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Impact of Interest Rate Surprises on Islamic and Conventional Stocks and Bonds

Shumi Akhtar^{a,*}, Farida Akhtar^b, Maria Jahromi^c, Kose John^d

Abstract

This paper studies the impact of interest rate news surprises on Islamic and conventional stock and bond indices, using a dataset which covers interest rate announcements and forecasts, as well as stock and bond indices in three Islamic and eight non-Islamic countries. We find that interest rate surprises tend to have a smaller impact on the returns and volatility of Islamic than conventional bonds because Islamic bonds are structured to avoid explicit interest rates. However, interest rate surprises have about the same or bigger impact on the returns and volatility of Islamic relative to conventional stocks, despite the low amounts of cash and debt holdings of firms comprising Islamic stock indices.

JEL Classification: G1

Keywords: Volatility; Macroeconomic news; Interest rates.

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