

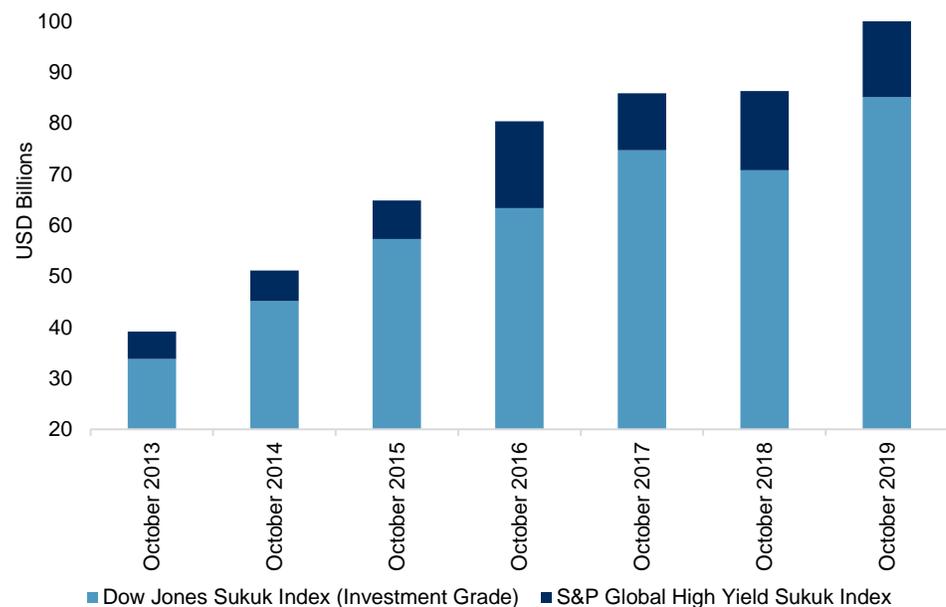
The Development of the Global Sukuk Market from an Indexing Perspective

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The global sukuk market has enjoyed tremendous growth since 2013. As measured by the [Dow Jones Sukuk Total Return Index](#) and the [S&P Global High Yield Sukuk Index](#), the U.S. dollar-denominated sukuk market experienced a compound annualized growth rate of nearly 18%, driven by increased issuance from sovereigns and supranationals, as well as strong investor demand for Shariah-compliant securities. Historically, the majority of issuance has come from Saudi Arabia and Malaysia; however, the past three years have witnessed an increasing number of issuers from new markets, as well as a deeper and broader investor base.

Exhibit 1: Growth of the Global Sukuk Market



Source: S&P Dow Jones Indices LLC. Data as of October 2019. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

This article was first published in Islamic Finance news Investors Report 2020.

The global sukuk market has enjoyed tremendous growth since 2013.

The recent growth of the global sukuk market is likely to accelerate, as GCC issuers are poised to refinance in order to fund increasing deficits and as new entrants continue to come to market. Most notably, several African sovereigns will likely enter the market in 2020, and Egypt has set up a Shariah supervisory committee to oversee sukuk issuance. Furthermore, corporate issuers in both Indonesia and Malaysia have begun to shift funding sources away from traditional bonds in favor of sukuk.

The relatively nascent green sukuk initiative could also stimulate issuance, as efforts to combat climate change gain traction, building on the inaugural green sukuk transactions in Malaysia and Indonesia. The most recent green sukuk transaction was a USD 750 million issuance from the government of Indonesia earlier in 2019. The Indonesian government also issued the world's first sovereign green sukuk, a USD 1.25 billion five-year instrument, to finance green projects.

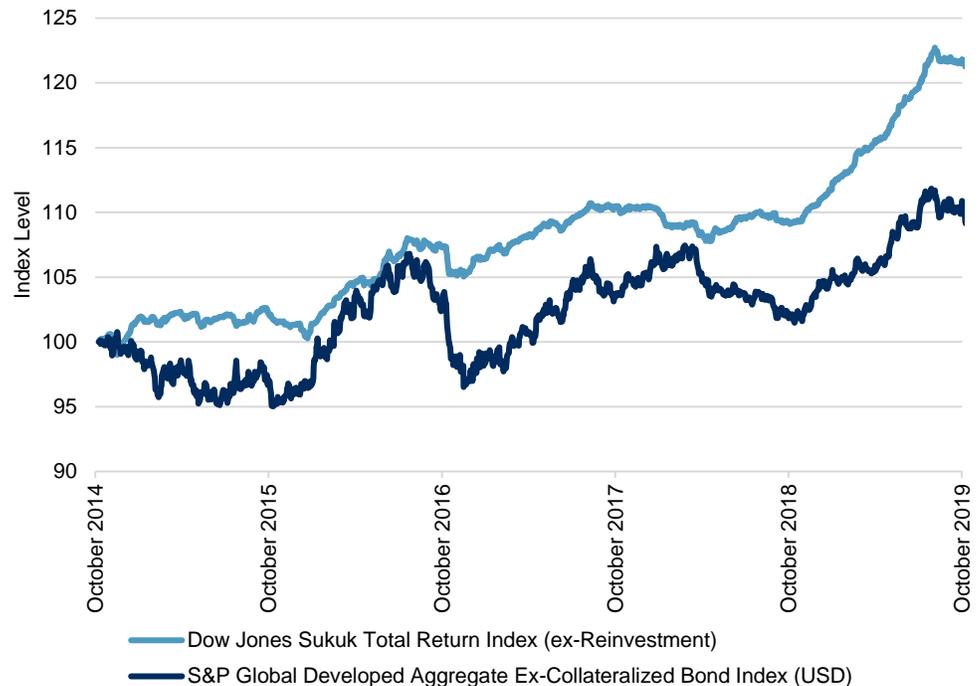
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From an investor perspective, sukuk garnered some of the best performance of all global fixed income asset classes over the past five years. As of Oct. 31, 2019, the Dow Jones Sukuk Total Return Index had a YTD performance of 10.14%, while the S&P Global High Yield Sukuk Index returned 11.75%. Compared to the [S&P Global Developed Aggregate Ex-Collateralized Bond Index](#), the Dow Jones Sukuk Investment Grade Total Return Index outperformed by over 300 bps over the same period. Taking volatility into account, the Dow Jones Sukuk Total Return Index had a five-year risk-adjusted return that was more than triple that of the S&P Global Developed Aggregate Ex-Collateralized Bond Index.

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The strong risk-adjusted performance could be attributed to a number of factors inherent to sukuk, including the quality of most sukuk issuers and the characteristics of the sukuk securitization process. Many sukuk issuers are sovereign nations, supranationals, and other government-related entities. The high-quality nature of issuers supports the strong credit fundamentals of the underlying sukuk structure. Some market participants also point to the Shariah prohibition of *riba* (interest) and *gharar* (uncertainty). In lieu of interest, the return to an investor must be linked to profits and derived from a shared risk assumed by both the issuer and investor, unlike traditional bonds, in which the degradation of an issuer's credit fundamentals materially affects the probability of repayment of interest or principal.

Exhibit 2: Performance Comparison



The sukuk market could grow significantly in the near term.

Sovereign issuers could tap the sukuk market for funding needs.

It is expected that sukuk will attract the attention of some of the world's largest and most significant institutional investors.

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Looking ahead, the sukuk market could grow significantly in the near term, as key Islamic capital markets continue to enhance the issuance standards and structures and strengthen regulatory requirements. With global yields nearing all-time lows and increasing concerns over slowing global growth, sovereign issuers could tap the sukuk market for funding needs—especially if oil prices stay moderate or turn lower.

While the sukuk market's support will continue to come primarily from investors based in the Muslim world, it is expected that sukuk will attract the attention of some of the world's largest and most significant institutional investors in the U.S., Europe, and Asia, as many may view sukuk as an effective way to invest in some of the fastest-growing regions of the world.

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The S&P Global High Yield Sukuk Index was launched March 22, 2018. The S&P Global Developed Aggregate Ex-Collateralized Bond Index (USD) was launched July 5, 2016. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at www.spdji.com. Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown.

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