022, and economic sanctions were imposed by the EU and the US. As a result, global energy trade was affected and economic instability was increased Priyambodo & Yunita, 2023; Shakeel et al. (2023). In addition, global markets have also been shaken by the Israeli-Hamas conflict since October 2023, with boycotts of pro-Israel

products and trade disruptions in the Red Sea caused by the Houthi blockade. Energy prices and global supply chains are affected by this situation, while the prices of energy stocks such as Shell and Brent Crude have been increased by more than 6.5%–7% since the conflict began (The Guardian, 2024; Pandey et al., 2024).



Figure 2. Commodity Index Trend (2014–2023) and the Impact of Global Conflicts
Source : GPR Index by Matteo and Caldara, 2024

In research by Alam et al. (2022); Bounou & Yatié (2022), it was mentioned that stock prices are significantly affected by geopolitical risks. However, it is argued by Pandey et al. (2023) that East America and Southeast Asia are not much affected by the Russia-Ukraine conflict, although negative impacts may be caused in the long run. In other research by Dwijaya et al. (2023), it was found that diplomatic and political risks are believed by 75% of investors to affect financial market returns, and a greater impact is caused by geopolitical risk (GPR) than by political uncertainty. According to the World Bank (2022), oil and gold prices have been increased by global geopolitical tensions, and the value of stocks and the investment climate are affected as a result. The movement of stock indices is also significantly affected by fluctuations in commodity prices (Martono, 2010).

Stock prices are also greatly affected by macroeconomic factors, in which stock prices are depressed by an economic downturn, while they can be increased by economic improvements (Azhar, 2022). The exchange rate is regarded as a major variable in the stock market because input costs, loans, and financial crisis expectations are affected by it. The financial system and the stock market are negatively affected by exchange rate volatility, while exchange rates can also be affected by stock market changes (Erdoğan et al., 2020).

According to Dornbusch & Fischer (1980), stock prices are affected by exchange rate changes through exports and imports. When the currency is depreciated, exports and the share prices of exporting companies are increased, but import costs are also raised, so the profits and share prices of importing companies are suppressed. It was stated by Zahrok et al. (2021) that the relationship between oil and gold prices and stock prices can be moderated by exchange rates, while it is argued by Dwiati & Ambarwati (2016) that the

relationship between oil and gold prices and stock prices cannot be moderated by exchange rates.

In addition to the exchange rate, stock prices can also be moderated by inflation (Mayasari, 2019). The real value of an investment can be reduced by an imbalance between stock price growth and inflation. Stocks are made less attractive by rising interest rates due to inflation, while investment risks are increased by economic uncertainty, and a sell-off in stocks can be triggered (Azizi, 2023). According to Khilyatunnisa (2023); Sahrani (2022), the impact of commodity prices on stock prices is moderated by inflation, but it is argued by Mahendra et al. (2022) that no moderating role in the relationship is played by inflation.

Although the literature on geopolitical risk, commodity prices, and Islamic financial markets has grown, several gaps are still found. First, mixed evidence on the response of Islamic equities to geopolitical risk is provided by previous studies. It is shown by Hasan et al. (2023) that hedging benefits against GPR shocks can be provided by DJIM and several Islamic sectoral indices, whereas it is found by Kazak et al. (2025) that the effect of GPR on Islamic equity markets is relatively limited and partial. It is suggested by these differences that the relationship may be conditional on the specific crisis period and market environment.

Second, geopolitical risk, commodity prices, or global uncertainty have generally been examined in previous studies either separately or through dynamic connectedness and quantile-based approaches. Important evidence on the sensitivity and hedging capacity of Islamic equities is provided by these approaches. However, relatively limited evidence is provided on whether the transmission of commodity-price shocks to a global Islamic equity benchmark is changed by macroeconomic conditions.

Third, limited attention has been given to the period in which multiple geopolitical crises occurred, especially the Russia–Ukraine war and the later escalation of tensions in the Middle East. This period is considered important because geopolitical uncertainty, commodity-price movements, and macroeconomic conditions interacted simultaneously rather than occurring as isolated shocks.

Fourth, the role of exchange rates and inflation as conditioning variables in the relationship between commodity prices and global Islamic equities has not been sufficiently examined. Direct relationships or dynamic connectedness are emphasized in most existing studies, whereas in the present study, it is examined whether the strength of the relationship between oil and gold prices and DJIM is changed by exchange-rate and inflation conditions.

These gaps are addressed in this study, and three main contributions are made to the literature. First, the response of a global Islamic equity benchmark, the DJIM, is examined during a period marked by overlapping geopolitical crises, from February 2022 to October 2024. A distinct empirical setting is provided by this period because the Russia–Ukraine war and the later escalation of geopolitical tensions in the Middle East are included in it.

Second, geopolitical risk and two major commodity prices—oil and gold—are integrated within a single empirical framework. Through this framework, the effects of geopolitical uncertainty can be distinguished from commodity-market channels that may be operated through production costs and investor portfolio reallocation.

Third, and most importantly, the moderating roles of exchange rates and inflation in the relationship between commodity prices and DJIM are examined in this study. It is not assumed that a constant effect is produced by commodity-price shocks across all macroeconomic conditions. Instead, it is investigated whether the size of these relationships is changed when exchange-rate and inflation conditions vary. Through this conditional perspective, additional insight into the transmission of global shocks to Shariah-compliant equity markets is provided.

METHOD

A quantitative explanatory research design is employed in this study to examine the relationship between geopolitical risk, commodity prices, macroeconomic conditions, and the Dow Jones Islamic Market Index (DJIM). Monthly observations for the period February 2022 to October 2024 are used, so 33 observations are obtained. The starting point of the observation period is matched with the outbreak of the Russia–Ukraine war in February 2022, while the escalation of geopolitical tensions in the Middle East beginning in October 2023 is also included in the observation period.

The Dow Jones Islamic Market Index (DJIM) is used as the dependent variable, while geopolitical risk (GPR), oil prices, and gold prices are used as the main explanatory variables. Exchange rates and inflation are examined as moderating variables. The data were processed using STATA.

Moderated Regression Analysis (MRA) is employed because the objective of this study is extended beyond the estimation of the direct effects of geopolitical risk and commodity prices on DJIM. It is also investigated whether the strength of the relationship between commodity prices and Islamic equity-market performance is changed by macroeconomic conditions. In MRA, moderation is assessed through the interaction between an independent variable and a moderating variable. When the interaction coefficient is statistically significant, it is indicated that the relationship between the independent variable and the dependent variable varies according to the level of the moderator.

Therefore, MRA is considered appropriate for testing whether the effects of oil and gold prices on DJIM are conditioned by exchange rates and inflation. Three stages are included in the analysis: (1) the direct effects of geopolitical risk, oil prices, and gold prices are estimated; (2) the exchange rate and its interaction terms with oil and gold prices are introduced; and (3) inflation and its interaction terms with oil and gold prices are introduced.

The MRA testing model can be expressed in the following equations:

No Moderation

$$DJIM_t = A + \beta_1 GPR_t + \beta_2 OIL_t + \beta_3 GOLD_t + E \dots\dots\dots (1)$$

Exchange Rate Moderation

$$DJIM_t = \alpha + \beta_1 OIL_t + \beta_2 GOLD_t + \beta_3 ER_t + e \dots\dots\dots (2)$$

$$DJIM_t = \alpha + \beta_1 OIL_t + \beta_2 GOLD_t + \beta_3 ER_t + \beta_4 OIL * ER_t + \beta_5 GOLD * ER_t + e \dots\dots (3)$$

Inflation Moderation

$$DJIM_t = \alpha + \beta_1 OIL_t + \beta_2 GOLD_t + \beta_3 INF_t + e \dots\dots\dots (4)$$

$$DJIM_t = \alpha + \beta_1 OIL_t + \beta_2 GOLD_t + \beta_3 INF_t + \beta_4 OIL * INF_t + \beta_5 GOLD * INF_t + e \dots (5)$$

Where:

DJIM = Stock Price

GPR = Geopolitical Risk (GPR)

OIL = Oil Price

GOLD = Gold Price

ER = Exchange Rate

INF = Inflation

OIL*ER = Interaction of oil price with GOLD*ER exchange rate = interaction of gold price with OIL*INF exchange rate = Interaction of oil price with inflation value

GOLD*INF = interaction of gold price with inflation value

A = Konstanta

E = Error

t = Time Period

Table 1. *Research Indicator*

Research Variables	Indicator	Source	Unit
Geopolitical Risk (GPR)	Geopolitical Risk Index: How many times have articles related to geopolitical tensions appeared in newspapers. With six categories (geopolitical threat, nuclear threat, war threat, terrorist threat, war action, and terrorist act)	matteoiacoviello.com	Percentage
Oil Price (OIL)	(Oil Price WTI + Brent)/2	Investing.com	USD
Gold Price (GOLD)	London Gold PM Fix	Investing.com	USD
Exchange Rate (ER)	Real effective exchange rate (REER)	working paper Bruegel	USD
Inflation (INF)	Inflation = $\frac{IHK_n - IHK_{n-1}}{IHK_{n-1}} \times 100$	Investing.com	Percentage
Dow Jones Islamic Market (DJIM)	Closing price of each stock market index	Investing.com	USD

FINDING AND DISCUSSION

The Dow Jones Islamic Market Index (DJIMI) is regarded as an index in which the performance of global stocks that are in line with Sharia investment principles is measured. The index was launched on May 24, 1999, and 3,595 constituents from 56 countries, such as the US, Japan, China, the United Kingdom, Indonesia, and many others, are covered by it (S&P Global, 2024). Free market capitalization (FMC) is used as weighting in DJIMI, and only shares that meet the eligibility criteria set by the Sharia Supervisory Board are included. Sectors such as alcohol, tobacco, pork-related products, conventional financial services, weapons, entertainment, and industries that are contrary to Sharia principles must be avoided by eligible stocks.

Table 2. *Variable Descriptive Statistic*

Variabel	Observation	Mean	Std. deviation	Minimum	Maximum
DJIM	33	5743.408	734.8237	4516.13	7142.7
GPR	33	137.4479	43.58738	91.54303	318.9549
OIL	33	2025.335	271.7295	1639	2734.15
GOLD	33	82.86091	11.47099	67.77	114.67
ER	33	135.0671	3.110737	126.9253	142.3007
INF	33	2.357273	.1779971	2.11	2.88

Based on the descriptive analysis, an average of 5743.408 with a standard deviation of 734.8237 is shown by the Dow Jones Islamic Market (DJIM) stock price, and significant fluctuations during the observation period are indicated. The minimum share price was recorded at 4516.13, and the maximum was recorded at 7142.7. An average of 137.4479 with a standard deviation of 43.58738 is shown by the Geopolitical Risk Index (GPR), and a high variation in geopolitical tensions is indicated, with a minimum value of 91.54303 and a maximum of 318.9549. An average of 2025.335 and a standard deviation of 271.7295 are shown by the price of oil (OIL), and large price fluctuations are reflected, with a minimum value of 1639 and a maximum of 2734.15. An average of 82.86091 with a standard deviation of 11.47099 is shown by the price of gold (GOLD), and moderate fluctuations are depicted, with a minimum value of 67.77 and a maximum of 114.67. An average of 135.0671 with a standard deviation of 3.110737 is shown by the exchange rate (ER), and low fluctuations during the observation period are indicated, with a minimum value of 126.9253 and a maximum of 142.3007. An average of 2.357273 with a standard deviation of 0.1779971 is shown by inflation (INF), and stable inflation is reflected, with a minimum value of 2.11 and a maximum of 2.88. Overall, an overview of the distribution of data and variations between variables is provided by this descriptive analysis, and it is used as the basis for further analysis in this study.

Classical Assumption Tests

Furthermore, classical assumption tests were conducted to determine whether the requirements of the *Best Linear Unbiased Estimator* (BLUE) were met by the regression model. Normality, multicollinearity, heteroscedasticity, and autocorrelation tests were included in these tests.

Based on the results of the normality test, it is indicated that, after data transformation, the probability values of all variables were above the 5% significance level, so the normality assumption was satisfied by the data. Furthermore, in the multicollinearity test, all Variance Inflation Factor (VIF) values were found to be below 10 and the tolerance values were found to be above 0.10, so no multicollinearity problems were indicated. A probability value of 0.3638 (> 0.05) was produced by the Breusch–Pagan/Cook–Weisberg test, so no evidence of heteroscedasticity was indicated. In addition, a Durbin–Watson statistic of 1.63695 was obtained, which falls between the upper bound ($dU = 1.5511$) and $4 - dU$ (2.4489), so it is indicated that the regression model was free from autocorrelation. Overall, it is suggested by these results that the classical assumptions were satisfied by the regression model, and the model was therefore considered appropriate for examining the relationships and moderating effects among the variables.

Hypothesis testing

Table 3. *Hypothesis Testing Result*

<i>Dow Jones Islamic Market</i>			
Variabel	Coefficient	T-statistics	Prob.
C	-.305007	-0.49	0.629
LnGPR	-.279479	-2.53	0.018
LnOIL	-.025356	-3.31	0.003
LnGOLD	-.045724	-2.71	0.011
LnER	-.007586	-4.42	0.000
LnINF	-.000902	-3.00	0.006
LnOIL*ER	-.000393	-1.98	0.058
LnGOLD*ER	-.001272	-3.08	0.005
LnOIL*INF	-.000022	-0.09	0.930
LnGOLD*INF	-.950006	-0.47	0.645
R-Square			0.898
F-statistics			0.000

Based on the results of the hypothesis test, it was found in this study that the Dow Jones Islamic Market Index (DJIMI) was partially influenced negatively and significantly by Geopolitical Risk (GPR), world oil price (OIL), and gold price (GOLD). Probability values of 0.018 (GPR), 0.003 (OIL), and 0.011 (GOLD) were obtained for the three variables, which were below the significance level of 0.05, with negative regression coefficients. These findings are reinforced by t-statistic values that exceed the t-table value (1.70), namely -2.53 (GPR), -3.31 (OIL), and -2.71 (GOLD).

Furthermore, it was revealed by the moderation analysis that a significant quasi-moderator role was played by the exchange rate (ER) in the OIL-DJIMI relationship ($p=0.05$; $\beta=-0.000393$) and the GOLD-DJIMI relationship ($p=0.005$; $\beta=-0.001272$). It is shown by this result that the negative influence of these two independent variables on DJIMI can be amplified by ER. On the other hand, although a significant direct influence

on DJIMI is shown by inflation (INF) ($p=0.006$), this variable cannot be used as a moderator in the OIL-DJIMI ($p=0.930$) or GOLD-DJIMI ($p=0.645$) relationship.

The acceptance of the alternative hypotheses (H_a) for the direct influence of GPR, OIL, GOLD, and ER, as well as the rejection of H_a for the moderating role of INF, is confirmed by these findings. Implicitly, it has been proven that the performance of global sharia indices is negatively affected by fluctuations in geopolitical risks and commodity prices, and these negative relationships are reinforced by exchange rates. Meanwhile, inflation is used only as a direct predictor, and the relationship between the independent variables and DJIMI cannot be moderated by it.

Discussion

The Relationship of Geopolitical Risk to the Dow Jones Islamic Market Stock Price

In general, uncertainty in financial markets is increased by geopolitical risks. Under these conditions, investments tend to be shifted by investors from high-risk assets, such as stocks, to safer assets, such as government bonds or gold. Selling pressure on the stock market, including the DJIM index, was caused by this negative sentiment. In addition, protectionist policies, economic sanctions, or armed conflicts can also be triggered by geopolitical risks, and international trade activities and corporate operations are directly affected (Chen et al., 2023). For example, a surge in global energy prices has been driven by the economic sanctions imposed by Western countries on Russia due to the conflict in Ukraine. Although the oil and gas companies covered by DJIM may be benefited by this situation, production costs for most other companies are generally increased by higher energy costs. The performance of companies that depend on imports or exports of goods can also be pressured by supply chain disruptions caused by conflicts or by sabotage of trade routes in strategic areas such as the Red Sea (Jagtap et al., 2022).

Economically, the negative relationship can be explained through the uncertainty and portfolio-reallocation channels. Uncertainty about international trade, supply chains, energy security, economic growth, and corporate profitability is increased by geopolitical conflicts. Investors' risk perceptions can be increased by rising uncertainty, and portfolio adjustments toward assets that are perceived as relatively safer can be encouraged. In evidence from Islamic financial markets, it is indicated that geopolitical risk is connected with the dynamics of Islamic stocks, oil, gold, and other financial assets, especially during periods of major geopolitical and economic shocks (Rabbani et al., 2024; Shaik et al., 2024).

Changes in fiscal or monetary policy that can make market uncertainty worse are also caused by heightened geopolitical tensions (IMF, 2023). Companies operating in countries affected by conflict or sanctions are exposed to the risk of operational losses or asset impairment. Although stocks listed on DJIM tend to be more stable because of their sharia selectivity, such as the exclusion of the usury and alcohol sectors, they are still not fully protected from global geopolitical shocks (Abbass et al., 2022; Shabbir et al., 2020).

These findings are supported by the descriptive analysis for the period February 2022 to October 2024. For example, in March 2022, although the GPR index was increased from 216.16 to 318.95, DJIM had risen from 5,740.58 to 5,874.65, but a significant decline was

then observed in the following months. In April and May 2022, although GPR was decreased, DJIM's share price was also decreased, so it is suggested that the market may also be influenced by other factors. However, in October 2023, the increase in GPR from 98.84 to 197.96 was accompanied by a decrease in DJIM from 5,456.84 to 5,283.93, so a tendency toward a negative pattern between the two variables is shown.

These findings are consistent with the research of Balcilar et al. (2018); Będowska-Sójka et al. (2022); Bouri et al. (2017); Fiorillo et al. (2024); Lai et al. (2023), in which it was concluded that the stock market is significantly and negatively affected by geopolitical risks. Although the Islamic stock market is generally considered more stable than conventional markets according to Abbass et al. (2022), Asutay et al. (2022), and Naifar (2016), the impact of global geopolitical tensions cannot be completely avoided by such stability.

Thus, it is confirmed by the results of this study that geopolitical risk is an external factor by which the performance of sharia stock indices such as DJIM is significantly and negatively influenced, both through risk avoidance by investors and through direct impacts on the operational performance of companies affected by conflicts or sanctions.

The Relationship of Oil Price to the Stock Price of the Dow Jones Islamic Market

Crude oil is regarded as one of the main indicators in the dynamics of the global economy, so the stock market is significantly affected by its fluctuations. Oil price volatility is often triggered by economic and geopolitical factors. In research by Hamilton (1996; 2011), it is shown that most postwar recessions in the US were started by a surge in oil prices, and it is confirmed that a major role in the economy and the stock market is played by oil prices (Salisu et al., 2022).

It was emphasized by Wang et al. (2010) that importing and exporting countries are affected differently by an increase in oil prices. For importing countries, production costs are increased and company profitability is decreased by higher oil prices, so stock prices are depressed. The negative relationship can be explained mainly through the cost channel. Oil is used as an important input for transportation, manufacturing, logistics, and other productive activities. When oil prices are increased, higher operating and production costs may be experienced by firms that depend heavily on energy and petroleum-based inputs. If these costs cannot be completely transferred to consumers, corporate profit margins may be reduced, and firm valuations may then be lowered, so downward pressure is placed on equity prices. This mechanism is especially relevant during geopolitical periods in which oil-price increases are driven by supply disruptions and heightened uncertainty rather than by strong global economic demand (Godil et al., 2020; Rabbani et al., 2024).

The negative effect is also consistent with the characteristics of a broad Islamic equity index. Although firms directly engaged in oil and gas production can be benefited by higher oil prices, companies from multiple sectors are represented by DJIM. Therefore, the gains of energy-related companies may not be sufficient to offset the broader cost pressures on transportation, manufacturing, consumer, and other sectors. Relevant evidence is provided by Hasan et al. (2023), in which it is shown that Islamic equity indices were more vulnerable to oil-market volatility than to geopolitical-risk shocks.

In the context of DJIM, only about 4.4% of the total constituents are accounted for by the energy sector, so no significant positive effect is produced by the increase in oil prices. Conversely, the operating costs of most non-energy companies tend to be increased by rising oil prices, so the overall value of stocks is lowered. This pattern is shown by the data for the period February 2022–October 2024: when oil prices were raised to \$114.67 in June 2022, DJIM was dropped to 4,827.24; on the contrary, when the price of oil was dropped to \$67.77 in September 2024, DJIM was raised to 7,142.70.

These results are in line with the research of Abbass et al. (2022); Blose & Shieh (1995); Khilyatunnisa (2023), in which it was concluded that the stock market is negatively affected by oil prices. However, a positive relationship has been found in other studies, such as Arfaoui & Rejeb (2017); Awwal & Afandi (2021); Kasidi & Banafa (2022), so it is indicated that the influence of oil prices is contextual and is determined by economic and market structures.

The Relationship of Gold Price to the Stock Price of the Dow Jones Islamic Market (DJIM)

This phenomenon can be explained by the perception of gold as a safe haven asset. In conditions of economic uncertainty or volatile markets, funds tend to be withdrawn by investors from the stock market, and investments are shifted to gold, which is considered more stable. Through this behavior, known as flight to safety, the demand for stocks is lowered and stock prices are caused to decline (Baur & Lucey, 2010).

It was stated by Godil et al. (2020) that Islamic stocks tend to be more resistant to commodity price shocks than conventional stocks. However, in situations of instability such as geopolitical risks or economic crises, gold is still regarded as the top choice by investors (Hasan et al., 2023a, 2023a). It is shown by this condition that even sharia stocks like DJIM are not immune to pressure when interest in hedging assets such as gold is increased.

Importantly, this result should not be interpreted as evidence that the fundamental value of Islamic companies is directly reduced by higher gold prices. Rather, changes in investor preferences and asset allocation may be reflected by the negative coefficient. Therefore, gold and DJIM can be moved in opposite directions because the same underlying uncertainty shock is responded to differently by investors. This interpretation is consistent with research on the dynamic relationships among gold, oil, and Islamic equity markets, in which it is shown that these assets are interconnected but are not necessarily affected in the same way by financial and geopolitical shocks (Godil et al., 2020; Hasan et al., 2023).

This negative relationship is supported by the data analysis for the period February 2022 to October 2024. When the price of gold is increased, the price of DJIM generally tends to be decreased. For example, although the price of DJIM was increased in March 2022, it is suggested by the long-term trend that the surge in gold prices was followed by a decline in the DJIM index, such as in September 2022, when a gold price of \$1,671.75 was reached and DJIM was dropped to 4,516.13. It is confirmed by this trend that stocks tend to be switched to gold by investors in the face of uncertainty, so the performance of Islamic stock indices such as DJIM is depressed.

These findings are consistent with the research of Arfaoui & Rejeb (2017); Baur & Lucey (2010); Chkili (2022); Prastyo & Sertiartiti (2018) and Wang et al. (2010), in which it was also found that stock prices are negatively affected by gold prices. However, a positive relationship is shown in other studies, such as (Awwal & Afandi (2021); Blose & Shieh (1995), and differences in the context and approach used to observe the dynamics between gold prices and the stock market are reflected.

Exchange Rate Moderation on the Relationship of Oil Price to Dow Jones Islamic Market (DJIM) Stock Price

The price of oil is often increased by the volatility of the USD exchange rate because the US dollar is generally used in world oil transactions. When the USD exchange rate is strengthened or becomes unstable, the cost of buying oil abroad is increased for countries with weakening local currencies. As a result, the import and operational costs of companies were increased, so profitability was reduced and stock prices were depressed, including the stocks that are members of the DJIM index.

Furthermore, it is argued by Erdoğan et al. (2020) that economic uncertainty can be caused, borrowing costs can be increased, and consumption and investment can be reduced by exchange rate volatility. The overall performance of the stock market is also affected by this condition. In addition, according to Ady (2021); Azhar & Chasanah (2023), a central role in the international trade and investment system is played by exchange rates, so they are regarded as an important element in examining the relationship between commodity prices, such as oil, and the stock market.

The economic mechanism can be explained by the international pricing of crude oil. Oil is mainly traded in US dollars, so the effective cost of oil and the financial conditions faced by firms engaged in international transactions can be affected by exchange-rate movements. When oil prices are increased while exchange-rate conditions become unfavorable, additional cost pressures may be experienced by firms exposed to imported energy and international inputs. Profitability can be reduced by these pressures, and the negative transmission of oil-price shocks to equity valuations can be strengthened. The relevance of exchange-rate and global macroeconomic conditions for Islamic equity markets has been documented in previous research (Abbass et al., 2022).

Based on the descriptive data for the period from February 2022 to October 2024, a consistent negative relationship between the OIL*ER interaction and the DJIM index can be seen. For example, in February 2022, an OIL*ER value of 12,149.29 was recorded when the price of oil reached \$95.72 and the USD exchange rate was 126.93, while DJIM was at 5,740.58. On the other hand, in September 2024, when the OIL*ER value was decreased to 9,175.53 (the price of oil was decreased to \$67.77 and the USD exchange rate was increased to 135.39), DJIM was actually increased to 7,142.70. It is shown by this pattern that a complex but significant influence on the movement of DJIM stock prices is exerted by the interaction between oil prices and the USD exchange rate. The negative impact of oil prices on stocks is amplified by the increase in exchange rates, mainly because of rising import burdens and global economic uncertainty.

These findings are in line with previous studies. It was stated by (Umamah (2019); Zahrok et al. (2021) that the relationship between oil prices and stocks can be strengthened by exchange rates. It was found by Arfaoui and Rejeb (2017) that oil prices can be increased by the appreciation of the US dollar, and pressure is then put on the stock market. Meanwhile, it was stated by Wahyudi et al. (2017); Xu et al. (2022) that a central role in moderating the relationship between oil prices and stock returns is played by exchange rates, and market dynamics are explained more comprehensively.

Exchange Rate Moderation on the Relationship of Gold Price to Dow Jones Islamic Market (DJIM) Stock Price

The response of investors to global dynamics, especially in the context of economic uncertainty, is reflected by this condition. When the USD exchange rate is strengthened, dollar-denominated gold is made more expensive. The demand for gold is not necessarily reduced by this situation because, in times of crisis or market volatility, gold is still considered a safe haven asset that is more stable than stocks. Because of the increase in gold prices influenced by the stronger dollar, investors were encouraged to shift their portfolios from stocks, including Islamic stocks such as DJIM, to gold. As a result, the demand for shares was decreased, and DJIM's share price was caused to fall. This phenomenon is called "flight to safety", in which funds are shifted from instruments considered risky to safer instruments.

These findings are consistent with the results of research by Shakeel et al. (2023), in which it was stated that the negative relationship between gold prices and stocks is significantly strengthened by the USD exchange rate. The demand for gold as a hedge against uncertainty is increased by the strengthening of the US dollar, especially in the context of inflation and geopolitical crises. In addition, it was also noted by Ali et al. (2020) and Arfaoui and Rejeb (2017) that the attractiveness of gold as a hedge asset is increased by global market volatility.

Economically, the finding can be understood from the international nature of gold and currency markets. Gold is traded globally and is commonly denominated in US dollars, so its relative attractiveness and valuation for international investors can be influenced by exchange-rate movements. During periods of uncertainty, the demand for gold may be increased and exposure to equities may be reduced by investors at the same time. Consequently, the portfolio-reallocation mechanism that connects gold prices and Islamic equities may be strengthened by changes in currency conditions. Interconnectedness among gold, oil, geopolitical risk, and Islamic stock markets has been established in previous research, especially during crisis periods (Hasan et al., 2023; Rabbani et al., 2024). Therefore, the insignificant interaction should not be interpreted as meaning that inflation is irrelevant to financial markets. Rather, it is indicated that, within the February 2022–October 2024 sample, the marginal effect of oil prices on DJIM was not significantly changed by inflation. This distinction is considered important because an economic effect on financial markets can be produced by a variable without that variable necessarily being used as a statistically significant moderator.

These results are also supported by descriptive data from the period February 2022 to October 2024. For example, in September 2024, a GOLD*ER interaction value of 5,259,900 was recorded, and the DJIM index was at 7,142.70. However, in October 2024, the GOLD*ER value was increased to 5,468,300, and DJIM was decreased to 6,970.23. It is shown by this pattern that the simultaneous increase in gold prices and the USD exchange rate is correlated with the decline in the DJIM stock index, so it is indicated that the negative effects of gold prices on Islamic stocks are reinforced by the appreciation of the USD.

These results are in line with various previous studies, such as those conducted by Zahrok et al. (2021), in which it was stated that the relationship between gold prices and stock prices is strengthened by USD exchange rate fluctuations, especially in the context of global economic uncertainty. The inter-influencing relationship between gold, exchange rates, and the stock market was emphasized by Arfaoui & Rejeb (2017); Jain & Biswal (2016); Singhal et al. (2019); Syahri & Robiyanto (2020). In addition, it was stated by Tanin et al. (2021) that a negative relationship is generally found between the USD and the price of gold: when the USD is depreciated against other currencies, the price of gold tends to be increased as compensation for the decline in the purchasing power of the dollar.

Therefore, it can be concluded that an important role in determining the direction and strength of the relationship between the price of gold and the price of DJIM shares is played by the USD exchange rate. This factor must be considered in investment decision-making, especially when a portfolio that is resilient to global economic shocks is built. The prices of commodities and imported goods are not only affected by exchange rate fluctuations, but shifts in investment preferences across assets are also accelerated by them.

Inflation Moderation on the Relationship of Oil Prices to Dow Jones Islamic Market (DJIM) Stock Prices

Theoretically, a dual impact on economic activity and the stock market could be produced by inflation. It was stated by Parulian & Mahendra (2021) that economic growth can actually be boosted by mild inflation because consumption and investment are encouraged. However, when inflation is uncontrolled (hyperinflation), a negative impact is produced because macroeconomic instability, decreased purchasing power, and uncertainty in investment are caused. In the context of this study, inflation during the period from February 2022 to October 2024 was below 10% per year on average (or less than 1% per month), and it is still classified as low inflation according to the Putong classification (2013). Inflation at this rate is usually considered healthy, and investor behavior is not significantly or drastically affected by it.

Because inflation in this period was relatively stable and low, no extreme change in investor behavior that could affect the relationship between oil prices and stock prices was observed. In addition, in conditions of low inflation, interest rates are less likely to be raised aggressively by central banks. Therefore, investors are not encouraged to withdraw their funds from the stock market and move them to other financial instruments, such as deposits or bonds. It is indicated by this condition that, although oil prices were changed, allocations in stocks, including sharia stocks such as DJIM, were still maintained by investors.

The absence of significant moderation can be explained by the distinction between a transmission variable and a conditioning variable. Equity markets can be influenced directly by oil prices through production costs, corporate profitability, and investor expectations, while the size of these effects may not necessarily be changed by inflation. In previous research on Islamic equity markets, it is demonstrated that the effects of global macroeconomic variables can be varied according to the specific variable, market condition, and estimation framework (Abbass et al., 2022; Godil et al., 2020). Therefore, the insignificant interaction should not be interpreted as meaning that inflation is irrelevant to financial markets. Rather, it is indicated that, within the February 2022–October 2024 sample, the marginal effect of oil prices on DJIM was not significantly changed by inflation. This distinction is considered important because an economic effect on financial markets can be produced by a variable without that variable necessarily being used as a statistically significant moderator.

These findings are also supported by descriptive data. For example, in February 2022, an OIL*INF interaction value of 235.47 was recorded, and the DJIM index was at 5,740.58. However, in July 2022, the OIL*INF value was decreased slightly to 232.74, while the DJIM index was actually decreased to 5,247.94. On the other hand, in July 2024, the OIL*INF value was increased slightly to 176.86, but DJIM was increased to 6,858.46. It is indicated by this inconsistent pattern that no strong or systematic relationship is found between the OIL*INF value and DJIM, so the argument that inflation cannot be considered a significant moderator is further reinforced.

Furthermore, these findings are in line with the results of research by Liman et al. (2024); Mahendra et al. (2022); Rakhmat et al. (2024), in which it was also concluded that inflation is not an effective moderating factor in the relationship between oil prices and stock prices. Although stocks can be significantly affected by oil prices, especially in the energy and transportation sectors, this impact is not always amplified or weakened by inflation rates, especially in stable and controlled inflationary conditions. In addition, it is mentioned in several studies, such as those by (Ahmed et al. (2023); Kudabayeva et al. (2024), that a decline in oil prices can be caused by early inflation shocks, but these effects are often short-term. In many cases, oil prices are recovered within a short period of time, and significant changes to stock market activity are not necessarily caused.

Thus, it can be concluded that, in the context of this study, no moderating role in the relationship between oil prices and DJIM stock prices is played by inflation. This is caused by the relatively low and stable inflationary conditions during the study period, by which investor dynamics were not significantly affected. In investment strategies and market analysis, it is important to understand that uniform moderating power is not owned by all macroeconomic factors in various contexts.

Inflation Moderation on the Relationship of Gold Price to Dow Jones Islamic Market (DJIM) Stock Price

This phenomenon can be explained through the characteristics of gold as a hedge asset or *safe haven*, especially in periods of economic uncertainty such as inflation. Historically, gold

has been seen as a relatively stable investment instrument because its value tends to be increased when inflationary pressures occur. According to Baur and Lucey (2010), funds are often shifted to gold by investors when inflation is increased so that their purchasing power can be maintained. As a result, investments were shifted from stocks to gold, not because of the moderating effect of inflation, but because of the nature of gold as a hedge.

In this context, although investors can be caused to leave the stock market by high inflation, their funds are immediately moved to gold without an "intermediary" in the form of the influence of inflation on the relationship between gold and stocks. Therefore, the relationship between the gold price and the DJIM share price is not significantly moderated by inflation. In line with this, it is asserted by (Al-Nassar (2021); Barsky et al. (2021); Duong (2023) that gold tends not to be affected by inflation in the context of its role in the stock market because it has been positioned as a haven from inflation itself.

One possible explanation is that a defensive role in investors' portfolios is already played by gold. During periods of uncertainty, gold exposure may be increased by investors because of its perceived hedging and safe-haven characteristics. Consequently, the relationship between gold and Islamic equities may be driven more strongly by geopolitical uncertainty and portfolio reallocation than by inflation as a conditioning factor. The interconnected dynamics among gold, geopolitical risk, oil, and Islamic financial assets during crisis periods have been emphasized in previous studies (Duong, 2023; Singhal et al., 2019).

Based on descriptive data for the period from February 2022 to October 2024, an inconsistent pattern of DJIM share price movements is also shown by the value of the interaction between gold prices and inflation (GOLD*INF). For example, in February 2022, a GOLD*INF value of 4,698.23 was recorded with a DJIM of 5,740.58. However, in July 2022, the GOLD*INF value was decreased to 4,138.02, while DJIM was actually dropped to 5,247.94. On the other hand, in May 2024, a GOLD*INF value of 5,471.42 was recorded with DJIM at 6,592.05, and then, in July 2024, the GOLD*INF value was increased slightly to 5,507.70, but DJIM was also raised to 6,858.46. The conclusion that inflation is not a significant moderator is reinforced by the absence of this consistent pattern.

These results are reinforced by the research of Khilyatunnisa (2023) and Mahendra et al. (2022), in which it is shown that inflation cannot be used as a moderator in the relationship between gold prices and stock prices. It was also confirmed by Aye et al. (2017) that gold is effectively used as a hedge against inflation, so it is less affected by inflation fluctuations in the context of its relationship with stocks. Overall, it is shown by these findings that no significant moderating power in influencing the relationship between gold prices and DJIM stock prices is owned by inflation. This is most likely caused by the role of gold as a hedge against inflation, through which investors respond directly to inflation by investing in gold without an indirect influence on stocks.

CONCLUSION

In this study, the effects of geopolitical risk, oil prices, and gold prices on the Dow Jones Islamic Market Index are examined, and it is evaluated whether the relationships between

commodity prices and Islamic equity performance are moderated by exchange rates and inflation during February 2022–October 2024.

It is shown by the results that DJIM is significantly and negatively affected by geopolitical risk, oil prices, and gold prices. It is indicated by these findings that global Islamic equities are still exposed to systematic geopolitical and commodity shocks despite the Shariah screening characteristics of the index. It is also suggested by the results that the negative effect of commodity prices can be explained by different economic mechanisms: oil is operated mainly through cost pressures, whereas gold is associated with investor portfolio reallocation toward safe-haven assets.

An important additional finding is provided by the moderation analysis. The relationship between gold prices and DJIM is significantly moderated by the exchange rate at the 5% level, while the oil–exchange-rate interaction is significant only at the 10% level. Thus, stronger evidence of exchange-rate moderation is found for gold than for oil. In contrast, neither the oil–DJIM relationship nor the gold–DJIM relationship is significantly moderated by inflation.

Theoretically, a contribution is made by these findings to the literature, as it is shown that the response of Islamic equities to global shocks is conditional on the type of shock and the macroeconomic environment. It is also demonstrated by the results that exposure to global geopolitical, commodity, and currency risks is not eliminated by Shariah screening. Practically, geopolitical risk, commodity prices, and exchange-rate movements should be included by investors in Islamic portfolio risk management. Commodity–currency–equity linkages should be monitored by policymakers during periods of geopolitical stress, while the management of energy and currency exposure should be strengthened by companies included in Islamic equity benchmarks.

In future research, the observation period could be extended, higher-frequency data could be employed, Islamic and conventional equity indices could be compared, and nonlinear, regime-switching, or dynamic connectedness models could be applied to examine whether the transmission of geopolitical and commodity shocks is different across market regimes.

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