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The Role of Inflation and Interest Rates in Influencing the Performance of Sharia Stocks

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Abstract−This study aims to investigate the role of inflation and interest rates in influencing the performance of Sharia-leading stocks, especially those included in the Jakarta Islamic Index (JII). Globally, Indonesia has become the seventh leading center of sharia finance. Global challenges and fluctuating domestic economic conditions have suppressed the performance of sharia stocks since 2023. Sharia stocks' unique characteristics distinguish them from conventional capital markets, creating a research gap in understanding the factors influencing them. This study used a quantitative approach and the data was taken from the period January 2020 to July 2024. The result of the t-test found that the t-count value is -0.229, which is greater than the t-table (-0.229 <1.674). A negative value indicates that inflation has a negative effect in the opposite direction to the performance of sharia stocks. Likewise, the interest rates are known that the t-count value of -0.841 is smaller than the t-table (1.674) or it can be stated that -0.81 < 1.674. That means in this context there is no statistically significant effect of the interest rate variable on the performance of Islamic stocks in the JII. The results of simultaneous testing showed that the F-count is 0.535, smaller than the F-table value of 3.47 which means inflation and interest rates did not significantly influence the performance of Sharia stocks. These findings are interesting considering that both variables are usually considered the main factors influencing the stock market in general. This indicates that sharia stocks in Jakarta Islamic Index (JII) have their own mechanism for dealing with macroeconomic changes, so their movement is not entirely dependent on fluctuations in inflation and interest rates.

Keywords: Inflation; Interest Rates; Sharia Stock Performances; Jakarta Islamic Index;

1. INTRODUCTION

Globally, Indonesia was in the seventh rank for Islamic finance centers and got third place in the Islamic Finance Development Indicator in 2023. The market share of Islamic finance continuously increases to 10.95%. It is followed by an increase in Islamic banking assets of 11.21% (yoy), Islamic capital market growth of 7.43% (yoy), and a significant increase in the non-bank Islamic financial industry sector by 12.98% (yoy) (OJK, 2023).

Table 1. Islamic Capital Market Products in 2023

No.	Products	Number	Sharia Securities Value (Rp. Trillion)	% Market Share of Securities Value
1	Stocks	637	6,145.96	52.68%
2	Corporate Sukuk through Public Offering	234	45.37	9.79%
3	Mutual Fund	273	42.78	8.53%
4	Government Bonds (SBN)*	82	1,446.40	20.15%

The Table 1 shows that Islamic stocks had the largest number of investment products in 2023, namely 637. It is followed by mutual funds (273 products), sukuk (234 products), and government bonds (82 products). This indicates the high public interest in Islamic stock investment. The market capitalization of the Indonesian Sharia Stock Index (ISSI) recorded a significant increase of 28.41% from IDR 4,786.02 trillion to IDR 6,145.96 trillion in 2023.

However, the rapid development of the Sharia capital market in Indonesia faced some global challenges and domestic economic conditions from 2020 to 2023 that suppressed the performance of the sharia index in the Indonesian capital market. As reported by the Jakarta Islamic Index (JII), the Financial Services Authority (OJK) noted that the capitalization of the JII showed interesting fluctuations from 2019 to 2023. This occurred due to the inseparable impact of the global challenges caused by the COVID-19 pandemic. The Jakarta Islamic Index (JII) is one of the stock indices on the Indonesia Stock Exchange consisting of companies whose operations are in accordance with Sharia principles (Dini, 2021).

The Jakarta Islamic Index (JII) is a stock index on the Indonesia Stock Exchange consisting of 30 companies whose operations are in accordance with Sharia principles. JII was established on 3rd July 2000 to support the growth of sharia investment in Indonesia and as a barometer of the most active and liquid sharia stock performance. This index is selected based on the criteria of stocks with high liquidity and compliance with sharia standards determined by the National Sharia Board (DSN) and the Financial Services Authority (OJK). The composition of stocks in JII will be regularly evaluated every six months to ensure the quality of sharia stocks maintained in the index. Thus, investors can obtain a reliable reference regarding the selection of leading sharia stocks. Stock performance in JII

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indicates the response of sharia stocks to various macroeconomic factors which ultimately become considerations for investors and sharia stock market players in making investment decisions.

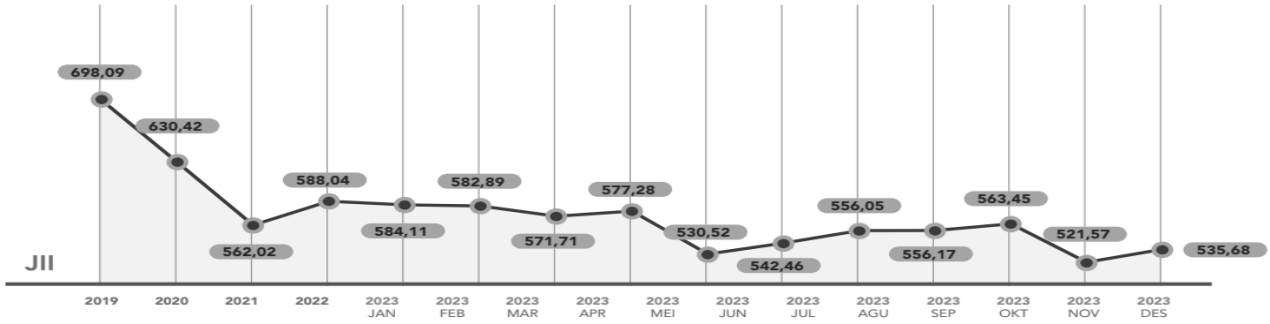

Figure 1. Sharia Stock Index in Jakarta Islamic Index (JII)

The Sharia Stock Index in Jakarta Islamic Index (JII) indices declined at the end of 2023 compared to 2019. The index dropped 8.90% from the level of 588.04 points at the end of 2022 due to significant pressure in the Sharia capital market. The decline is influenced by both domestic and global factors, such as exchange rate fluctuations, interest rate increases in some developed countries, and geopolitical uncertainty that affects investor sentiment towards the Sharia capital market.

Based on the Figure 1, we know that the index also aims to increase public confidence in the Islamic capital market, as well as promote ethical and responsible business practices in accordance with Islamic values (Dini, 2021) As a performance measurment tool, the JII provides an overview of the performance of Islamic stocks in Indonesia. Investors can use the JII as a reference to monitor stock price movements and analyze market trends from a Sharia perspective. In addition, this index is also used as basis for the formation of other Islamic investment products, such as index mutual funds and Islamic bonds. By providing investors with access to invest in accordance with Sharia principles, the JII contributes to expanding investment opportunities with their religious beliefs and values, as well as helping to improve the liquidity and stability of the Islamic capital market (Noval & Nadia, 2020); (Wahyuni & Sovita, 2024).

Viewed from a macroeconomic perspective, inflation and interest rates commonly become the main factors influencing the stock market. High inflation can reduce consumer purchasing power and increase company costs leading to the decline in profit margins and stock prices. On the other hand, increasing interest rates to control inflation can reduce market liquidity which has the potential to reduce stock performance (Listyaningsih & Krishnamurti, 2016). Overall, although the Sharia capital market faced major challenges in 2023, these factors indicated the importance of applying adaptive strategies for Sharia investors in making investment decisions.

In the field of investment, the stock price index plays a vital role as an indicator of the health of the capital market. Stock price movements are influenced by some variables and the two most significant variables are interest rates and inflation (Hasibuan et al., 2023)These variables have a greater impact on market dynamics.

The Sharia capital market in Indonesia is a forum for investors and issuers to conduct financial transactions in accordance with Sharia principles. In this capital market, all trading activities are carried out with integrity, transparency, and no fraud (Isnaini et al., 2024). The development of the Sharia capital market is supported by the DSN MUI Fatwa, such as Fatwa No. 05 of 2000 concerning the sale and purchase of Sharia stocks. Besides, it is strengthened with Fatwa No. 40 of 2003 concerning guidelines for the application of sharia principles in the capital market sector.

The capital market has a vital role in the economy with two main functions. First, the capital market provides access for companies to obtain funds from investors. Second, the capital market provides opportunities for the public to invest in various financial instruments, such as stocks, bonds, mutual funds, and others. In Islamic principles, the capital market is considered a form of muamalah that complies with Sharia principles in financial transactions. The Jakarta Islamic Index becomes an important indicator to monitor stock price movements in accordance with Sharia principles. This indicator becomes a guide for investors to make more targeted Sharia investment decisions

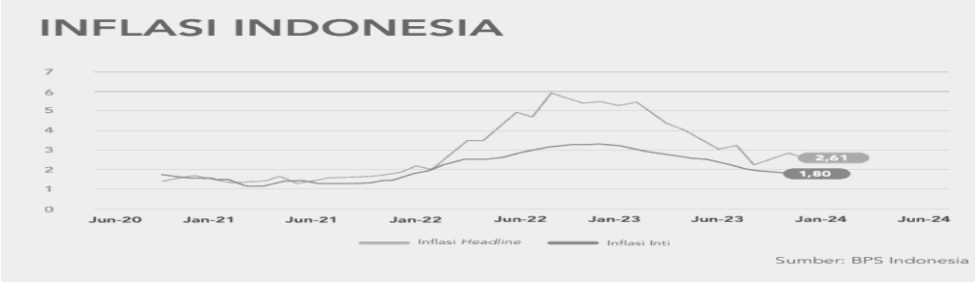

Figure 2. The Development of Inflation in Indonesia

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The Figure 2 shows the development of inflation in Indonesia from June 2020 to June 2024 (BPS, 2024). Statistics Indonesia data indicate that the development of inflation shows an interesting trend. In 2022, headline inflation experienced a significant increase, reaching 6%. This is due to the global economic condition and domestic factors, including fluctuations in energy and food prices. Then, headline inflation started declining gradually reaching 2.61% in June 2024. This graph indicates that headline inflation is more susceptible to drastic changes than core inflation. In the reports at the beginning of the year and in September 2024, it was explained that the BI rate had been at 6.25% since 2022 and fell to 6% in September 2024. This decision was based on the stability of domestic inflation and the Rupiah exchange rate as well as consideration of more stable global market conditions (Bank Indonesia, 2024).

Interest rates play a vital role in investment. The interest rate of Bank Indonesia Certificates (SBIs) becomes the main operating indicator so if there is a change in the SBI interest rate, it affects the deposit interest rate. This is an option for investors in determining where they will invest their capital. (Rismala & Elwisam, 2020) explain an inverse relationship between interest rates and stock prices. When interest rates increase, stock prices tend to decrease because investors prefer to withdraw their investments from stocks and switch to depositing their money in the bank as the interest is more attractive. In other words, if the SBI interest rate rises, the potential return from deposits becomes more attractive compared to the risks in the stock market. Therefore, investment flows to the capital market decrease resulting in the decline in stock prices.

On the other hand, the interest rate set by Bank Indonesia (BI) plays an important role. The BI Rate was at 6.25% since 2022 before finally dropping to 6% in September 2024. This decrease was based on the stability of domestic inflation, the rupiah exchange rate, and relatively more controlled global market conditions. The increase in the interest rate tends to increase borrowing costs and reduce market liquidity, thus negatively affecting stock performance. Lowering interest rates are expected to strengthen the sharia capital market by encouraging more domestic investment while maintaining competitiveness amidst global economic uncertainty in Indonesia.

Previous research shows there is a complex relationship between inflation, interest rates, and stock market performance. However, research that specifically examines the effect of inflation and interest rates on Islamic stock indices, such as the Jakarta Islamic Index is limited. Geopolitcal events such as the Russia-Ukraine war, the conflict in Palestine, and various international boycotts have added layers of complexity to financial market dynamics (Risqi et al., 2023). For instance, the Russia-Ukraine war has disrupted global energy and food supply chains, triggering a surge in commodity prices and increasing inflationary pressures in many countries, including Indonesia. This is important to study given the unique characteristics of Islamic stocks that must adhere to Islamic economic principles, which prohibit the practices of usury (interest), gharar (uncertainty), and maysir (speculation). Given the importance of the JII as a leading indicator for Islamic investors, an in-depth understanding of the influence of these two factors is necessary (Časta, 2023). It is important to explore and analyze the impact of inflation and interest rates on stock performance in the Jakarta Islamic Index. The purpose of this study are to provide better insights for investors, fund managers, and policymakers in developing more effective investment strategies and economic policies that are in line with Sharia principle (Oh, 2024). Then, this research is expected to provide deeper insights for the stakeholders in formulating investment strategies and economic policies that are more effective and in accordance with Sharia principles (Chiang & Chen, 2023).

2. RESEARCH METHODS

This quantitative study used secondary data from inflation data obtained from Statistics Indonesia and interest rate data from Bank Indonesia. This study processed time series data to record changes in variables periodically. The population in this study was companies listed on the Jakarta Islamic Index from December 2016 to March 2024. A population is a group of objects or subjects that have certain qualities and characteristics as a basis for concluding (Sugiyono, 2018a) The determination of the sample in this study used a saturated or census sampling technique where all companies that meet the population criteria are included as the research sample.

The dependent variable in this study was the Jakarta Islamic Index (JII) stock price and the independent variable was the inflation and interest rates of Bank Indonesia. The data were obtained from documentation of written sources such as official publications and financial reports available to the public. The data provides relevant information and explanations for the research topic (Sugiyono, 2018b). In quantitative research, the data obtained were tested for normality to ensure that the data meets the assumptions of parametric statistics and multicollinearity to assess whether there is a significant correlation between independent variables that can affect the results of multiple linear regression. Besides, they were tested for heteroscedasticity and autocorrelation to show the inconsistency of variance in the regression model and identify the relationship between residuals in consecutive periods, respectively.

This study also used a multiple linear regression analysis to connect one dependent variable with two independent variables to understand the relationship between variables. The regression model is formulated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e \quad (1)$$

The equation represents a multiple regression model where the dependent variable Y (Jakarta Islamic Index Stocks), the independent variable X_1 measures the rate of inflation, the X_2 is an independent variable that measures the interest rates. β_1 and β_2 are the coefficients for the independent variables. Then, the α represents unobserved factors

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that affect the independent variable.

The hypothesis testing used a t-test to assess the significance of the influence of each independent variable on the dependent variable with a significance level of 5%. If p <0.05, it means that Ho1 is accepted indicating a significant influence. If p> 0.05, then Ho2 is rejected, indicating an insignificant influence. Besides, this study used an F-test or simultaneous test to see whether all independent variables simultaneously influence the dependent variable. If the F-count is higher than the F-table and p <0.05, then the independent variables have a significant influence simultaneously. The analysis of the coefficient of determination (Adjusted R2) showed the percentage of the influence of the independent variables on the dependent variable. The higher the Adjusted R2 value or closer to 1, the better the independent variable in explaining the dependent variable (Sugiyono, 2018b) The data analysis was carried out with the help of SPSS 26.0 software.

Previous studies have discussed a complex relationship between inflation, interest rates, and the stock market. For sharia stocks in the JII, the effects of inflation and interest rates may differ from conventional stocks due to sharia principles that prohibit the practice of riba(interest) and excessive speculation. Stocks in the JII are selected based on strict sharia criteria, which must comply with Islamic economic principles, including the prohibition of riba (interest), gharar(uncertainty), and maysir (speculation).

Figure 3. The Conceptual Framework

The framework from the Figure 3 in this study outlines how macroeconomic factors, especially inflation and interest rates play a role in the performance of Islamic stocks. Many previous studies have become an important foundation in this research, providing insight and a deeper understanding of the influence of macroeconomics on the performance of Islamic stocks. (Rismala & Elwisam, 2020) revealed that rising interest rates often trigger a decline in stock prices, as investors tend to prefer low-risk instruments such as deposits when interest rates increase. In addition, research conducted by (Fuadi, 2020) found that inflation has a negative effect on the Indonesian Sharia stock index. Likewise, research conducted by Halim (2020)shows that inflation and Bank Indonesia interest rates have no effect on Indonesian Islamic stocks. Research by Mulyadi et al. (2023) shows that in the short term exchange rates, interest rates, and inflation have no influence on the Jakarta Islamic Index (JII). While in the long term, inflation has a positive influence, exchange rates and interest rates have a positive influence.

This study is expected to fill the gap in the existing literature and become a reference for further research on the relationship between macroeconomic factors and the performance of the sharia stock market in Indonesia. This study theoretically and practically contributes to the field of sharia investment by providing more appropriate guidelines for making investment decisions in sharia-based markets. Based on the literature review, the researcher proposes the following hypotheses:

Ho1: Inflation and Interest Rates do not simultaneously influence the Jakarta Islamic Index.
Ha1: Inflation and Interest Rates simultaneously influence the Jakarta Islamic Index.
Ho2: Inflation and Interest Rates do not partially influence the Jakarta Islamic Index.
Ha2: Inflation and Interest Rates partially influence the Jakarta Islamic Index.

The hypothesis in this study is formulated based on two main types of hypothesis, namely the null hypothesis (Ho) and the alternative hypothesis (Ha), which are used to test the relationship or influence between the variables studied. This hypothesis is built with the aim of providing a clear framework in testing the effect of the independent variables on the dependent variable.

3. RESULTS AND DISCUSSION

3.1 Results

Data on inflation and interest rates were obtained from the official website of Bank Indonesia, the Badan Pusat Statistik (BPS), and reports on the Sharia stock performance index were obtained from investing.com from the period January 2020 to July 2024.

Table 2. Results of Normality Testing

One-Sample Kolmogorov-Smirnov Test		
Unstandardized Residual		
N		55
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	4.79811791

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One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
Most Extreme Differences	Absolute	.100
	Positive	.100
	Negative	-.089
Test Statistic		.100
Asymp. Sig. (2-tailed)		.200[c,d]

The normality test in Table 2 determines whether the regression model has a normal distribution between the dependent and independent variables. The Kolmogorov-Smirnov Test was carried out to test the data distribution and obtained an Asymp. Sig (2-tailed) value of 0.200, which is greater than 0.05. It can be concluded that the residuals are normally distributed. Thus, the normality assumption is met and other classical assumption tests can be continued.

Table 3. Results of Multicollinearity Testing

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.517	2.952		.853	.398		
	Inflation	-.122	.534	-.034	-.229	.820	.850	1.177
	Interest rates	-.565	.672	-.125	-.841	.404	.850	1.177

A multicollinearity test in Table 3 aims to identify whether there is a correlation between the independent variables in the regression model. If there is a correlation between the independent variables, then these variables can interfere with the accuracy of the regression model. The multicollinearity test obtained a tolerance value of 0.850, which is greater than 0.10, or a VIF is 1.177, which is less than 10. It can be concluded that there is no multicollinearity and the variables in the regression model are not significantly correlated.

Table 4. Results of Heteroscedasticity Testing

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.517	2.952		.853	.398
	Inflation	-.122	.534	-.034	-.229	.820
	Interest rates	-.565	.672	-.125	-.841	.404
a. Dependent Variable: Stock Performance Index						

Heteroscedasticity testing aims to ensure the uniformity of residual variance in the regression model. It obtained a sig. value of 0.820 for the inflation variable, which is greater than 0.05, and 0.404 for the interest rate variable, which is greater than 0.05. It can be concluded that there is no heteroscedasticity in this study based on the Table 4.

Table 5. Results of Autocorrelation Testing

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.142[a]	.020	-.018	488.952	1.895
a. Predictors: (Constant), Interest rates, Inflation					
b. Dependent Variable: Stock Performance Index					

Autocorrelation testing aims to ensure that there is no residual correlation in the regression model. This study used the Durbin-Watson test to assess the presence of autocorrelation in the residuals of the regression model. It obtained a value of 1.895 with n=55 and k=2 for independent variables. The Durbin-Watson Upper Bound from Table 5. value is 1.640. The value of 4 - dU is 2.360. The DW value of 1.895 is between dU (1.640) and 4 - dU (2.360), meaning that there is no autocorrelation in this regression model. Therefore, the model has met the assumption of being free from autocorrelation.

Table 6. Results of Multiple Linear Regression Analysis

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.517	2.952		.853	.398
	Inflation	-.122	.534	-.034	-.229	.820
	Interest Rates	-.565	.672	-.125	-.841	.404
a. Dependent Variable: Stock Performance Index						

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Based on the Table 6., the multiple linear regression equation is as follows:

$Y = 2.517 + -0.122\ X_1 + -0.565\ X_2 + e$

The conclusions that can be drawn from the results of multiple linear regression analysis are the constant value of 2.517 states that if the coefficient value of the independent variable has a value of zero, then the value of the dependent variable stock performance (Y) will be at 2.517. This illustrates the stock performance when there are no other influencing factors. Then, the inflation regression coefficient of -0.122 indicates that inflation harms stock performance. This means that if inflation increases by 1%, stock performance is expected to fall by 0.122% assuming other factors remain constant. Then, the interest rate regression coefficient of 0.565 indicates that interest rates have a positive effect on stock performance. If interest rates increase by 1%, the stock performance is expected to increase by 0.565% assuming other variables remain constant. The e value reflects the error in the regression equation model, which may be caused by the presence of other variables outside of this analysis that influence stock prices. Thus, considering other factors that may contribute to the results is important.

The t-test aims to understand the effect of independent variables on the dependent variable. If the t-count value is greater than the t-table, then the Null Hypothesis (Ho) is rejected. On the other hand, if the t-count value is lower than t-table, then Ho1 is accepted. Moreover, if the significance probability value is lower than 0.05, then the independent variable influences the dependent variable.

Table 7. Results of t-test

Coefficients[a]				
Model		Standardized Coefficients Beta	t	Sig.
1	(Constant)		.853	.398
	Inflation	-.034	-.229	.820
	Interest rates	-.125	-.841	.404
a. Dependent Variable: Stock Performance Index				

Based on the the t-count from Table 7, the value is -0.229 greater than t-table (-0.229 <1.674). A negative value indicates that inflation has a negative effect in the opposite direction to the performance of sharia stocks. The significance value (sig.) of 0.820 is greater than 0.05, meaning that Ho1 is accepted. This indicates that the inflation variable does not have a significant effect on the performance of sharia stocks. The results of this study are in line with a previous study by (Halim, 2020) that inflation does not fully affect the performance of Sharia stocks. Then, for the interest rate variable, the t-count value is -0.841, which is lower than the t-table value of 1.674. The significance value of 0.404 indicates that interest rates have a negative effect on the performance of sharia stocks.

Table 8. Results of Simultaneous Testing

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	25.595	2	12.797	.535	.589[b]
	Residual	1.243.185	52	23.907		
	Total	1.268.779	54			

The simultaneous test aims to determine whether the independent variables have a simultaneous effect on the dependent variable. The Table 8. shows that the F-count is 0.535, which is smaller than the F-table value of 3.47. Meanwhile, the significance value of 0.589 is greater than 0.05, meaning that inflation and interest rates simultaneously do not affect the performance of sharia stocks. This occurs due to high variability in the data, for example, unmeasured external factors.

Table 9. Results of the Research

Variable	Sig.	Hypothesis
Sharia Stock Performance	0.589	Ho1 is accepted, Ha1 is rejected
Inflation	-0.034	Ho2 is accepted, Ha2 is rejected
Interest Rates	-0.125	Ho2 is accepted, Ha2 is rejected

The statistical testing reveals that the inflation variable has a negative effect on the performance of sharia stocks. This shows that Ho1 is accepted and Ha1 is rejected because the test results show negative results, so there is an opposing effect. The same with the interest rate variable, the inflation variable shows negative results from the Table 9. Compared to other studies, some of the results of this study are unique as presented in the results of the Adjusted R2 below:

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Table 10. Results of Adjusted R^2 Testing

Model Summary[b]				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.142[a]	.020	-.018	488.952

Based on the Table 10, it obtains a value of 0.020 or 2%. The independent variables are not strong enough to explain the dependent variable or there are other important variables outside of the regression model in this study. Around 98% of variables outside the regression model of this study can affect regression model variables.

3.2 Discussion

3.2.1 The effect of inflation rate on the performance of Islamic stocks in the Jakarta Islamic Index (JII)

Based on the results of statistical analysis, it is known that the inflation variable (X1) has a t-count value of -0.229. When compared with the t-table value of 1.674 at the 5% significance level, it can be concluded that the t-count value is smaller than the t-table (-0.229<1.674). In addition, the resulting significance value is 0.820, which is far above the significance limit of 0.05 (0.820 >0.05). In other words, the results of this statistical test indicate that there is no significant relationship between inflation and the performance of Islamic stocks incorporated in the Jakarta Islamic Index (JII). Thus, the null hypothesis (Ho1) is accepted, which means that inflation has no significant effect on stock performance in the context of this study. This indicates that the Islamic stock market, especially in the JII, is less affected by inflation fluctuations. Some of the reasons for this result include the characteristics of Islamic investors, the focus on long-term investments, and the choice of different sectors. Other research results that inflation has no significant effect on stock performance in the Indonesian Stock Exchange (IDX) by Rachmawati (2019) showing that inflation has no significant effect on the stock prices of companies listed on LQ45 Indonesian Stock Exchange. The research by Noval & Nadia (2020) also showed that inflation has no significant effect on the Jakarta Islamic Index. In line with research conducted by Muchlis et al. (2023) shows that the inflation has no effect on the Indonesian Sharia Stock Index listed on the Indonesian Stock Exchange at the period 2019 – 2021. Contrary to the Signalling Theory which introduced by George Akerlof in 1970, who initially studied the information imbalance between sellers and buyers. In the context of capital markets, this teory refers to the actions of companies in signalling to investors about their business conditions or prospects. One practical example of signal theory in the capital market is the use of stock indices such as the Jakarta Islamic Index (JII). The JII serves as an additional signal for investors in assessing companies whose operations are in accordance with Sharia principles. In that theory, when the investors know more information, it will effect to the increasing of the Islamic stocks.

3.2.2 The Effect of Interest Rates on Sharia Stock Performance in the Jakarta Islamic Index (JII)

Statistical testing of the interest rate variable using the t-test was conducted to assess how much the role of interest rates have on the performance of Islamic stocks on the Jakarta Islamic Index (JII). In the analysis, the t-count value obtained is -0.841. To determine the significance of the effect, the t-count result is the compared with the critical value of the t-table, which at a certain significance level (0.05) is 1.674. From this comparison, it is known that the t-count value of -0.841 is smaller than the t-table (1.674) or it can be stated that -0.81 < 1.674. In addition, the significance value obtained from this test is 0.404, which is greater than teh specified significance level of 0.05 (0.404>0.05). Based on these two results, namely the t-count which is smaller than the t-table and the significance value which is greater than 0.05.The decision taken is to accept the null hypothesis (Ho2). That means in this context there is no statistically significant effect of the interest rate variable on the performance of Islamic stocks in the JII. In other words, changes in interest rates that occured during this research period did not have a signifiicant impact on the performance of Islamic stocks listed in Jakarta Islamic Index. The results in line with the research by Iradilah & Tanjung (2022)the interest rates have a negative and significant effect on the stock prices in banking companies listed on the Indonesian Stock Exchange. The result had the same as the research conducted by Rahmadonna & Astuti (2023), the conclusion showed there is no effect of interest rates on the price of banking companies on the IDX for the period 2020-2022

3.2.3 Interaction between inflation and interest rates in simultaneously affecting the performance of Islamic stocks in the Jakarta Islamic Index (JII)

The results of the analysis show that the coefficient of determination is 0.020, which is equivalent to 2%. This value indicates that only 2% of the variation or change in the dependent variable, namely the performance of Islamic stocks in this case, can be explained by the independent variables studied, namely inflation or interest rates. This means that the effect of these variables on the performance of Islamic stocks is very small. In other words, this research model is only able to explain a small part of the variation that occurs in the performance of Islamic stocks. The remaining 98% of the variation in Islamic stock performance is influenced by other variables not included in this study. These other variables may include various macroeconomic or microeconomic factors that have the potential to affectr stock performance, such as economic growth rate, government policies, market sentiment, sectoral factors, and internal company factors. Although inflation and interest rates have an influence on stock movements in conventional markets, the Islamic stock market in Indonesia has proven to have better resistance of these fluctuations. This is due to the

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characteristics of Islamic stock investors who are more conservative and have a long-term orientation. Islamic stock investors are more likely to consider risks that are more related to company fundamentals, such as product quality, business model, and adherence to Sharia principles, compared to responses to changes in macroeconomic variables such as inflation or interest rates (Mawarni & Widiasmara, 2018).

4. CONCLUSION

Based on the results of the analysis, it can be concluded that inflation has no significant effect on the performance of Islamic stocks incorporated in the Jakarta Islamic Index (JII). Based on the statistical test results, the t-count value for the inflation variable is smaller than the t-table and the significance value is above the significance limit. Thus, the null hypothesis is accepted, which indicates that inflation has no significant effect on the performance of Islamic Stocks in the JII. Factors such as the characteristics of Islamic investors who focus more on long-term investments and certain sectors resistant to inflation fluctuations may be the main reason. Then, the conclusion of this study shows that interest rates have no significant effect on the performance of Islamic stocks listed on the Jakarta Islamic Index. Based on the statistical test result leads to the acceptance of the null hypothesis, which means there is no significant effect between interest rates and the performance of Islamic stocks in the JII. Therefore, Islamic stocks in the JII can be considered a relatively stable investment option despite the changes in interest rates. The negative influence of inflation and interest rates on the performance of Sharia stocks will increase the negative sentiment of investors toward the Sharia capital market. This finding indicates that sharia stocks in the Jakarta Islamic Index (JII) have their own mechanism for dealing with macroeconomic changes, so their movement is not entirely dependent on fluctuations in inflation and interest rates. This finding shows an interesting uniqueness because in general these two variables are considered the main factors influencing the stock market. Several previous studies have shown that in the Islamic capital market, factors such as investor confidence sentiment, political stability, political stability, exchange rates, and commodity prices often have a large influence on the movement of Islamic stocks. Because the limitation of this study is not fully cover all relevant factors and has a short duration of research, then the results of this study open up room for further exploration of other factors that may affect the performance of Islamic stocks, especially those related to macroeconomic conditions, government policies, and global market dynamics. Several suggestions can be given for further exploration and to increase understanding of the factors that affect the performance of Islamic stocks, especially in the Jakarta Islamic Index (JII). It is recommended that further research should explore the other macroeconomic variables that also have a significant impact on stock price movements and investment decisions. These factors may play an important role in the dynamics of the Islamic stock market and provide more comprehensive insights. By including additional variables such as currency exchange rates, gold prices, and other commodities, further research can expand the scope of the analysis, thus providing more comprehensive and relevant results in the context of global economic changes. The results of this study are useful for all parties involved in the capital market, especially Sharia-based investors. Future studies are expected to add other internal company factors, such as company financial performance, management quality, and product innovation. These factors often influence the attractiveness of stocks to investors and can provide deeper insights into the dynamics of the Islamic stock market. Another important factor that can be analyzed is investor sentiment towards Islamic stocks. Using sentiment analysis methods or investor surveys can help understand how investor perceptions and beliefs toward Islamic stocks affect market movement. Moreover, future studies can extend the observation period to obtain more comprehensive results and provide a clearer picture of how inflation, interest rates, and other factors affect the performance of Islamic stocks in the long run.

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