

# Investor Sentiment and Stock Return Volatility: Implication of the Israel-Palestine Conflict on Sharia Stocks in Indonesia

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## Keywords

*GARCH, Investor Sentiment, Israel-Palestine, Volatility, Sharia Stocks*

## Abstract

The escalation of the Israel-Palestine conflict has garnered global attention. Public condemnation through mass boycotts of pro-Israel products has significantly impacted capital markets, particularly the sharia stock market in countries with Muslim majority populations. The volatility of sharia stock returns become a crucial focal point in this context as it serves as a sensitive indicator of geopolitical events and changes in investor sentiment. This study investigates the connection between the volatility of sharia stock returns in Indonesia and investor sentiment as a result of the Israel-Palestine conflict. Researchers use the GARCH (1,1) model to look at how investor sentiment and the conflict between Israel and Palestine affect the volatility of Sharia stock returns indexed by the Jakarta Islamic Index (JII), using monthly data from January 2012 to February 2024. The researchers hypothesized that investor sentiment and the Israeli-Palestine conflict affect Islamic stock returns in Indonesia, but the results of this study show that the two factors have no effect on Islamic stock returns. The findings of this research provide valuable insights for financial market practitioners, investors, and regulators in understanding the impact of geopolitical conflicts on the capital market, particularly in the context of sharia stocks in Indonesia. By considering investor sentiment factors and market fluctuations triggered by such geopolitical events, this study provides a stronger foundation for wise investment decision-making and effective risk management, thereby enhancing the stability and performance of sharia capital markets in the future.

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## 1. Introduction

As an integral part of the economic structure, the capital market cannot be detached from political dynamics. Events such as armed conflicts, political tensions, power transitions, and other events that directly affect the economic stability of a country have a significant influence on the development of the capital market (Hidayat, 2018). A concrete example is the significant impact caused by the Israel-Palestine conflict on economic conditions, particularly through changes in consumption patterns resulting from efforts to boycott products supporting Israel aggression (Airlangga PH *et al.*, 2024).

In Indonesia, the Indonesian Ulema Council (Majelis Ulama Indonesia, MUI) issued an official fatwa supporting a boycott against Israel and Israeli products as a concrete manifestation of sympathy for the ongoing struggle of the Palestinian people (Giyarsi *et al.*, 2023). This popular boycott action has significantly impacted the performance of leading stock indices and potentially triggered negative market responses towards companies engaged in business with Israel (Heilmann, 2016; Puspadini, 2023). Investors may withdraw their investments from companies suspected of supporting Israeli aggression, potentially lowering the companies' stock value of the related companies.. Overall, boycotts and similar efforts demonstrate that the global community, including investors, is increasingly considering moral and humanitarian issues in their investment decisions.

Declines in company stock values in response to political and security uncertainty in the Israel-Palestine region not only creates concerns and turmoil in the global financial markets but also significantly shakes the optimism of the world economy and capital markets. This uncertainty prompts investors to withdraw their investments or refrain from making new investments, as they tend to seek protection against unpredictable risks. Furthermore, this dramatic market reaction highlights how sensitive investors are to unstable geopolitical situations, particularly investors oriented towards sharia-compliant stocks. Investors adhering to sharia principles may avoid companies involved in activities deemed inconsistent with these principles, especially those significantly exposed to conflict-affected areas. This creates an unstable market environment and increases volatility. This volatility leads to statistical changes in the prices of securities and is often considered equivalent to risk (Irwaningtyas *et al.*, 2023).

Many investors, including those adhering to sharia principles, often place more trust in information development than in conducting fundamental analysis (Munir *et al.*, 2024). They frequently make investment decisions based on market sentiment,

such as good or bad news, or other factors like herding and loss aversion. In this context, we can conclude that investor sentiment, particularly in relation to sharia principles, can impact the process of making investment decisions. Consequently, this will directly impact stock returns and overall market stability.

Investor sentiment arising from the Israel-Palestine conflict will ultimately affect the expected stock returns anticipated by investors (Bangun *et al.*, 2020). This is particularly true for sharia-compliant investors, who tend to adjust their portfolios by allocating more funds to stocks deemed safer and sharia-compliant. Increased market uncertainty and unusual price fluctuations may lead investors to demand higher risk premiums, while changes in stock demand and supply can affect overall expected returns.

Based on these factors, the researchers feel it is necessary to examine the influence of investor sentiment on the occurrence of the Israel-Palestine conflict on the fluctuations of sharia stock returns in Indonesia. Indonesia was chosen as the study's focus due to its status as a developing country with the second-largest Muslim population globally, with approximately 87% of Indonesians being Muslims, accounting for almost 11.7% of the global Muslim population (World Population Review, 2024). Thus, the impact of investor sentiment on sharia stock movements in Indonesia can provide significant insights into how specific geopolitical conflicts can affect capital markets in the context of a predominantly Muslim population.

This study aims to determine the impact of investor sentiment, proxied by the Consumer Confidence Index (CCI), and the Israel-Palestine conflict on the volatility of Indonesian sharia stock returns from January 2012 to February 2024. This research uses the Generalized AutoRegressive Conditional Heteroskedasticity (GARCH) model to predict the volatility of stock returns. The structure of this research article is divided as follows: the second section presents an overview of the development of the sharia capital market in Indonesia, the Israel-Palestine conflict, volatility, previous investor sentiment analyses, and the CCI. The third section discusses the research methodology, data sources, empirical model, and operational variables. The subsequent section presents hypothesis testing, interpretation of the research results, and analysis. The final section summarizes the research findings and provides limitations and implications of the study.

## **2. Literature Review**

### **2.1. Islamic Capital Market in Indonesia**

The presence of a capital market is considered a vital indicator of the prosperity

and economic development of a country, reflecting economic dynamics (Alam & Akbar, 2015). The capital market is where trading occurs among market participants. Therefore, the capital market plays a crucial role as an investment vehicle for investors, with distinctive characteristics in transactions that differentiate it from conventional markets, such as intangible assets, indirect transactions, and the use of stock exchanges as transaction media (Matthews & Tlemsani, 2010; Soemitra, 2016; Wieland *et al.*, 2020). Islam holds different views on the capital market, particularly concerning transactions. The presence of the sharia capital market is particularly interesting due to the unfulfilled principles of Islamic transactions in conventional capital markets, making the sharia capital market a means to evaluate whether transactions in the capital market adhere to Islamic principles (Qizam *et al.*, 2019; Soemitra, 2016). The sharia capital market is seen by some scholars as necessary for the economic development of the Muslim community because it incorporates Islamic business values that must be followed and understood by Muslims (Antonio *et al.*, 2013; Qizam *et al.*, 2019).

According to Qizam *et al.* (2019), the sharia capital market adheres to the principles of Islamic law because it prohibits practices like usury, gambling, and speculation. In the context of the sharia capital market, all traded financial instruments must comply with sharia principles. Indonesia's Sharia Advisory Board determines the classification of companies as sharia-compliant through a screening process that involves qualitative and quantitative evaluations based on multiple sources of information, including company responses to surveys, annual financial reports, and interactions with company management (Qizam *et al.*, 2019).

Indonesia is one of the countries contributing to the development of the Islamic capital market. Through its development of the world's first Sharia Online Trading System (SOTS) platform (IDX, 2019), Indonesia facilitates investors who wish to trade in accordance with Islamic law. According to data released by the BEI (Bursa Efek Indonesia), the total number of sharia investors trading on SOTS increased by 22.45 percent to 105,174 in 2021, up from 85,891 investors in 2020. The Jakarta Islamic Index (JII) increased by 60.06 percent, and the JII-70 increased by 67.18 percent in 2020 (OJK, 2020).

## **2.2. Conflict between Israel and Palestine and Stock Market**

The conflict between Palestine and Israel has persisted for several decades and remains unresolved despite the involvement of many countries in efforts to achieve peace. The history of the conflict dates back to World War I (Firman & Hasaruddin, 2023). During this time, the Ottoman Empire, which controlled

territories spanning from Europe to the Middle East, was involved in the war, with the aim of defending its existence. However, the Ottoman Empire was defeated and was made to relinquish its territories to the United Kingdom (UK), France, and Russia. The division of Ottoman territories had been planned before the end of World War I, and was materialized through the Sykes-Picot Agreement between the UK and France. As a result, the UK gained control over the territory of Palestine.

Prior to World War I, anti-Jewish sentiments had begun spreading across Europe, sparking the Zionist movement in 1897. This movement aimed to establish a Jewish state in the territories inhabited by Palestinian Arabs, which were then under Ottoman rule. In 1917, before the end of World War I, the UK issued the Balfour Declaration, promising to support the establishment of a Jewish state in Palestine, even though at that time, the majority of the territory's inhabitants were Palestinian Arabs. After the UK officially received a mandate over Palestine in 1923, Jewish immigration from Europe to Palestine increased, especially during World War II, when ethnic cleansing of Jews by Nazi Germany occurred across Europe (Putra *et.al.*, 2023).

In 1947, the Jewish population in the territory increased to 30% of the total population of Palestine, despite occupying only 6% of the landmass. Meanwhile, the newly-established United Nations (UN) issued a resolution on the partition plan for Palestine, proposing the creation of two states and placing Jerusalem under international supervision. However, Palestine rejected the plan due to its allocation of 56% of Palestinian territory to Jews, despite Palestinian Arabs controlling 94% of the land and making up 67% of the total population at that time. As the UK's mandate ended in Palestine on May 14, 1948, the Jewish population declared the establishment of Israel (Rezasyah, 2019).

In December 1948, amid the conflict, the UN issued Resolution 194, guaranteeing the right of Palestinian refugees to return to the territories occupied by Israel. Then, in 1950, Egypt occupied the Gaza Strip, and Jordan took control of the West Bank. The Palestine Liberation Organization (PLO) came into existence in 1964, and Fatah emerged as its political wing the following year. Meanwhile, tensions between Arabs and Israel escalated, particularly during the Cold War period (Firman & Hasaruddin, 2023).

In 1967, the Six-Day War erupted between Israel and the Arab coalition, resulting in Israel occupying the remaining Palestinian territories. As a result, virtually all Palestinian land came under Israeli control. In 1973, another war broke out between the Syrian-Egyptian coalition and Israel, during which Egypt managed to balance

Israel's power and compel it to agree to a ceasefire, forcing Israel to withdraw its forces from the western Sinai region (Paat, 2013).

Israel and Egypt signed a peace agreement on September 4, 1975, in which Israel agreed to return the entire Sinai Peninsula to Egypt. In return, Egypt recognized Israel and opened diplomatic relations. War broke out again in 1982 when Israel invaded Lebanon to pursue PLO members based there. Three years later, Israel withdrew its troops from Lebanon after the PLO also left the country. Over the next few years, Palestine adopted a new approach to resistance through the 1987 intifada (Khomeini, 2004). A year later, the Hamas group was founded, also known as the Islamic Resistance Movement.

Israel and Palestine reached an agreement in Oslo, Norway, in 1993. This agreement allowed the PLO to establish offices in the West Bank and Gaza Strip to form the Palestinian National Authority (Islamiyah, 2016). However, Hamas and Islamic Jihad rejected the agreement. In September 2000, the second intifada began, continuing until 2005 after Israel Prime Minister Ariel Sharon ordered the army and Jewish settlers to leave Gaza. The following year, Palestine held general elections in which Hamas won 44% of the vote in the legislative council. In response, Israel imposed economic sanctions on Palestine until Hamas finally accepted the outcome of the previous agreement between Palestine and Israel and recognized Israel's existence (Hidayat, 2021).

In 2007, an internal dispute occurred between Fatah and Hamas, leading Fatah to leave Gaza (Rahman, 2020). As a result, Israel imposed a blockade on the Gaza Strip. Saudi Arabia then mediated between Hamas and Fatah to form a unity government, with Hamas taking control in Gaza while the West Bank remained under the Palestinian Authority. However, the conflict between Israel and Palestine continued, and in 2014, war broke out in Gaza. After a relatively calm period, violence escalated again when in October 2023, a right-wing government led by Benjamin Netanyahu, involving figures from the extreme right, came to power in Israel (Alianita *et al.*, 2023).

As of March 2024, the six-month-long Israel-Palestine war has wrought massive destruction in Gaza, leaving buildings in ruins and displacing thousands to Rafah. Despite the UN Security Council's call for a ceasefire, hostilities continue unabated. Since Hamas's initial attack on October 7, 2023, which killed 1,200 Israeli civilians, the conflict has resulted in over 33,137 deaths in Gaza, including 13,000 children, with injuries exceeding 75,092. Gaza's infrastructure lies in devastation, hunger threats are worsening, and over 253 hostages were taken, with 130 reportedly still

held captive. Casualty data from Gaza's Ministry of Health, corroborated by WHO, underscores the war's profound humanitarian toll (VOA Indonesia., 2024).

### **2.3. Stock Market and Volatility**

Empirical literature suggests that Islamic stock markets exhibit lower volatility than conventional stock markets (Saiti *et al.*, 2015; Al-Zoubi & Maghyreh, 2007). For instance, Ashraf & Mohammad (2014) linked the higher risk-adjusted performance of Islamic indices with lower systematic risk. Saiti *et al.* (2015) noted that while conventional stock indices showed signs of contagion, especially during the Lehman Brothers collapse, most sharia indices did not confirm a similar phenomenon. Jawadi *et al.* (2014) found that conventional investments showed promising potential before the subprime crisis and during calm periods, while sharia funds exhibited good performance after the onset of the crisis. However, the authors caution that these pieces of evidence are heterogeneous and depend on various factors, including the stage of Islamic market development in different regions, indexing methods, and crisis definitions that can vary according to regional contexts.

Market volatility in the financial sector refers to the level of fluctuation in the value of a financial instrument over a specific period. The presence of volatility brings risks and uncertainties for market participants, affecting their interest in investing. This phenomenon also has significant impacts on global financial markets. In statistical terms, volatility is interpreted as changes in fluctuations relative to the average of a financial asset's time series (Sari *et al.*, 2018). One commonly used estimation tool to measure volatility is the standard deviation, which gives equal weight to observations. However, the standard deviation has two main drawbacks: symmetry and constancy (Yavas & Dedi, 2016). High levels of volatility in returns indicate significant fluctuations in asset value, while low volatility levels indicate asset value stability. In this context, changes in asset value tend to be more stable (Bumi, 2013).

Volatility, as a measure of financial asset price fluctuations, is a primary concern for investors because it assesses the level of risk. High volatility increases uncertainty and reduces profit potential for investors, which in turn can disrupt market stability and have widespread impacts, especially during financial crises. Therefore, modeling volatility poses a significant challenge for researchers in this field (Arfaoui & Rejeb, 2020).

## 2.4. Investor Sentiment

Research on behavioral finance has evolved around two principles. First, sentiment – beliefs about future profit potential and investment risk without concrete evidence – tends to influence investors. Second, irrational investor actions can result in high costs and risks, as they tend to aggressively push prices away from their fundamental value due to limitations in arbitrage. Market sentiment most vulnerably affects stocks with high growth potential; that are marginalized, non-dividend-paying, volatile, or unprofitable; and from relatively young or small companies; stocks with bond-like characteristics are less susceptible (Haslem, 2015).

Rationally-behaving traders aim to maximize expected utility by considering their rational expectations about future asset prices. Therefore, rationality in this context involves two aspects: first, when traders receive new information, they will update their beliefs accurately, and second, based on these beliefs, they will make rational decisions. However, behavioral finance theorists argue that market participants do not always act fully rationally, and there are irrational market participants known as ‘noise traders’ (Barberis & Thaler, 2003). The presence of irrational traders leads to volatility in the market, mostly triggered by market sentiment (Baker & Wurgler, 2006).

Existing literature has documented investor sentiment as an indicator of firm performance and equity returns (Baker & Wurgler, 2006; Bollen & Mao, 2011; Chen *et al.*, 2014; García, 2013). Meanwhile, Black (1986), De Long *et al.* (1991), Shleifer & Vishny (1997), Campbell & Shiller, (1988), Barberis *et al.* (1998), and Trueman (1988) have played significant roles in developing the theoretical foundation, highlighting the importance of investor sentiment in assessing stock returns. These studies reveal that investors should pay attention to market sentiment, risk-seeking traders, and irrational traders, who may overlook fundamental company factors when making investment decisions, as the impulsive actions of such traders can significantly impact stock prices (Baker & Wurgler, 2006; Barberis *et al.*, 1998; Black, 1986; De Long *et al.*, 1991; Fisher & Statman, 2003; Trueman, 1988).

Although many studies have investigated market sentiment, few have explored its impact on sharia stock indices using the CCI as a proxy for investor sentiment. A study by Ary (2019) used the CCI as a proxy for investor sentiment, while Firdaus (2021) used trading volume activity as a proxy for investor sentiment. Additionally, a study by Saad & Siagian. (2011) used market liquidity as a proxy for investor sentiment. Therefore, this study aims to fill this knowledge gap by evaluating



the effect of market sentiment on sharia stock indices, particularly in emerging markets.

### **2.5. Consumer Confidence Index**

Consumer confidence is defined as a psychological construct reflecting individuals' perceptions of their personal financial conditions as well as the current and future economic climate (Ou *et al.*, 2014). Despite the implicit differences between personal financial conditions and the national economic situation, consumer confidence is often treated as a single entity in the literature, both conceptually and operationally (see, for example, Hampson & McGoldrick, 2017; Hunneman & Sloot, 2015; Ou *et al.*, 2014).

Most research on investor sentiment and its impact on stock market returns typically focuses on developed markets, with limited studies conducted in the context of emerging markets. Additionally, previous research tends to predominantly consider conventional stocks, without considering the sharia stock market. Therefore, the aim of this study is to investigate the impact of investor sentiment on the returns of the sharia stock market in Indonesia, a developing country, using the return values from JII. Since the CCI estimates consumer optimism about the economic conditions, this research employs CCI as a tool to understand the influence of potentially irrational investor sentiments on their investment decisions.

The CCI is considered an indicator that can predict market conditions in the future, such as household spending, total personal consumption growth, and purchases of durable goods by consumers (Carroll *et al.*, 1994; Bram & Ludvigson, 1998; Throop, 1992). Stock market studies also report a contemporaneous correlation between CCI and stock market returns. However, the results can vary depending on the causal relationship between the two. For example, Fisher & Statman (2003) examined the validity of consumer confidence as an indicator of individual investor sentiment and its accuracy in predicting stock returns.

## **3. Methodology**

### **3.1. Data and Variables**

This study utilized monthly data for the period of January 2012 to February 2024. Table 1 provides the formulas and data sources used by the researchers.

Table 1: Formula and Data Sources

Variable	Formula	Data Sources
Return of JII	$\frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}}$	Indonesia Stock Exchange (IDX)
CCI	$\frac{CCI - CCI_{t-1}}{CCI_{t-1}}$	Bank Indonesia
Israel-Palestine Conflict	Dummy variable: 0 = the month when conflict did not occur 1 = the month when conflict did occur	
Exchange rate (US Dollar)	$USD = \frac{USD_t - USD_{t-1}}{USD_{t-1}}$	Ministry of Trade
Dow Jones Islamic Market World Index (DJIMI)	$DJMI = \frac{DJMI_t - DJMI_{t-1}}{DJMI_{t-1}}$	Yahoo Finance

Source: Author's own

### 3.2. Estimate of Volatility Using the GARCH Model

The GARCH model serves as the analytical model in this research. It was first developed by Bollerslev (1986) to generalize the ARCH model. The GARCH model fixes the problems with the ARCH model by adding lagged conditional variance terms as autoregressive terms (Asteriou & Hall, 2021). GARCH includes the conditional variance as autoregressive. In the GARCH model, the conditional residual variance ( $H_t$ ) is influenced by the previous period's residuals and the previous period's conditional residual variance. The GARCH model assumes that there is no difference in the impact on volatility when positive or negative shocks occur (Sari *et al.*, 2018). We use the following model for the return mean equation:

$$Return_t = \alpha + \beta_1 USD_t + \beta_2 DJMI + \mu_t$$

The residual ( $\mu_t$ ) is assumed to be normally distributed independently and identically with a mean of zero and a constant variance ( $\sigma^2$ ). Meanwhile, the variance model used for JII return volatility is as follows:

$$H_t = \gamma_0 + \sum_{i=1}^p \gamma_i \mu_{t-i}^2 + \sum_{j=1}^q \delta_j h_{t-j} + CCI + Israel - Palestine\_conflict$$

The selection of variables in the return equation ( $return_t$ ) and variance equation ( $H_t$ ) is based on their specific impact and relevance to the returns and volatility of JII. The US dollar (USD) exchange rate and the Dow Jones Islamic Market Index (DJIMI) were chosen due to their direct influence on JII returns through market

expectations and international capital flows. Meanwhile, the CCI and the Israel-Palestine conflict were included in the variance model to capture the economic and geopolitical factors affecting market uncertainty and overall stock market volatility.

## 4. RESULTS AND DISCUSSION

### 4.1. Descriptive Statistics

Table 2 illustrates the descriptive statistics of the collected data. The data consists of 725 observations covering five variables over 145 months between January 2012 and February 2024.

Table 2: Descriptive Statistics

Variable	Mean	Median	Min	Max	Std. Dev.
JII	0,007178	0,007594	-0,12266	0,132527	0,044693
CCI	114,5859	117,1392	77,31318	128,9378	11,83324
Israel-Palestine Conflict	0,034483	0	0	0	0,183098
USD	626,1153	0,001729	-0,99991	10359,73	2443,346
DJIMI	3.828,565	3.579,86	2.067,38	6.454,14	1.252,622

The table above indicates a declining trend in the Indonesian stock market during the observation period. The average return value of 0.007178 indicates this. Meanwhile, the standard deviation of the return at 0.044693 suggests a relatively volatile market. The CCI as a consumer indicator fluctuates, as indicated by the standard deviation value of 11.83324, with a minimum value of 77.31318 and a maximum value of 128.9378. We have set the dummy variable for the Israel-Palestine conflict for five observations, spanning from October 2023 to February 2024; the observations are still ongoing. As for the control variables, USD and DJIMI exhibit high volatility at 2,443.346 with a standard deviation of 1,252.622 compared to the respective average values of 626.1153 and 3,828.565.

### 4.2. GARCH (1,1) Volatility Modeling

Table 3 displays the regression results of the GARCH (1,1) model to model the volatility of returns of JII.

Table 3: GARCH (1,1) Test Result

	Coefficient	Std. Error	Prob.
<b>Mean Equation</b>			
C	0.042728	0.031816	0.1793
USD	-8.68E-07	1.57E-06	0.5791
DJIMI	-0.019714	0.106008	0.8525
<b>Variance Equation</b>			
$\gamma^0$	0.006414	0.000986	0.0000
ARCH( $\gamma_1$ )	0.219359	0.074261	0.0031
GARCH( $\delta_1$ )	-0.920898	0.061787	0.0000
CCI	-0.000338	0.000271	0.2128
Israel-Palestine Conflict	0.008025	0.031816	0.1793

The analysis of the mean equation indicates that fluctuations in the value of the US dollar do not have a significant impact on the returns of JII. This indicates that changes in USD value do not directly affect the performance of the sharia stock market in Indonesia. Additionally, DJIMI, which represents the global stock market, does not have a significant influence on JII returns. Although DJIMI reflects global market conditions, it is evident that changes in this index do not significantly affect the performance of the Indonesian sharia stock market. These findings affirm that external factors such as currency fluctuations and global market conditions may have a limited impact on the sharia stock market in Indonesia, while other factors such as domestic economic internal factors, market regulations, or local investor sentiment may have a greater influence on the movement of sharia stock prices in Indonesia. Based on the variance equation section in Table 3, the GARCH (1,1) volatility model can be written as follows:

$$h_t = 0.006 + 0.92u_{t-1} - 0.0003CCI + 0.008Israel - PalestineConflict$$

The ARCH coefficient ( $\gamma_1$ ) represents the volatility information effect from the previous period, and the GARCH coefficient ( $\delta_1$ ) measures the impact of conditional variance from the previous period. The ARCH coefficient shows a positive and significant value, indicating that changes in volatility from the previous period are statistically positively related to changes in future volatility. In other words, an increase in volatility in the previous period tends to contribute to an increase in future volatility. Meanwhile, the GARCH coefficient shows a negative and significant value, indicating a significant relationship between the conditional variance from the previous period and future volatility, but in the opposite direction. In this

context, the negative value indicates that changes in the conditional variance from the previous period are associated with a decrease in future volatility.

#### **4.3. Effect of Investor Sentiments on Stock Return Volatility**

Stock return volatility plays a key role in investors' investment strategies as it reflects the risk associated with the investment (See-To and Yang 2017). It helps investors to make informed decisions, such as determining the right time to buy, sell, or hold on to their stocks (Uygur and Tas 2014). However, the findings from this study suggest that behavioral factors have not played a crucial role in determining the level of stock volatility. This is evidenced by the coefficient value of the CCI variable of -0.000338 with a probability value of 0.2128.

Basically, investors' beliefs and expectations about the future do not have the full potential to trigger significant increases or decreases in stock prices. While investor sentiment can influence stock price movements in the short term, this study shows that its impact on stock volatility is not what might be expected. This highlights the complexity of factors that may influence the stock market, where behavioral aspects are only one of the many variables involved. Factors such as company fundamentals, macroeconomic conditions, monetary policy, and other external factors also play a role in determining the level of stock volatility (Chakraborty and Subramaniam 2020).

Different results were shown by the study conducted by Rupande et. al (2003) which stated that investor sentiment affects stock return volatility. According to that study, investor sentiment is often influenced by noise traders who make decisions based on emotions or information irrelevant to market fundamentals. This can cause price fluctuations that do not reflect the intrinsic value of assets, thereby increasing market volatility. The differences in the results of these studies may be due to differences in proxies, periods, and market contexts.

#### **4.4. Effect of Israel-Palestine Conflict on Stock Return Volatility**

The highly connected nature of stock markets means that geopolitical tensions in one area can affect the volatility of stock returns globally (Hassounah, et al. 2018, Khan, et al. 2023). However, this study shows that the coefficient related to the Israel-Palestine conflict does not have a significant impact on the Indonesian Islamic stock market. This is evidenced by the Israel-Palestine conflict variable coefficient value of 0.008025 with a probability value of 0.1793. The results of this study indicate that investors in the sharia stock market, particularly in Indonesia, tend to make decisions based on fundamental analysis rather than emotional

reactions to specific news or events.

The Indonesian sharia stock market's response to this conflict does not tend to generate negative sentiment among investors, as reflected in the relatively low volatility of stock returns. The market may have better resilience to the impact of certain geopolitical conflicts, specifically the Israel-Palestine conflict. Factors contributing to this resilience may include stable government policies, strong domestic economic conditions, and the unique characteristics of the sharia capital market itself (Pandey, *et al.* 2024). Additionally, other factors such as sustainable economic growth, robust capital market regulations, and high participation rates from domestic investors may play a role in the resilience of the sharia stock market to the impacts of the Israel-Palestine conflict. These findings provide insights for stock market decision-makers to understand the dynamics and resilience of the Indonesian sharia stock market in facing sensitive global geopolitical events. Through a better understanding of the factors influencing the market, decision-makers can determine more appropriate measures in responding to unstable market conditions due to geopolitical conflicts.

Gheorge & Panazan (2023) found differently, identifying that geopolitical conflicts do affect stock return volatility in various countries, although their study specifically referred to the Russia-Ukraine conflict. They found that the Russia-Ukraine conflict influences stock market volatility due to several key factors. The political, economic, and financial uncertainty resulting from the conflict causes negative reactions in the stock market. Additionally, geographic proximity to the conflict zone plays an important role, with countries closer to Ukraine tending to experience higher volatility. Sanctions imposed on Russia by various countries and international organizations also contribute to market instability. The differences in the results of these studies may be due to geographic, economic, and involvement differences of the countries in question.

## 5. Conclusion

The main objective of this research is to explore the impact of investor sentiment and the Israel-Palestine conflict on the volatility of sharia stock returns in Indonesia. To analyze investor sentiment, this study uses the CCI, while the volatility of sharia stock returns is represented by JII. Additionally, this research includes the exchange rate of the Indonesian Rupiah against the USD and DJIMI as indicators of the global market. The method used in this research is the GARCH model, which has been proven to be most suitable for measuring return volatility in

the stock market as it can handle the characteristics of time series data that tend to be heteroskedastic and have dependencies on past and present fluctuations. The GARCH model provides an appropriate framework for analyzing volatility in the stock market, which is crucial in identifying risks and making better investment decisions.

The research results indicate that, contrary to expectations, the CCI does not show a significant impact on dampening the volatility of sharia stock returns in Indonesia. This suggests that, although investor sentiment can influence stock price movements in the short term, its impact on stock volatility is not as significant as previously thought. Additionally, the study reveals that geopolitical conflicts, such as the Israel-Palestine conflict, do not affect the volatility of sharia stock returns in Indonesia. These findings highlight that the sharia stock market may have good resilience against the impact of sensitive geopolitical events. This could be due to a variety of factors, including domestic economic stability, appropriate government policies, and the characteristics of the sharia capital market itself. Furthermore, the study concludes that the global market, as proxied by the USD exchange rate and DJIMI, does not have a significant impact on sharia stock returns in Indonesia. This indicates that, although there is a connection between global and local stock markets, other factors may have a greater influence on the movement of sharia stock prices in Indonesia.

The findings that investor sentiment and the Israel-Palestine conflict do not affect sharia stock returns have several positive implications for various parties, including investors, regulators, and the general public. For investors, this can strengthen their confidence in the sharia stock market, allowing them to feel more assured that external factors, such as political sentiment and conflict, will not significantly disrupt investment performance. This research also directs investors to pay more attention to company fundamentals when making investment decisions, rather than focusing too much on temporary political turmoil or market sentiment. Additionally, regulators can formulate policies that support the development of the sharia capital market and provide protection to investors. These findings can also strengthen public trust in sharia investment instruments and encourage overall growth in the sharia capital market. If sharia stock investments are proven not to be affected by external factors such as political conflicts, investors may be encouraged to allocate more of their portfolios to financial instruments that comply with sharia principles.

The limitations of this study lie in the availability of research data, especially

in the context of the Israel-Palestine conflict. This limitation hinders the analysis of the conflict's impact on sharia stock volatility. While this study was being developed, between October 2023 and February 2024, the latest phase of the Israel-Palestine conflict was only five months' old. Although there are concerns about its potential impact on financial markets, this period is not sufficient to observe its long-term effects on sharia stock volatility. In such a short time frame, it is challenging to identify consistent patterns or trends. Therefore, to obtain a more accurate picture of the impact of the Israel-Palestine conflict on the sharia stock market, more extensive and in-depth research is needed, such as using a daily observation period. With a longer observation period, researchers can identify and analyze clearer trends in market responses to developments in the conflict.



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