Stock market confidence indices
June 2021
Bulletin No. 8

In June, the **One-Year Confidence Index** reached 96.97%, which means an increase of 5.1 pp compared to the previous month and of 13.6 pp relative to June 2020. This result shows that the proportion of analysts who expects a valuation of the COLCAP index in one year jumped compared to the last month and the previous year.

The **Buy-on-Dips Confidence Index** reached 59.26%, which represents an increase of 7.6 pp compared to the past month and of 15.5 pp relative to the previous year.

The **Crash Confidence Index** reached 71.43%, which represents an increase of 5.8 pp compared to the past month and of 32.5 pp relative to the previous year.

Finally, the **Valuation Confidence Index** reached 90.74%, which represents a decrease of 0.3 pp compared to the past month and of 0.4 pp relative to the previous year.

The Colombian COLCAP Index is a market-capitalization weighted index that includes the 25 most liquid stocks listed in the BVC (Bolsa de Valores de Colombia). This index represents one of the most important leading indexes in the stock market. The average of the index so far in June is placed at 1,251.33, which reflects a 0.47% valuation relative to the average in May and a 8.81% valuation with respect to the average in June 2020.

At the end of May, the COLCAP Index reached 1,200.90, this level is 92 units under the analyst's forecast (1,293). By the end of June, it is expected that the index ranges between 1,250 and 1,284, with 1,260 as the median response (Graph 1).

Graph 1. COLCAP Index price forecast
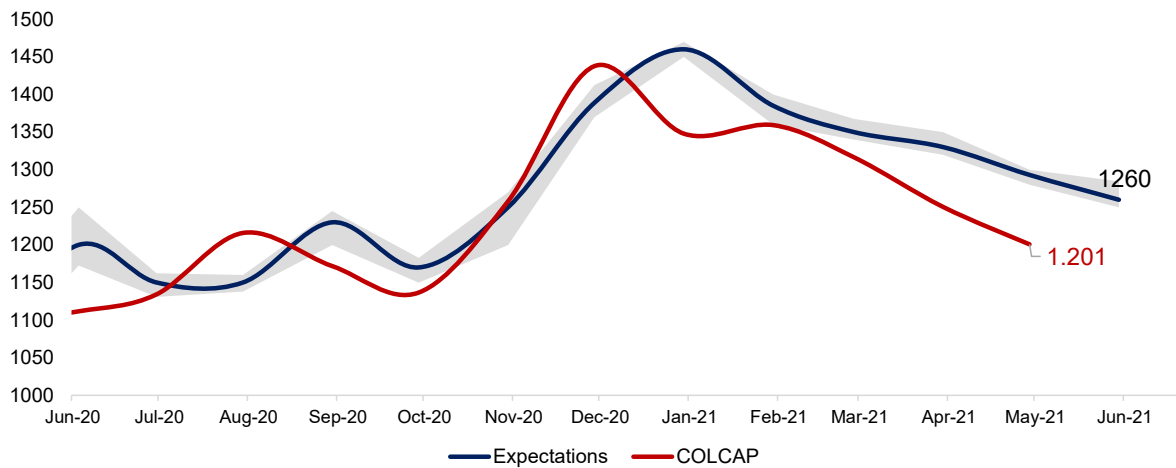
Source: Financial Opinion Survey, Fedesarrollo – BVC

The four confidence indices for the Colombian stock market are presented down below. These indices are calculated based on the Shiller (2000) methodology and using the analysts' expectations collected in the Financial Opinion Survey.
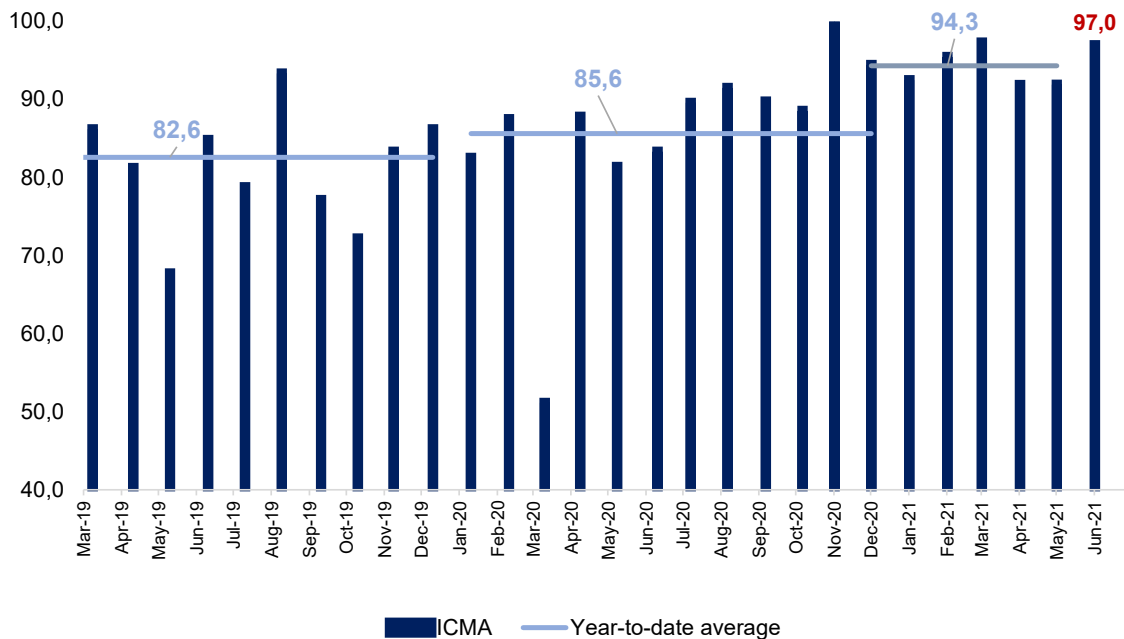
One-Year Confidence Index[1]

The One-Year Confidence Index measures the proportion of analysts expecting an increase in the COLCAP in the coming year. In this edition, the index peaked at 96.97%, which indicates that more than 95% of the respondents expect an increase of the index in June 2022 regarding the current level (Graph 2). Against the past month (91.9%), the index increased 5,1 pp, and regarding the year-to-date mean (94.3%) it increased 2.6 pp.

The confidence in the stock market presented a quick recovery after the sharp fall registered in March (51.2%). During 2021, it has been seen a positive trend, reaching 97%, nevertheless, in April and May the index show a notable reduction, due to the uncertainty about economic and political issues, in the midst of important reforms, the social unrest and also the persistent third Covid wave. In June it is observed a recovery as the social and political environment calms down.

Graph 2. One-Year Confidence Index

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[1] The One-Year Confidence Index is calculated as the number of respondents that establish a price for the COLCAP index in 12-months higher than the current level of the index, divided by the total responses excluding invalid answers.

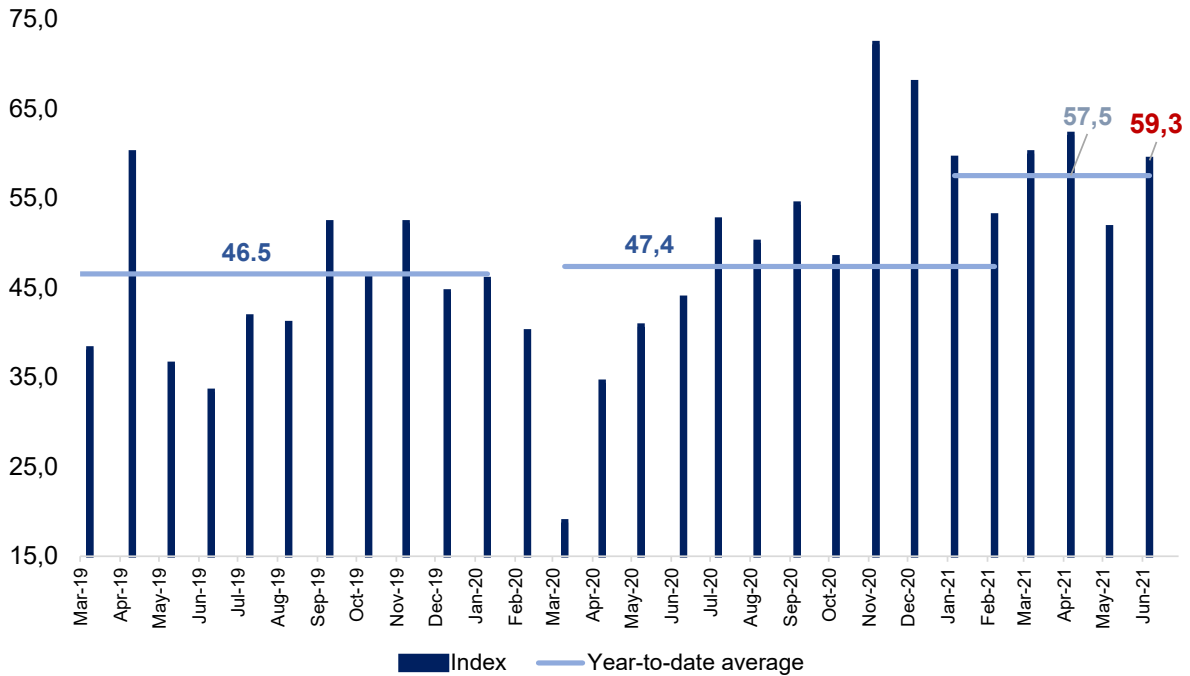Source: Financial Opinion Survey, Fedesarrollo – BVC

Buy-on-Dips Confidence Index[2]

The Buy-on-Dips Confidence Index establishes the percent of the analysts expecting a rebound the next day should the market ever drop 3% in one day. This month the index reached 59.26%.

In 2021 the index opened the year with a decreasing trend, after the good results of the end of the year, when it closed at 67,9% (Graph 3). However, in March and April a slow recovery has taken place, although below November and December levels. In March and April, the index increased, implying a higher proportion of analysts expecting a recovery of the COLCAP after a drop the day before. Nevertheless, in May of 2021, the index showed a downfall. In this month it is observed a recovery of 7.6 pp, which implies higher expectations of stability and a future recovery of the COLCAP. Finally, compared to the year-to-date average (57.5%) this month was above by 1.7 pp.

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[2] The Buy-on-Dips Confidence Index is calculated as the number of respondents who expect an increase in the COLCAP index the next day after a 3% drop, divided by the total answers excluding the "no opinion" option.

Graph 3. Buy-on-Dips Confidence Index

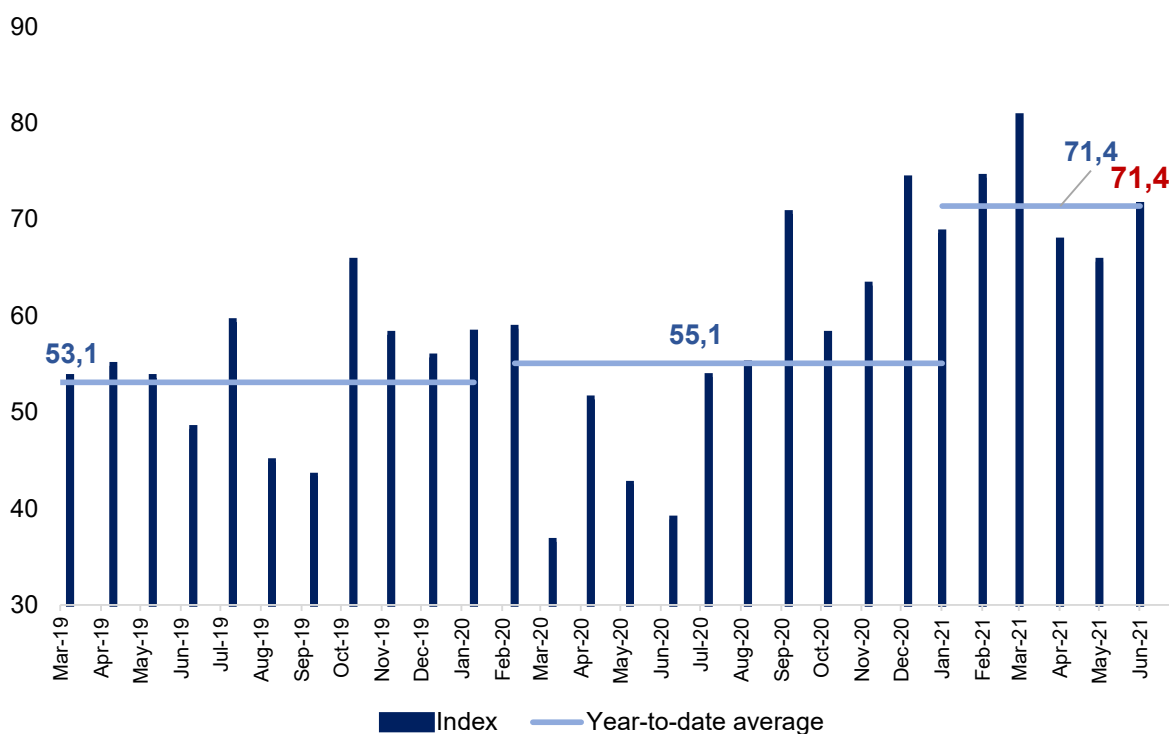Source: Financial Opinion Survey, Fedesarrollo – BVC

Crash Confidence Index[3]

The Crash Confidence Index shows the proportion of analysts who attach little probability to a stock market crash in the next six months before a substantial drop in the international markets.

In June, the index reached 71.43%, which represents an increase of 5.8 pp compared to last month (65.6%), while it remains stable compared to the year-to-date average (71.4%). This result implies a rise in the number of analysts who perceive a low probability of a fall in the local stock market before a substantial drop in the international markets (Graph 4).

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[3] The Crash Confidence Index is calculated as the number of responses who attach a probability between 0% and 25% to a stock market crash in the next six months including the case that a crash occurred in the international markets and spreads to Colombia, divided by the total responses excluding the "does not apply" option.

Graph 4. Crash Confidence Index

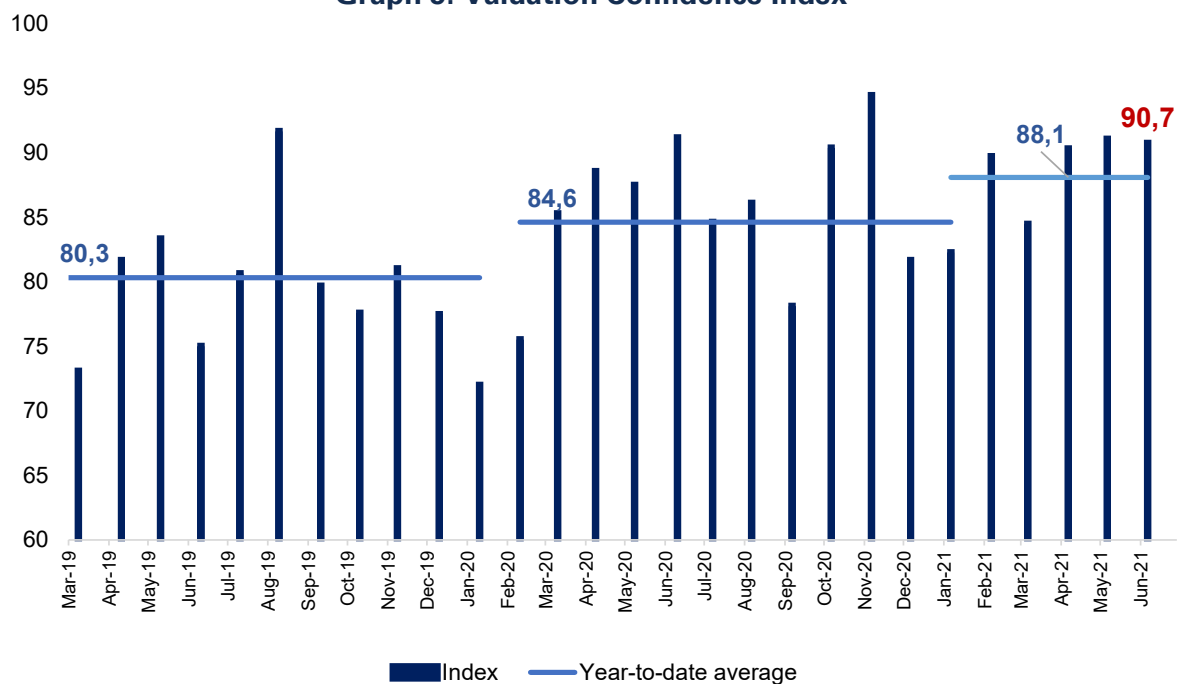Source: Financial Opinion Survey, Fedesarrollo – BVC

Valuation Confidence Index[4]

The Valuation Confidence Index is the proportion of analysts who think that the market is not too high compared with measures of true fundamental value (Graph 5).

In June, the index reached 90.74%, which means 0.3 pp above the last month (91.1%). This result represents a decrease of 0.4 pp as compared to the same month in 2020 and an increase of 2.6 pp relative to the year-to-date average (88.1%). It is highlighted that since the first measurement of the index, it has stood in values above 60%. This indicates that over half of the analysts consider the stock prices are too low or about right regarding the fundamental value.

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[4] The Valuation Confidence Index is calculated as:
$Valuation\ Confidence\ Index = \big(1 * (\%\ too\ low)\big) + \big(0.5 * (\%\ about\ right)\big)$, where % too low and % about right, correspond respectively to the number of analysts who chose that the values of the local stocks are too low and about right in regard of the fundamental value excluding the option "do not know".

Graph 5. Valuation Confidence Index

Source: Financial Opinion Survey, Fedesarrollo – BVC

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