



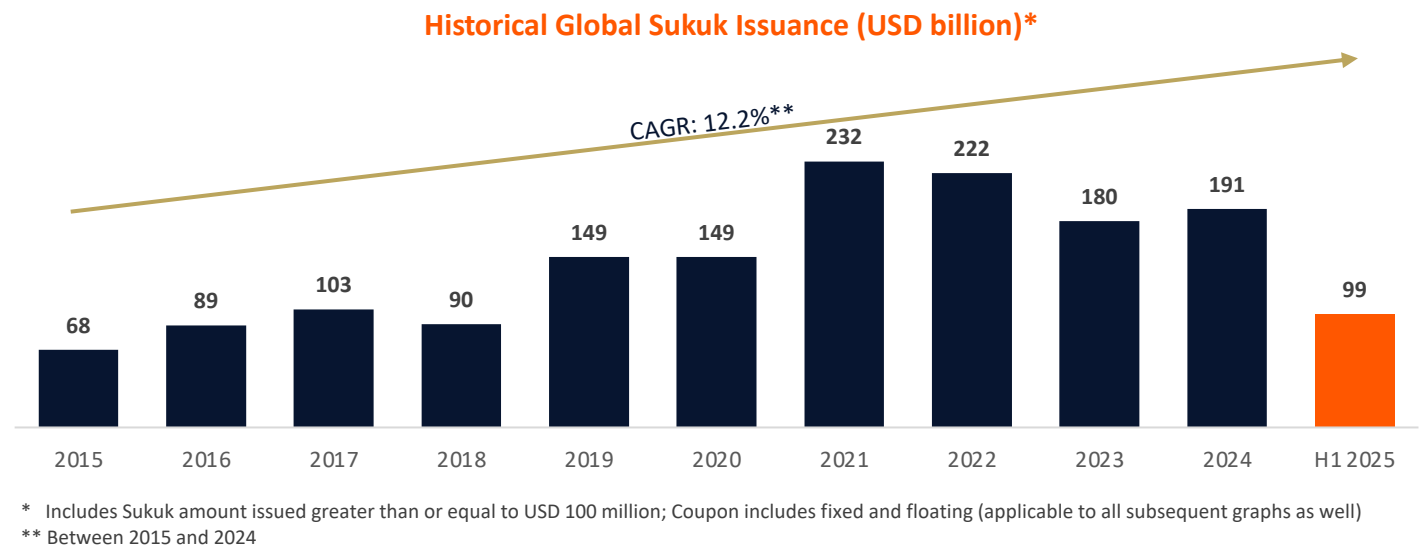
Evolving Beyond Niche: Sukuk's Growing Role in Global Fixed Income

October 2025

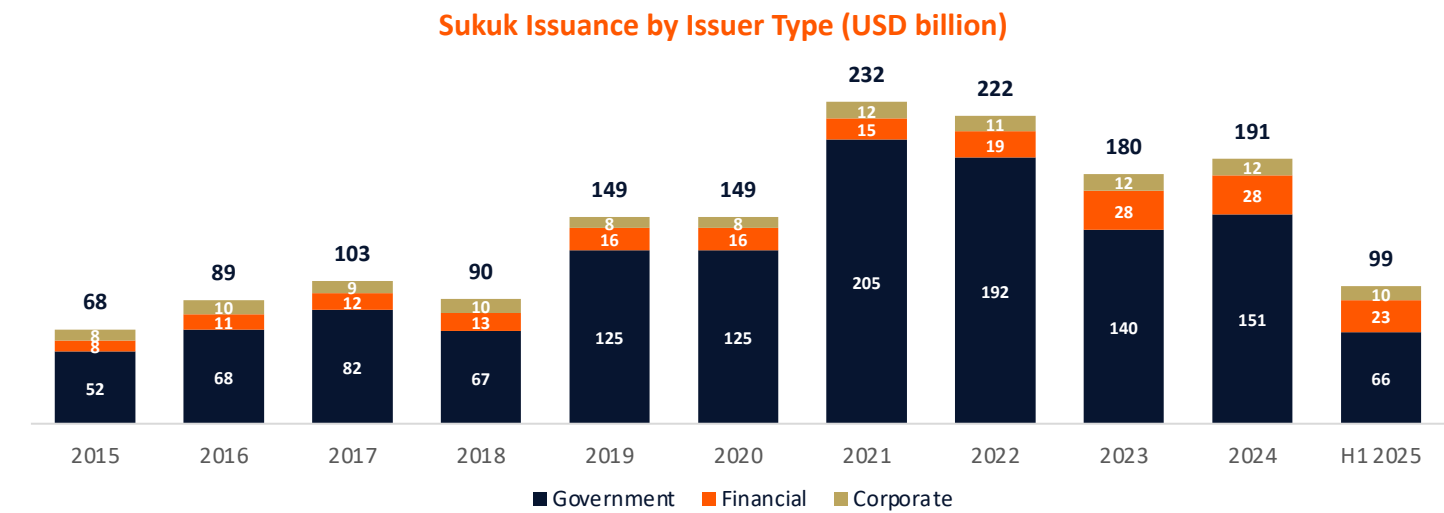
To date, the Sukuk market has surpassed USD 1 trillion and evolved from a niche instrument confined to Islamic finance circles to a challenger to conventional fixed income, capturing the attention of both Shari’a-compliant as well as traditional global investors.

In particular, the Sukuk market has grown significantly over the past decade, attracting the attention of both Shari’a-compliant and traditional global investors. This growth has been characterized by an evolving financial landscape, the diversification of funding sources, infrastructure development initiatives, and government-backed programs.

Annual Sukuk issuance nearly tripled from USD 68 billion in 2015 to USD 192 billion in 2024, reflecting rising demand for fixed income instruments, deeper domestic markets, and active sovereign funding. In 2021, the market hit USD 232 billion, fueled by economic recovery post-COVID, increased debt market liquidity, low rates, and strong investor appetite. Issuance volumes declined to USD 180 billion in 2023 amid tightened liquidity conditions in large markets such as Saudi Arabia’s banking sector. A modest recovery followed in 2024, driven by strong growth in foreign currency issuances that helped offset weaker activity in local currency Sukuk. In H1 2025, global Sukuk issuances reached USD 99 billion, supported by resilient demand and gradual easing in global liquidity.



Sukuk issuances are typically divided into three main categories: sovereign, financial, and corporate. From 2015 through H1 2025, the market has been consistently led by sovereign issuers, contributing approximately 81% of total Sukuk issuance. Financial institutions accounted for about 12%, while corporate issuers represented the remaining 7%. The Sukuk market continues to be led mainly by sovereign issuers, though increasing activity from financial and corporate issuers signals ongoing diversification.



1. Buying a Sukuk

- Clients can invest in Sukuks through their **bank** or a **brokerage account**
- When you buy a Sukuk, you receive a **certificate** representing your investment
- In the majority of Sukuk issuances, the **minimum investment amount** is typically **USD 200,000**, with additional subscriptions and partial sales allowed in **USD 1,000 increments**
- **Investors can participate in a basket of Sukuk via ASB Capital's Xtrackers Sukuk ETF: [XASB*](#)**

2. Where Your Money Goes

- Your funds are typically used to finance **asset-backed** or **asset-based** projects issued by **governments (sovereigns)** or **companies (corporates)**

3. Key Features of a Sukuk

- Each Sukuk has the following components:
 - **Price:** The cost to buy a unit of a Sukuk (e.g., \$99). Face (par) value is usually \$100
 - **Underlying:** The issuer using your funds (e.g., Malaysian government or a telecommunications company)
 - **Profit Rate:** The rate you'll earn (e.g., 5.00%), most commonly paid semi-annually
 - **Tenor:** The term or length of the investment (e.g., until 1 September 2030)
 - **Seniority:** Indicates the **priority of repayment** in the event of a credit event (e.g., default). The higher the seniority, the **greater the claim** on the issuer's assets or repayment during a default. Common ranks include:
 - Secured
 - Senior Unsecured
 - Subordinated
 - Junior Subordinated

4. How Returns Are Generated

- You receive **profit payments**. These are often quoted as per annum returns
- Example: A 5.00% profit rate means you receive **2.50% every 6 months**
- At maturity, you get back your **initial investment**, unless there's a credit event

5. Risk and Return

- The **profit rate** is determined by:
 - Issuer **credit quality** (reflecting the likelihood of timely repayment)
 - Benchmark **profit rates** at the time of issuance
- In the event of a **default or credit event**, both your **principal and profit payments** are at risk

6. Understanding Yield

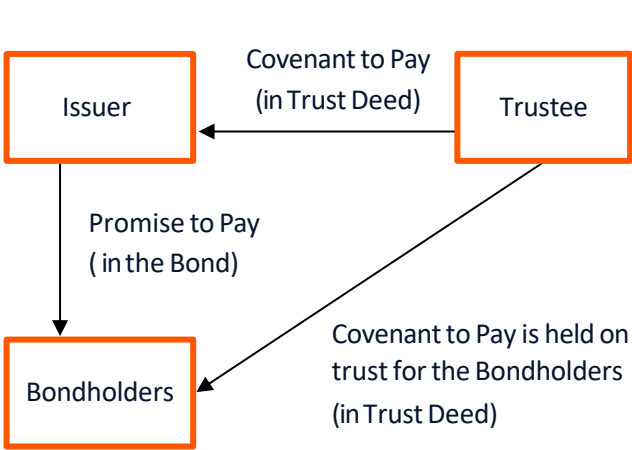
- **Yield** is your actual return over time
- It depends on the **purchase price** and the **profit rate**
 - Example: Buying below \$100 (discount) increases your yield
 - Buying above \$100 (premium) lowers your yield

**Available to purchase from 4th November 2025*

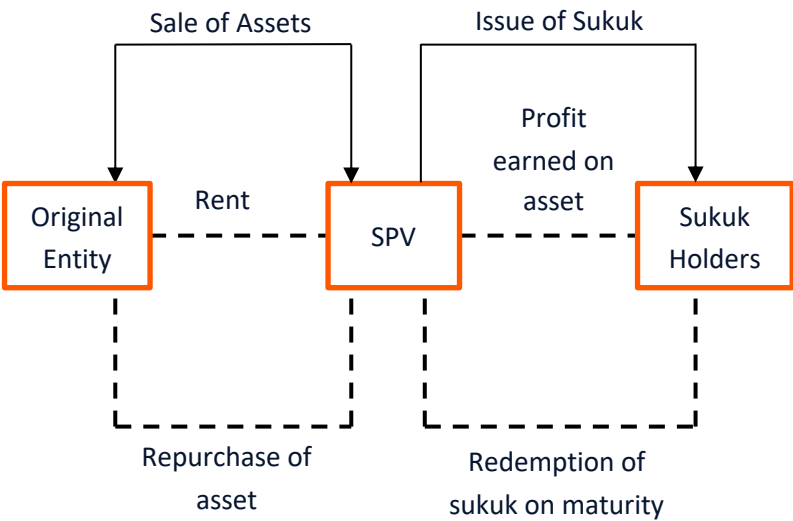
Key Differences Between Sukuk and Conventional Bonds

Parameter	Sukuk	Bonds
Shari’a Compliance	Fully compliant; prohibits interest and speculative uncertainty	Not governed by Shari’a; permits interest and conventional debt financing
Underlying Structure	Asset-backed or asset-based; investors hold undivided beneficial ownership	Traditional debt instruments; constitutes a loan to the issuer
Returns	Based on profit or rent generated from underlying assets	Fixed or floating interest payments (coupons)
Use of Proceeds	Confined to permissible economic activities	Can fund activities that are non Shari’a-compliant
Risk Sharing	Both issue and investor share exposure to the performance of the underlying assets	Credit risk lies entirely with issuer; principal and interest fixed
Valuation Basis	Based on market value of underlying asset	Based on issuer’s creditworthiness and rating
Asset Ownership	Investors have partial ownership of the asset	Investors have no ownership; only creditor claim
Tradability	Tradable if structured as asset-backed with defined ownership rights	Widely tradable across global capital markets
Investor Base	Appeals to both Shrai’a-compliant and socially responsible investors	Broad investor base, primarily conventional investors
Market Liquidity	Less liquid in comparison to bonds	More liquid in global markets

Conventional Bond Structure



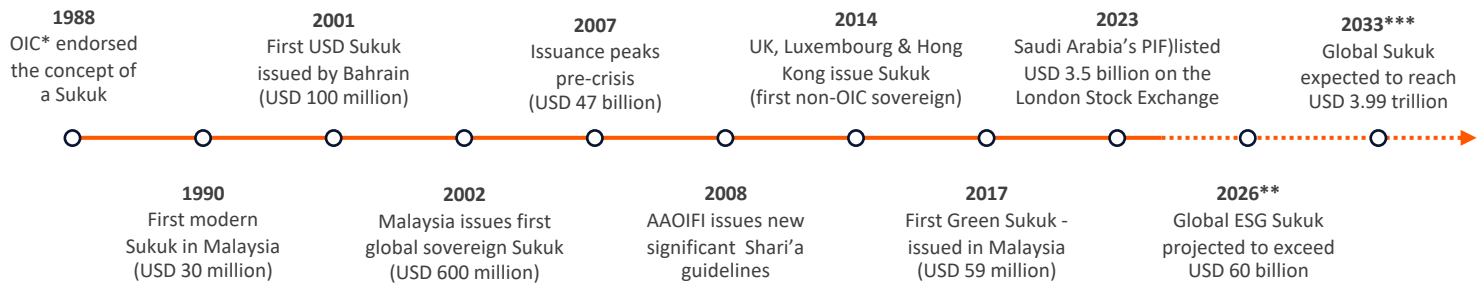
Sukuk Bond Structure



What are Sukuk?

Sukuk are Shari’a-compliant financial instruments that allow issuers to raise capital without interest-based obligations. Unlike traditional bonds, which are debt-based instruments representing a loan from the investor to the issuer, Sukuk are structured so that the issuer uses the raised funds to acquire an asset (such as real estate or operating assets) and grants investors partial ownership. Consequently, investors receive a portion of the income or returns generated by the underlying asset.

The Evolution of Sukuk



* Organization of Islamic Cooperation
** As per Fitch report dated July 2025, ESG Sukuk Market to Surpass USD 60 billion by 2026
*** As per IMARC report dated February 2025, the global sukuk market forecasted to reach USD 3.99 trillion by 2033

Types of Sukuk by Contract Structure

Below is an overview of the seven main types of Sukuk, categorized according to their underlying contract. Each structure presents unique characteristics and risk–return profiles tailored to different investment objectives.

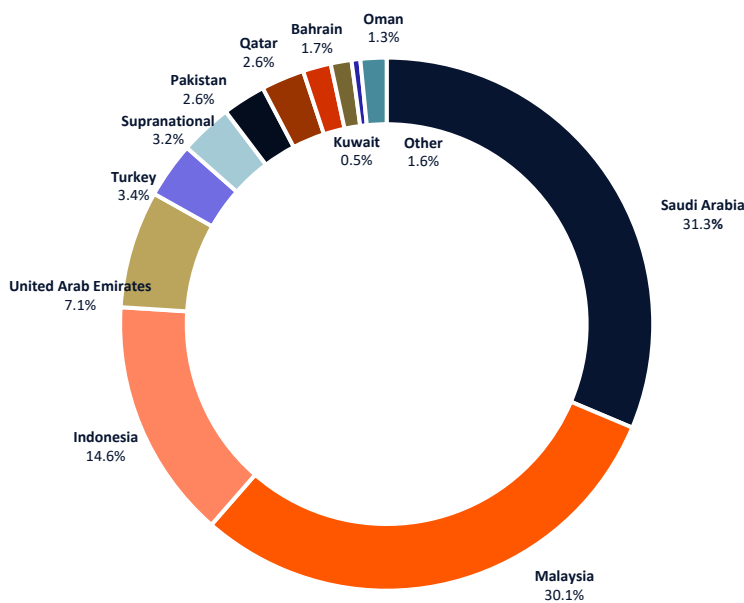
Contract Name	Sukuk Type	Description	Key Characteristics
Wakalah	Agency	Investors designate an agent to deploy funds in targeted investments	Returns are targeted but not guaranteed; the agent may receive a performance-based fee
Ijarah	Lease	Investors hold ownership of the underlying leased assets and earn income through rental payments	Generates periodic lease income, backed by tangible assets
Murabahah	Cost-Plus	Funds finance the purchase of goods, subsequently sold with a profit on deferred payments	Considered a debt-type instrument; typically non-tradable after issuance
Mudarabah	Profit-Sharing	Capital is provided by investors, with the entrepreneur responsible for managing the venture	Profit are distributed according to the agreed terms; losses are borne by investors unless due to negligence
Musharakah	Partnership	A joint venture where partners contribute capital and share both profits and losses	Profit are distributed according to the agreed terms while losses are proportional to each investor’s capital contribution
Bay’ al-istisna’	Manufacturing	Contract for advance funding payment for the supply of manufactured or infrastructure assets	Financing of a manufactured or constructed asset, with payments staged over the project life and profit agreed in advance
Hybrid Sukuk	Hybrid Sukuk	Combines two or more contracts (for example, Ijarah and Murabahah)	Used to tailor risk/return profiles; supports complex financing needs

Current Market Landscape: Geography and Sector Allocation

Geography

The Sukuk market continues to be relatively concentrated, with a few jurisdictions accounting for the majority of issuance. Between 2011 and H1 2025, more than 90% of the USD 867 billion in outstanding Sukuk was concentrated in a limited number of key markets, namely the GCC region (44.6%), Malaysia (30.1%), Indonesia (14.6%), and Turkey (3.4%). Nevertheless, other jurisdictions are emerging and increasingly engaging in the Sukuk market – these include the US, the UK, Hong Kong, Singapore, Ireland, France, Luxembourg, Egypt, Nigeria, Bangladesh, Philippines, Maldives, and other countries across Africa. This growth in new Sukuk markets is expected to accelerate, supported by rising demand and tighter pricing resulting by consistent oversubscription in primary issuance.

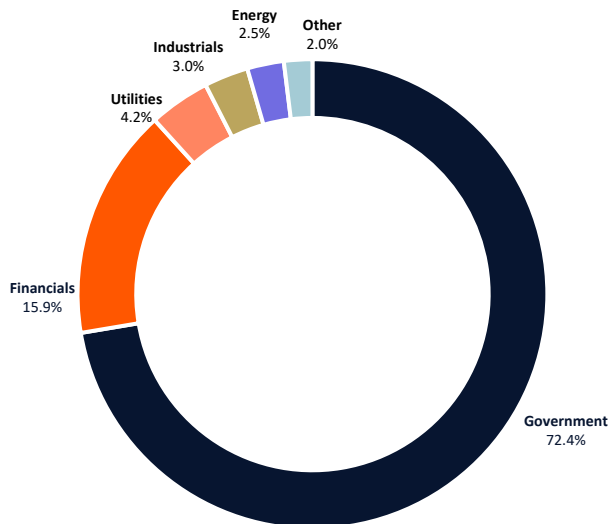
Sukuk Outstanding by Geography



Sector Allocation

Over two thirds of the Sukuk outstanding have been issued by sovereign governments. The Saudi government leads the market, accounting for 31.1% of total Sukuk outstanding. Malaysia follows closely with 26.8%, reflecting its established Islamic finance ecosystem and deep investor base, while Indonesia contributes 20.1%, underscoring the government’s commitment to funding development and infrastructure projects. Beyond sovereign issuers, the participation of financial institutions stands at 15.9% of total issuance, largely from banks and other institutions within the industry seeking to strengthen capital and liquidity. The Utilities sector (4.2%) is emerging as a notable issuer, particularly to fund energy transition and infrastructure projects, while Industrials (3.0%) and Energy (2.5%) play smaller but steady roles.

Sector Allocation

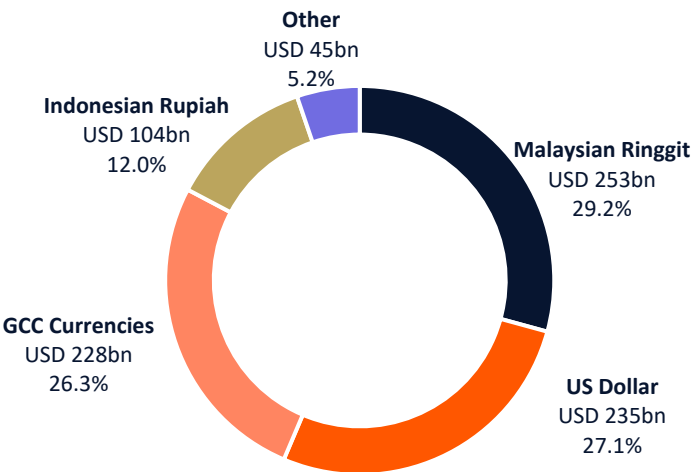


Current Market Landscape: Currency, Credit Quality and Default

Issuance Currencies

Between 2011 and H1 2025, the Malaysian Ringgit has been the leading Sukuk issuance currency, representing 29.2% of the global Sukuk market. The US dollar follows closely with 27.1%, reflecting its central role in facilitating cross-border Sukuk transactions. Within the GCC, currencies collectively represent around 26.3% of total global outstanding issuances, led by the Saudi Riyal (23.0%) with issuances in the Kingdom underpinned by the domestic infrastructure programs aligned with Saudi Arabia’s Vision 2030, while the Qatari Riyal (1.7%) and UAE Dirham (1.0%) contribute smaller shares. Nevertheless, the gradual entry of other currencies indicates increasing diversification as more jurisdictions develop and expand their Sukuk frameworks.

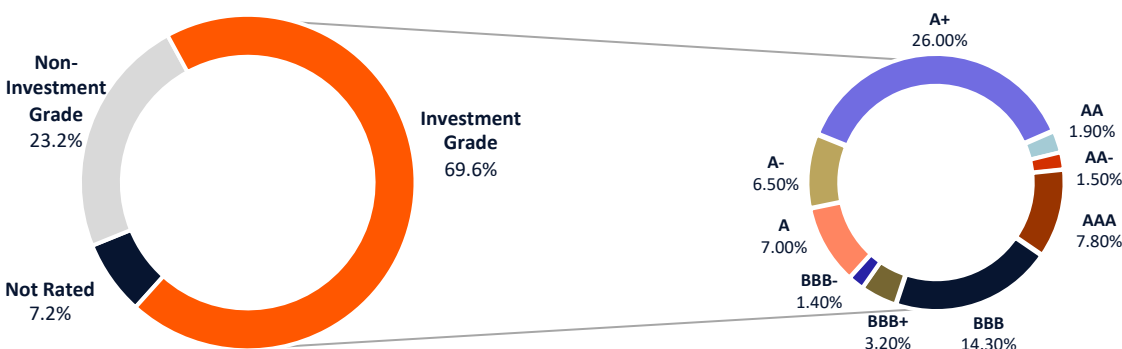
Sukuk Issuance by Currency



Credit Quality

The global Sukuk market continues to exhibit a robust credit profile, with USD-denominated issuances totaling USD 235 billion. Investment-grade Sukuk comprise 69.6%, with the largest portion (39.5%) rated ‘A’, reflecting the strong but mid-tier credit quality of most issuers, while 7.8% are rated ‘AAA’ and 3.4% ‘AA’. A further 18.9% are rated ‘BBB’, representing issuers at the lower end of the investment-grade spectrum. On the non-investment-grade side, which accounts for 23.2% of total USD Sukuk outstanding, the bulk is concentrated in the ‘BB’ category of 14.5%, highlighting moderate credit risk but still reflecting a relatively stable profile compared to speculative-grade corporate debt globally.

USD Denominated Sukuk by Rating



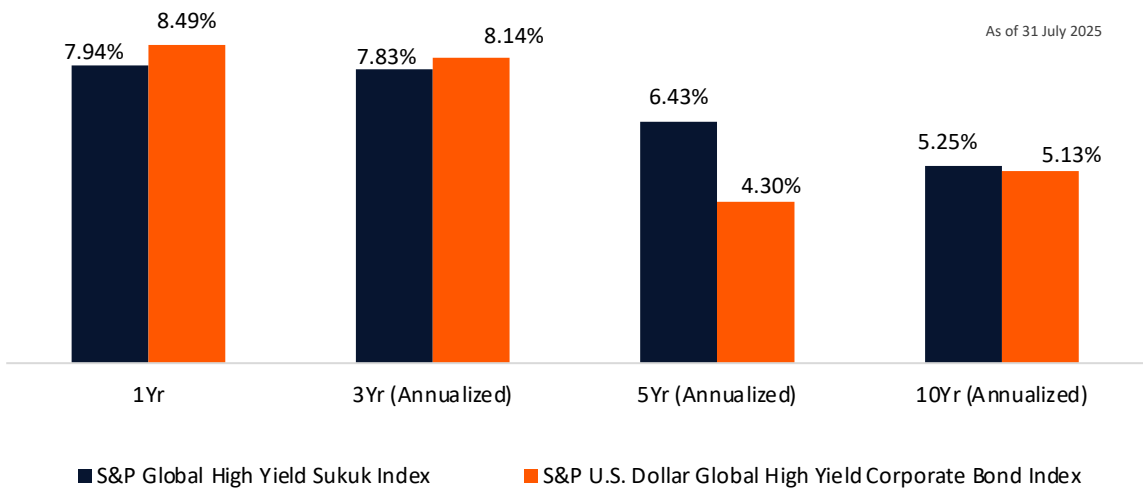
Default

Sukuk markets have shown demonstrated notable resilience compared with conventional bonds. According to S&P Global, between 2000 to 2024, global Sukuk markets experienced a default rate of just 0.2%, compared to an average annual default rate of 2% for conventional bonds. Notably, no sovereign Sukuk have defaulted to date, whereas sovereign has defaulted in conventional bond markets. By comparison, global corporate bonds have exhibited significantly higher levels of credit stress, with average annual default rates of around 1.6% during 2000 to 2024. However, that difference is not the result of seniority differences between Sukuk and conventional bonds; in practice, Sukuk are considered to carry the same default risk as an equivalent conventional bond from the same issuer. Rather, the Sukuk market is skewed toward relatively high-quality sovereign issuers as well as large banks and corporations with investment-grade credit rating.

Sukuk vs Conventional Bonds

Over the previous 5-year period, high-yield Sukuk have notably outperformed conventional high-yield corporate bonds, delivering an annualized return of 6.43% compared to 4.30%, highlighting their strong performance. Many Sukuk issuers are sovereign entities or benefit from substantial government support, particularly in regions such as the GCC, which contributes to lower default risk. Additionally, Sukuk’s asset-backed and Shari’a-compliant structures generally avoid excessive leverage and speculative instruments, contributing to more stable and resilient returns. Over the 10-year horizon, high yield Sukuk marginally outperform high yield corporate bonds with returns of 5.25% versus 5.13%, showing that while the performance gap narrows over time, Sukuk returns maintain a consistent and modest advantage.

High Yield Index Return:
Sukuk vs Corporate Bond

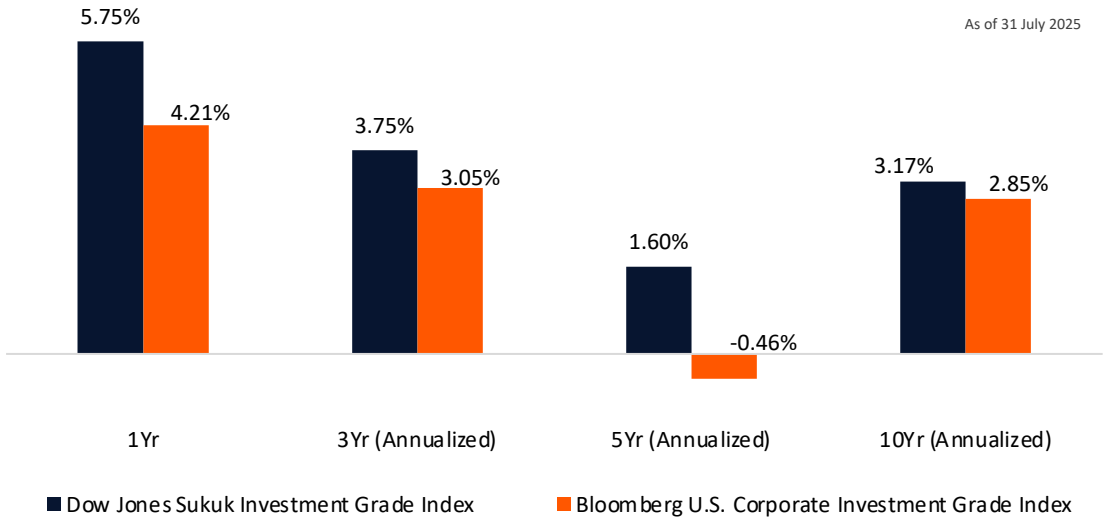


High-yield Sukuk outperformed conventional high-yield bonds, delivering **6.43% annualized returns vs. 4.30%** over five years.

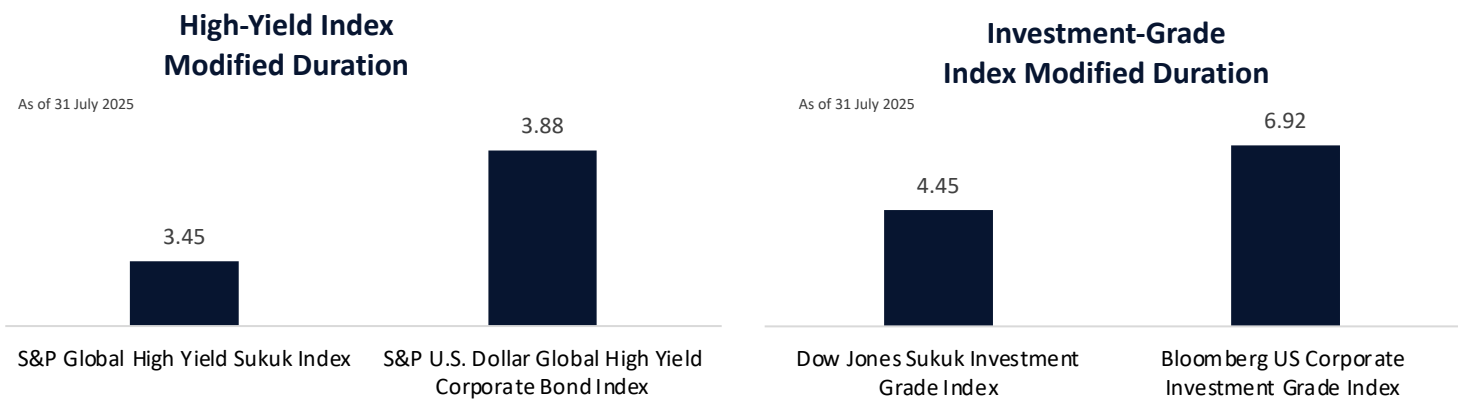
Investment-Grade Issuances

Investment-grade Sukuk have proven their ability to generate stable returns, highlighted by the most recent 5-year horizon in which they yielded positive annualized returns of 1.60%, compared with the -0.46% returns recorded by conventional investment-grade corporate bonds. Across a 10-year horizon, Sukuk demonstrate consistent long-term performance, with returns of 3.17% versus 2.85% for investment-grade corporate bonds, underscoring their capacity for steady income and capital preservation.

Investment Grade Index Return:
Sukuk vs Corporate Bond



Assessing Rate Sensitivity of Sukuk vs. Conventional Bonds



In a landscape that was until recently defined by persistent inflation and rising rates, prudent management of exposure to rate fluctuations is essential. Understanding how rates affect prices of fixed income instruments is important, as prices move in opposite directions to rates.

Take the example of conventional bonds: When rates rise, the prices of existing bonds generally fall because new bond offer higher yields, making existing bonds with lower coupon rates less attractive. Conversely, when rates decline, prices of existing bonds tend to rise. This inverse relationship means that investors holding bonds face the risk of price volatility whenever rates change.

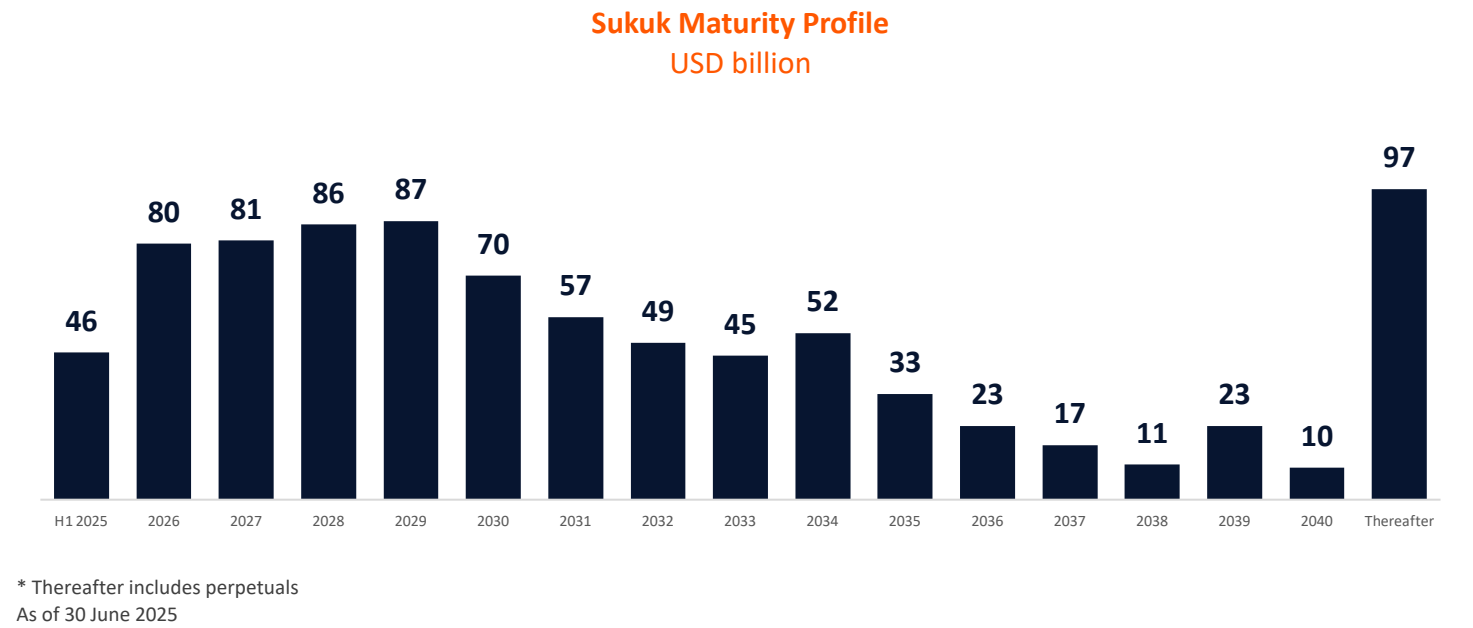
This is where Sukuk stand out. Their unique structure means they tend to be less sensitive to changes in rates compared to conventional bonds. One way to measure this sensitivity is through modified duration, a key indicator that estimates how much a fixed income instrument’s price will change in response to a 1% change in rates. In other words, modified duration quantifies a fixed income instrument’s sensitivity to rates. The higher the duration, the more sensitive it is to rate fluctuations.

As detailed in the chart above, the S&P Global High Yield Sukuk Index exhibits a modified duration of 3.45, while the Dow Jones Sukuk Investment Grade Index stands at 4.45. This indicates that Sukuk prices are anticipated to fluctuate by approximately 3.45% to 4.45% for each 1% change in rates, providing a significant buffer against interest rate volatility.

In comparison, traditional benchmarks such as the Bloomberg U.S. Corporate Investment Grade Index have a longer duration of 6.92, and the S&P U.S. Dollar Global High Yield Corporate Bond Index has a duration of 3.88. These higher durations of conventional bonds indicate a much greater exposure to interest rate changes, meaning their prices will fluctuate more sharply when rates move.

Refinancing remains a key driver of Sukuk issuance. With a large volume of Sukuk set to mature over the medium term, a substantial rollover is expected which will likely be refinanced or rolled into new Sukuk issuances, supporting market activity.

Market analysis indicates that 80% of all outstanding Sukuk are set to mature within the next decade. This concentration of maturities suggests a steady pipeline for Sukuk refinancing, providing liquidity and opportunities for both issuers and investors.



As Sukuk transition from niche instruments to the backbone of Shari’a-compliant fixed income, they offer investors a unique blend of resilience, ethical alignment, and strategic diversification – making them an essential component of modern portfolios.

Issuer’s Perspective	Investor’s Perspective:
• Access to a Wider Investor Base • Funding Diversification and Stability • Alignment with Development Goals • Image and Market Signaling • Cost of Capital Considerations	• Portfolio Diversification • Attractive Risk-Adjusted Returns • Low Correlation with Equities • Exposure to Growth Markets with Lower Risk • Stability from Islamic Bank Demand

Future Outlook:

Positive Growth Trajectory & Expanding Opportunities

USD 190-200 billion

2025 Global Sukuk

Issuance Forecast

USD 60 billion

ESG Sukuk Outstanding

by 2026

2x

Market Size Growth

(Next Decade)

3.5%

Expected US Rates by

Q4 2025

Key Growth Drivers



Strong Market Momentum

Strong H1 2025 performance with sustained growth expected. Market anticipated to double in size over the next decade, supported by new jurisdictions and sectoral participation including entrance Islamic fintech firms.



Favorable Interest Rates

US interest rates expected to decline to 3.5% by Q4 2025, creating supportive conditions for Sukuk issuance and sustaining demand for higher-yielding emerging market instruments.



Sovereign Issuances

Robust sovereign Sukuk activity expected as governments seek alternative financing for fiscal deficit mitigation and economic recovery, particularly in GCC and Southeast Asia.



ESG-Compliant Growth

ESG Sukuk are gaining strong momentum, with 99% carrying an investment-grade rating. Annual issuance is projected to reach USD 10–12 billion by end of 2025, while total outstanding ESG Sukuk are expected to exceed USD 60 billion by end of 2026.



Technology Innovation

Digital Sukuk emergence through blockchain and fintech innovations, enhancing transparency, efficiency, and accessibility while opening new crowdfunding opportunities.



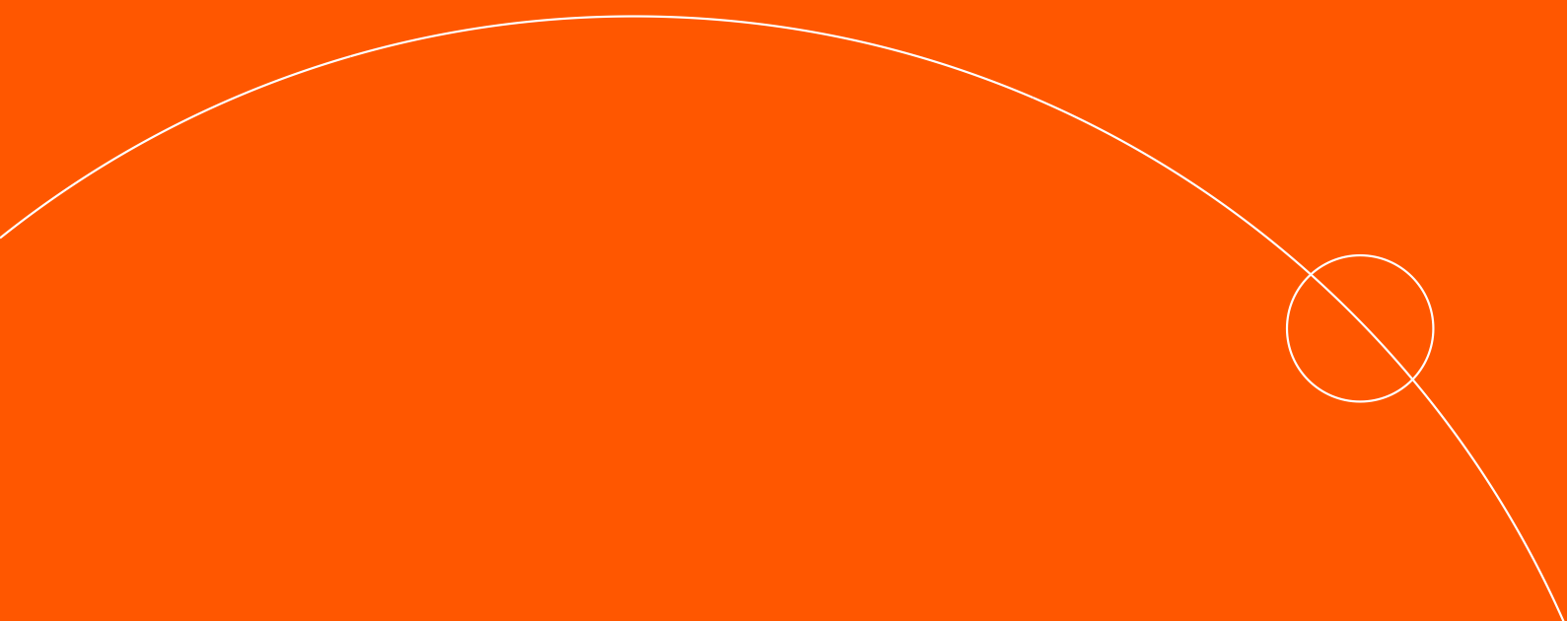
Geographic Expansion

New markets exploring Sukuk for infrastructure financing including Central Asia, Sub-Saharan Africa and Latin America.



Market Standardization

Global standardization initiatives by IFSB and AAOIFI reducing legal complexities and promoting cross-border issuances for enhanced market efficiency.



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