

Stock market confidence indices

October 2022

Bulletin No. 24



In October, the **One-Year Confidence Index** reached 59,4%, which means a reduction of 25,9 pp compared to the previous month and a reduction of 35,4 pp relative to the same month in 2021. This result shows that the proportion of analysts who expects a valuation of the MSCI COLCAP index in one year decreased compared to the last month and compared to the previous year.

The **Buy-on-Dips Confidence Index** reached 33,3%, which represents a decrease of 6,7 pp compared to the past month and a decrease of 20,2 pp relative to the same month of 2021. The previous implies that analysts consider a MSCI COLCAP increase less likely the day after a potential drop in the index compared to September 2022 and October 2021.

The **Crash Confidence Index** reached 43,5%, meaning that it decreased 20,5 pp compared to the previous month and reduced 31,5 pp relative to October 2021. This indicates that analysts consider the market to be less vulnerable to downturns in international markets compared to a year ago.

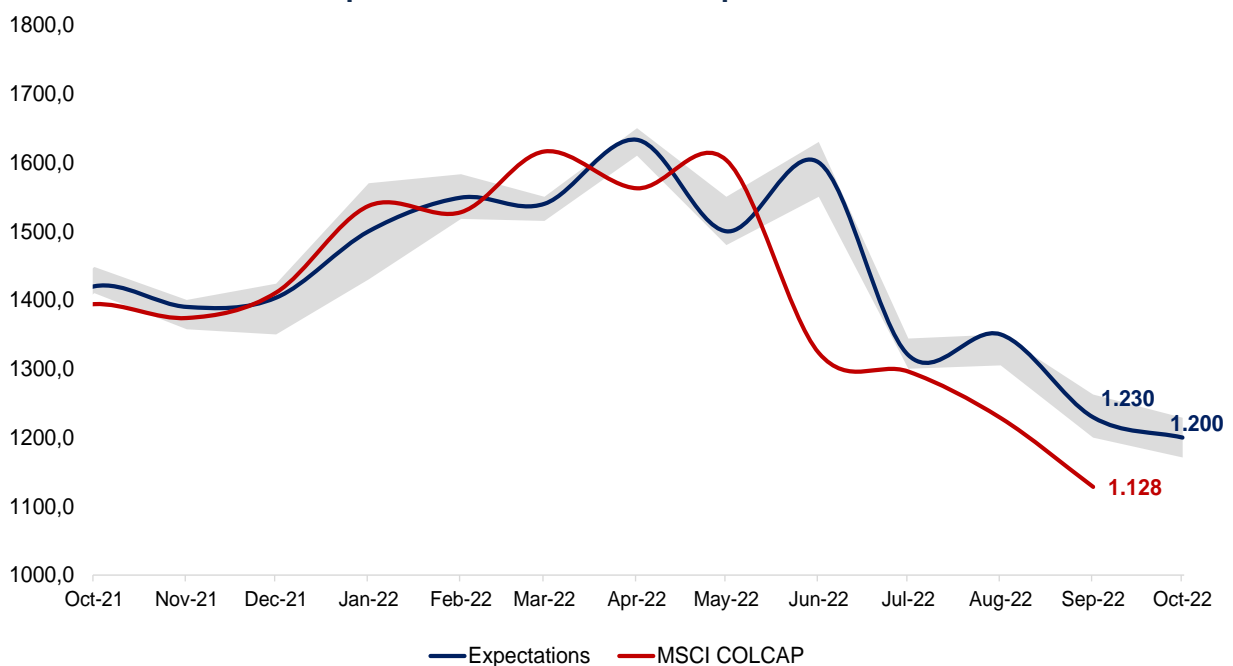
Finally, the **Valuation Confidence Index** reached 95,7%, which represents an increase of 4,0 pp relative to the previous month and an increase of 4,0 pp compared to the same month of 2021. This implies that a higher proportion of analysts believe that stock values underestimate the value of their fundamentals.

MSCI COLCAP Index

The Colombian MSCI 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 so far in October 2022 (until October 14th) is at 1.189,91, which represents a depreciation of 0,27% with respect to the average of September 2022 (1.193,19) and of 15,02% with respect to the average of October 2021 (1.400,16).

At the end of September, the MSCI COLCAP Index reached 1.128,2. This level is 101,3 units below the analyst's forecast (1.229,5). By the end of October, it is expected that the index ranges between 1.171 and 1.229, with 1.200 as the median response (Graph 1).

Graph 1. MSCI COLCAP Index price forecast

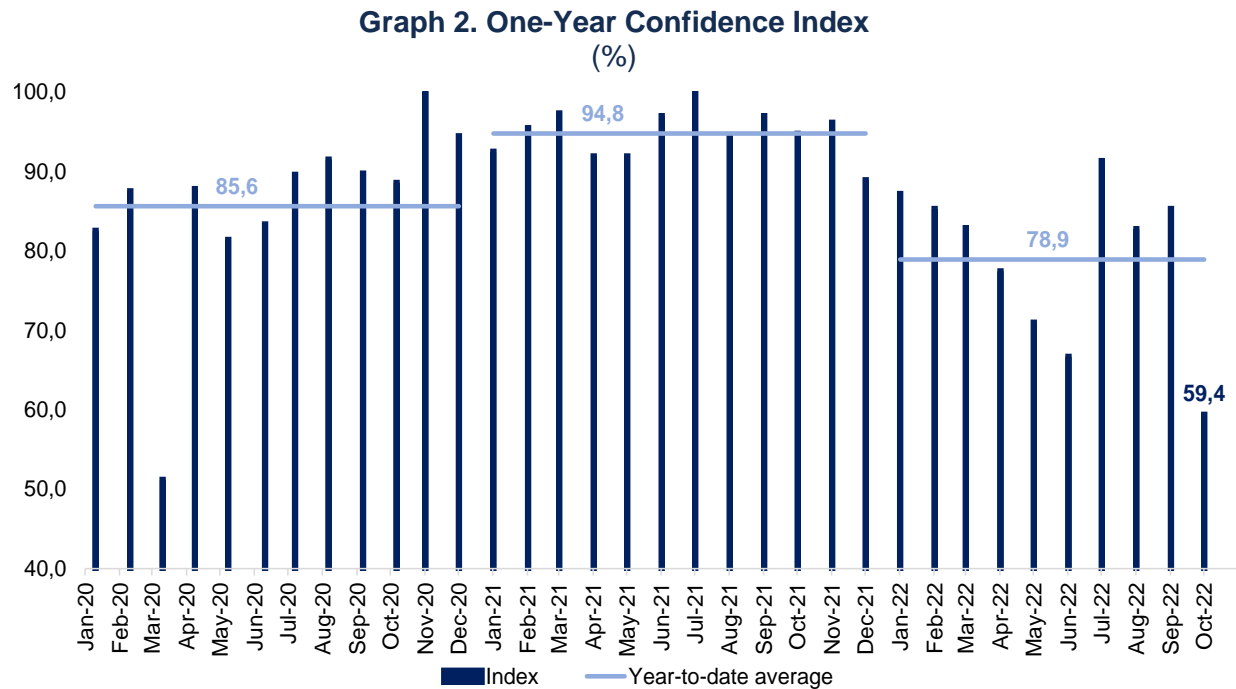


Source: Financial Opinion Survey, Fedesarrollo – BVC

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 Index¹

The One-Year Confidence Index measures the proportion of analysts expecting an increase in the MSCI COLCAP in the coming year. In this edition, the index stood at 59,4%, which indicates that this proportion of the respondents expect an increase of the index in October 2023 from its current level (1.218,2) (Graph 2). The index experienced a decrease of 25,9 pp compared to the previous month (85,3%) and a reduction of 35,4 pp compared to the same month of the previous year (94,7%), which reflects an annual and monthly drop in the stock market confidence.



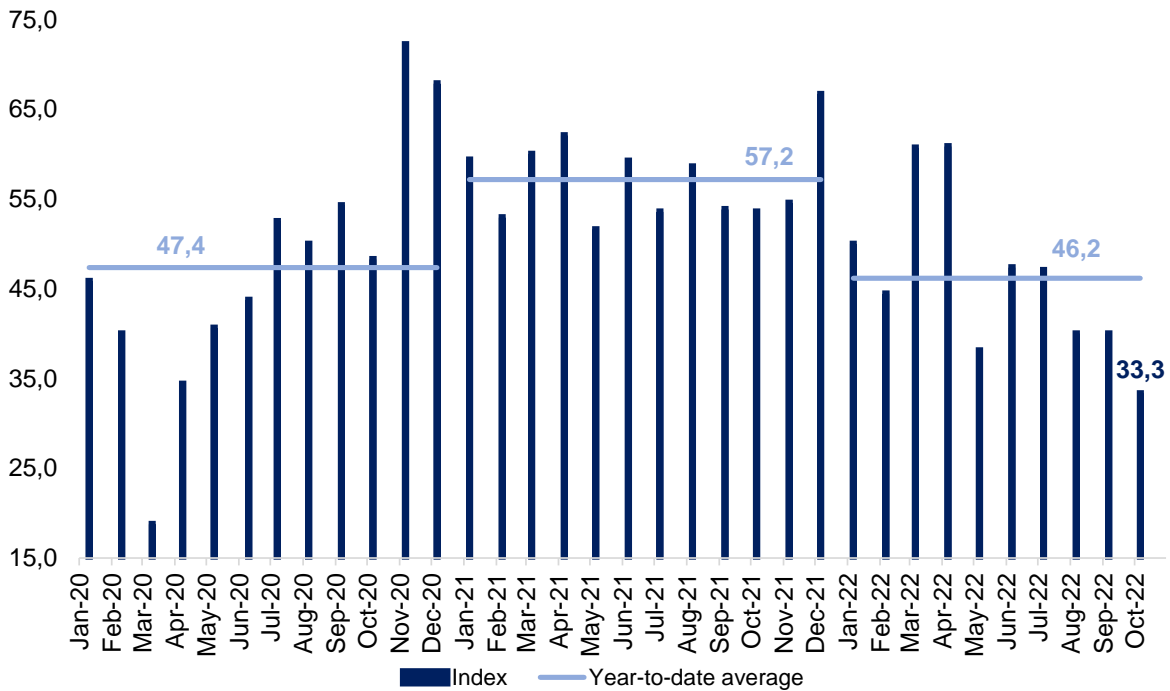
Source: Financial Opinion Survey, Fedesarrollo – BVC

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

Buy-on-Dips Confidence Index²

The Buy-on-Dips Confidence Index establishes the percent of the analysts expecting a rebound the next day that the market hypothetically dropped 3%. The index experienced a decrease in October, standing at 33,3%. This represented a decrease of 6,7 pp compared to last month (40,0%) and a reduction of 20,2 pp compared to October 2021 (53,5%) (Graph 3). Thus, analysts consider an immediate recovery of COLCAP less likely compared to the average of 2020, 2021 and so far in 2022.

Graph 3. Buy-on-Dips Confidence Index (%)



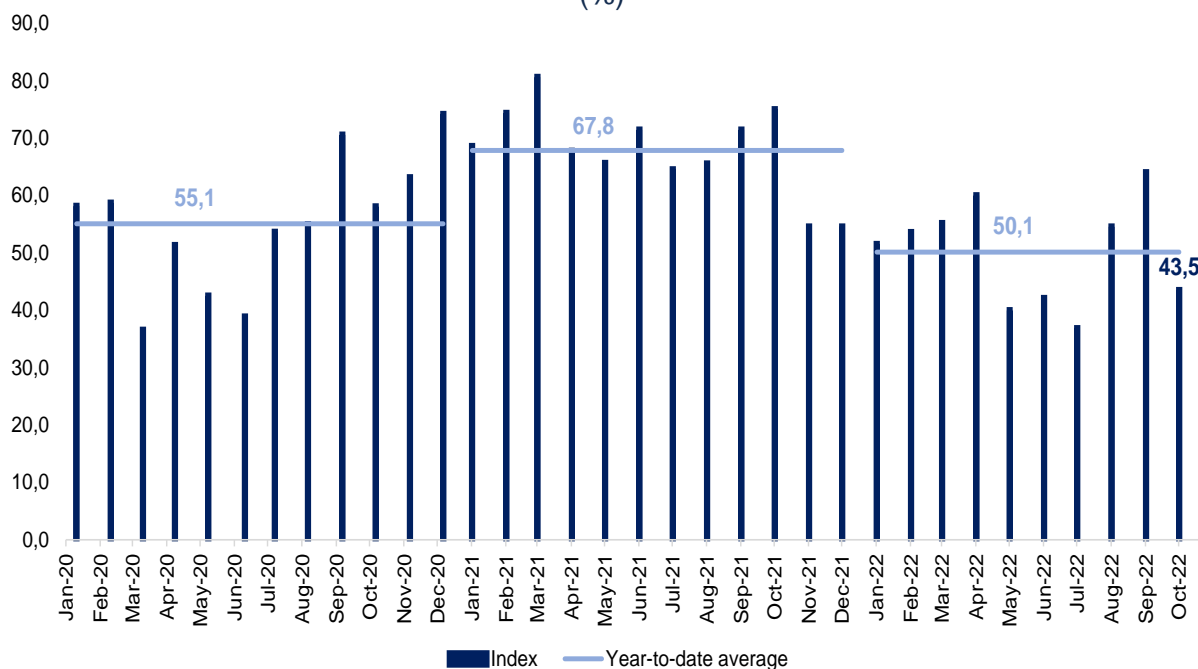
Source: Financial Opinion Survey, Fedesarrollo – BVC

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

Crash Confidence Index³

The Crash Confidence Index shows the proportion of analysts who attach little probability to a stock market crash in the next six months after a substantial drop in the international markets. In October, the index decreased 20,5 pp with respect to the previous month's result (64,0%), standing at 43,5%, which indicates that the perception of the probability of an eventual fall of the local stock market in the face of the deterioration of international markets increased compared to September (Graph 4). In addition, it is 31,5 pp below the index for the same month of the previous year (75,0%).

Graph 4. Crash Confidence Index
(%)



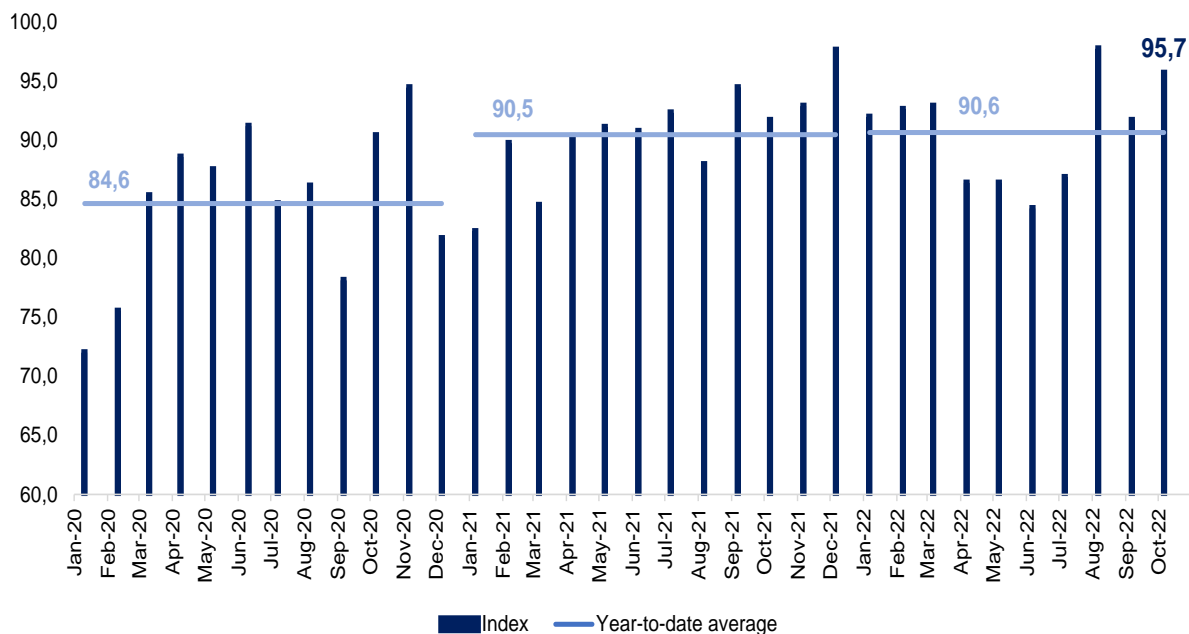
Source: Financial Opinion Survey, Fedesarrollo – BVC

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.

Valuation Confidence Index⁴

The Valuation Confidence Index is the proportion of analysts who think that the market is not too highly valued compared with measures of true fundamental value. For October, the index stood at 95,7%, which is 4,0 pp above the level of September (91,7%) and 4,0 pp above the level of October 2021 (91,7%). This indicates that, compared to both periods, a higher proportion of analysts believe that stock values underestimate the value of their fundamentals (Graph 5).

Graph 5. Valuation Confidence Index (%)



Source: Financial Opinion Survey, Fedesarrollo – BVC



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⁴ The Valuation Confidence Index is calculated as:
 $Valuation\ Confidence\ Index = (1 * (\% \text{ too low})) + (0.5 * (\% \text{ about right}))$, 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”.