Asset prices are strongly connected to macroeconomic variables even in the presence of investor sentiment. On the other hand, if investor sentiment is a significant determinant in Islamic stock market, it will raise critiques on the need of Shariah compliant markets. Consequently, newer studies should investigate the need of separate capital markets for Muslims. This study examines the level of exposure of conventional and Islamic stock price indices in Malaysia to the relative change in investor sentiment index and macroeconomic factors. The study tested two separate models: one using macroeconomic variables in quarterly time series framework and the other using macroeconomic and sentiment data in a quarterly time series framework. This study reports that interest rates, currency index and FTSE Bursa Malaysia Composite Index pose greater influence on Islamic price index when compared to industrial production, consumer price index, money supply and investor sentiment indices. The results continue an important battery of debates on the requirement of shari‘ah compliant capital market for Muslims. The study unlocks room for new studies on influence of sentiment in Islamic financial industry.

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