



# Sharia bonds: an overlooked diversification opportunity?

Sharia-compliant bonds, or to give them their official name, “sukuk”, are often dismissed as faith-based instruments with limited appeal outside of Muslim-majority markets. However, this misses the opportunity they present for global fixed income investors seeking diversification, resilience, and sustainability.

By Steven Williams, EMEA Head of Global Fixed Income  
10 July 2025

During a recent visit to Dubai, I had the privilege of speaking at a conference on the expanding opportunities in the sukuk market and its natural alignment with sustainable fixed income investing. To appreciate sukuk’s appeal, we must first understand its foundation in Islamic legal and ethical principles.

## How does sukuk comply with Islamic law?

In Islamic finance transactions that involve paying interest, known as “riba” are avoided, as they are inconsistent with ethical and equitable practices. However, sukuk structures address this by placing the borrower’s asset into an independent trust. This trust then pays investors a pre-determined income rather than a fixed coupon. From the investor’s perspective, the result is much the same as standard fixed income investments: periodic distributions and principal repayment, often with comparable risk and return profiles to traditional investment grade credit.

## Issuance remains solid

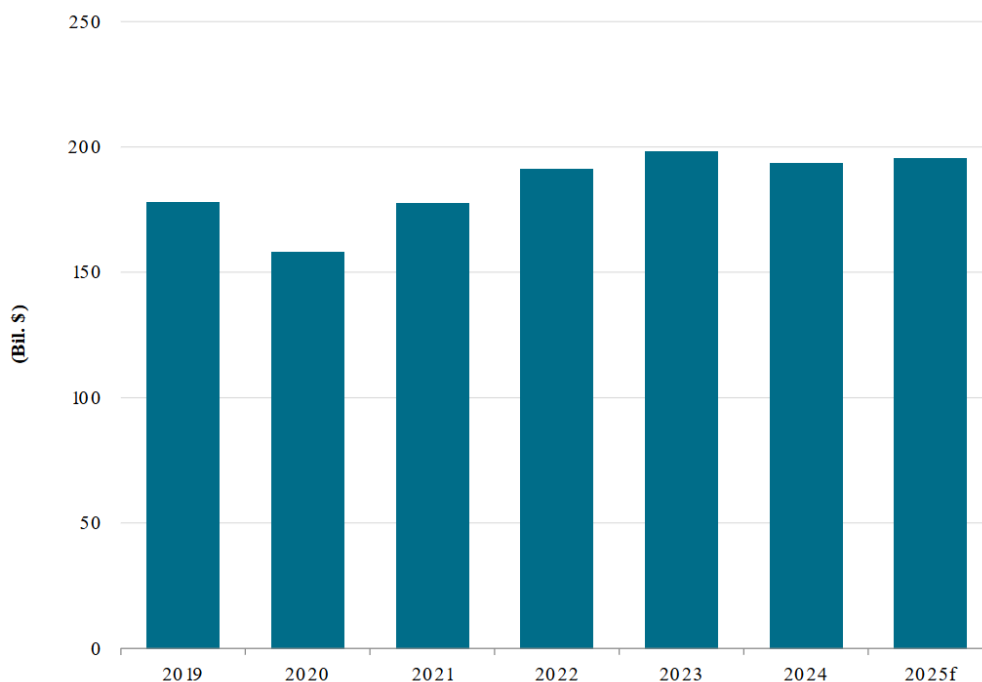
According to S&P Global, global sukuk issuance held steady in 2024, ending the year at USD 193.4 billion, slightly down from USD 197.8 billion in 2023.<sup>1</sup> This stability was driven by a sharp rise in foreign currency issuance, which offset a decline in local currency sukuk. Demand was supported by strong financing needs in key Islamic finance markets, efforts to attract foreign investment, and improving global liquidity as major central banks began to ease monetary policy. All things considered, S&P expects issuance to get close to USD 200 billion again this year.

---

<sup>1</sup> <https://www.spglobal.com/ratings/en/research/articles/250113-sukuk-market-strong-performance-set-to-continue-in-2025-13377916>

What is most overlooked, however, is the enviable performance of sukuk compared to conventional fixed income in recent years. Since January 2019 to May 2025, the Bloomberg Global Aggregate Bond Index has returned 0.29% annually, weighed down by rising interest rates and stubborn inflation. In contrast, the Bloomberg Emerging Markets GCC USD Sukuk Total Return Index has delivered a positive annualised return of 4.47% over the same period.<sup>2</sup> This performance gap demonstrates sukuk's relative resilience, driven by factors such as lower duration risk, strong sovereign support from Gulf Cooperation Council (GCC) states, and less exposure to heightened developed market rate volatility.

**Chart 1: (USD Dollar) Global sukuk issuance stabilised in 2024 (2025 forecast)**



Source: Eikon, S&P Global Ratings 2024

## Sukuk's green credentials

Additionally, a growing share of sukuk issuance qualifies as green bonds, a testament to the natural alignment between Islamic finance and ESG principles. In 1Q 2025, ESG sukuk issuance represented over half of all ESG dollar debt in emerging markets (excluding China; US dollars only), according to Fitch Ratings. Sharia law's emphasis on responsible investing, social welfare, and avoidance of harm mirrors the objectives of sustainable finance. For investors seeking values-based alignment without sacrificing yield or credit quality, sukuk therefore present a well-suited alternative.

The United Nations Development Programme's report on green sukuk<sup>3</sup> published in May 2025 highlights this convergence between Islamic finance and sustainable investing, noting that its principles of social justice, risk-sharing, and environmental stewardship offer an ethical way to mobilise long-term capital for climate-focused investments and the green transition. Green and sustainability sukuk issuers had already raised over USD 11 billion during the first three quarters of 2024, with projections suggesting USD 30–50 billion could be mobilised by 2025 to help close the Sustainable Development Goals funding gap.

To accelerate growth in the green sukuk market, the UN recommends that governments issue benchmark sovereign green sukuk and establish unified taxonomies that define what qualifies as "green" under Shariah principles. Aligning these frameworks with global standards—such as the EU Green Bond Standard and ICMA's Green Bond Principles—would reduce ambiguity, enhance credibility and attract sustainability-focused investors, including SFDR Article 9 funds.

<sup>2</sup> Bloomberg (June 6, 2025)

<sup>3</sup> <https://www.undp.org/publications/potential-growth-and-future-trends-green-sukuk-tool-sustainable-financing>

## Regulatory crossroads for the sukuk market

Despite its advantages, liquidity remains a challenge. A key obstacle is the lack of interbank dealer support and active market-making in the sukuk space, particularly outside core Islamic finance jurisdictions. This underdeveloped secondary market infrastructure limits institutional participation and keeps bid-ask spreads wider than they should be. With more robust dealer engagement, liquidity would improve significantly, allowing sukuk to integrate more fully into global bond portfolios.

There is a potential cloud on the horizon, however, in the form of a proposed shift to asset backed sukuk, requiring full legal ownership to be transferred to investors. This proposal, known as Shariah Standard 62, is being considered by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Core markets for sukuk issuance, including Saudi Arabia, the United Arab Emirates and Indonesia, have different legal rules and limits on asset transfer. Changing the nature of sukuk would create a number of legal and political challenges. From an investor perspective, changing the ownership structure of sukuk could make them more expensive and less appealing as fixed income equivalents, while Fitch Ratings has warned that new sukuk structures may not be able to meet existing standard credit rating models. This would effectively shut out institutional investors, such as pension funds and sovereign wealth funds, that are required to hold credit-rated assets and have only recently entered the sukuk market.

AAOIFI has said it is currently taking industry feedback on board, with the final standard due this year. There is still hope that new rules remain both true to Shariah principles and are practical enough for sovereign and corporate sukuk issuers to implement without stifling market appetite.

## Summary

Rather than being dismissed as religious outliers, sukuk deserve to be thought of as sound financial instruments with increasing global relevance. At a time when fixed income investors have grown used to their returns being hampered by developed world uncertainty, sukuk deserve serious consideration from those seeking durable yield, true portfolio diversification and sustainability alignment.

---

**Important information:** This document is prepared by Nikko Asset Management Co., Ltd. and/or its affiliates (**Nikko AM**) and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute personal investment advice or a personal recommendation and it does not consider in any way the objectives, financial situation or needs of any recipients. All recipients are recommended to consult with their independent tax, financial and legal advisers prior to any investment.

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this document will not affect Nikko AM's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. Nikko AM makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual securities, sectors, regions or countries within this document does not imply a recommendation to buy or sell.

Nikko AM accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of Nikko AM under applicable regulatory rules or requirements.

All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by Nikko AM is strictly prohibited.

**Japan:** The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association, Type II Financial Instruments Firms Association.

**United Kingdom:** This document is communicated by Nikko Asset Management Europe Ltd, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority (the FCA) (FRN 122084). This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at professional clients as defined in the FCA Handbook of Rules and Guidance.

**United States:** This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. An offering of any investments, securities or investment advisory services with respect to securities may only be made by receipt of relevant and complete offering documentation and agreements, as applicable. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity. Nikko Asset Management Americas, Inc. is a United States Registered Investment Adviser.

**Singapore:** This document is for information to institutional investors as defined in the Securities and Futures Act (Chapter 289), and intermediaries only. Nikko Asset Management Asia Limited (Co. Reg. No. 198202562H) is regulated by the Monetary Authority of Singapore.

**Hong Kong:** This document is for information to professional investors as defined in the Securities and Futures Ordinance, and intermediaries only. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Nikko Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

**New Zealand:** This document is issued in New Zealand by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

#### List of Additional Disclaimers for use in the following countries

**Kingdom of Bahrain:** The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

**Kuwait:** This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

**Kingdom of Saudi Arabia:** This document is communicated by Nikko Asset Management Europe Ltd (Nikko AME), which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko AME.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Nikko AME is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Nikko AME and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the Nikko AM group or Sumitomo Mitsui Trust Holdings group and not available to Nikko AME because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

**Oman:** The information contained in this document neither constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

**Qatar (excluding QFC):** The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko Asset Management Europe Ltd (Nikko AME). No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Nikko AME.

**United Arab Emirates (excluding DIFC):** This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request.

The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Nikko Asset Management Europe Ltd.

**Republic of Korea:** This document is being provided for general information purposes only, and shall not, and under no circumstances is, to be construed as, an offering of financial investment products or services. Nikko AM is not making any representation with respect to the eligibility of any person to acquire any financial investment product or service. The offering and sale of any financial investment product is subject to the

applicable regulations of the Republic of Korea. Any interests in a fund or collective investment scheme shall be sold after such fund is registered under the private placement registration regime in accordance with the applicable regulations of the Republic of Korea, and the offering of such registered fund shall be conducted only through a locally licensed distributor.

**Canada:** The information provided herein does not constitute any form of financial opinion or investment advice on the part of Nikko AM and it should not be relied on as such. It does not constitute a prospectus, offering memorandum or private placement memorandum in Canada, and may not be used in making any investment decision. It should not be considered a solicitation to buy or an offer to sell a security in Canada. This information is provided for informational and educational use only.