

## Stock market confidence indices

December 2022

Bulletin No. 26



In December, the **One-Year Confidence Index** reached 82,6%, which means an increase of 10,2 pp compared to the previous month and a reduction of 6,3 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 increased compared to the last month and decreased compared to the previous year.

The **Buy-on-Dips Confidence Index** reached 46,7%, which represents an increase of 11,4 pp compared to the past month and a decrease of 20,0 pp relative to the same month of 2021. The previous implies that analysts consider a MSCI COLCAP increase more likely the day after a potential drop in the index compared to November 2022 but less likely than in December 2021.

The **Crash Confidence Index** reached 56,3%, meaning that it increased 6,3 pp compared to the previous month and 1,7 pp relative to December 2021. This indicates that analysts consider the market to be less vulnerable to downturns in international markets compared to a month and a year ago.

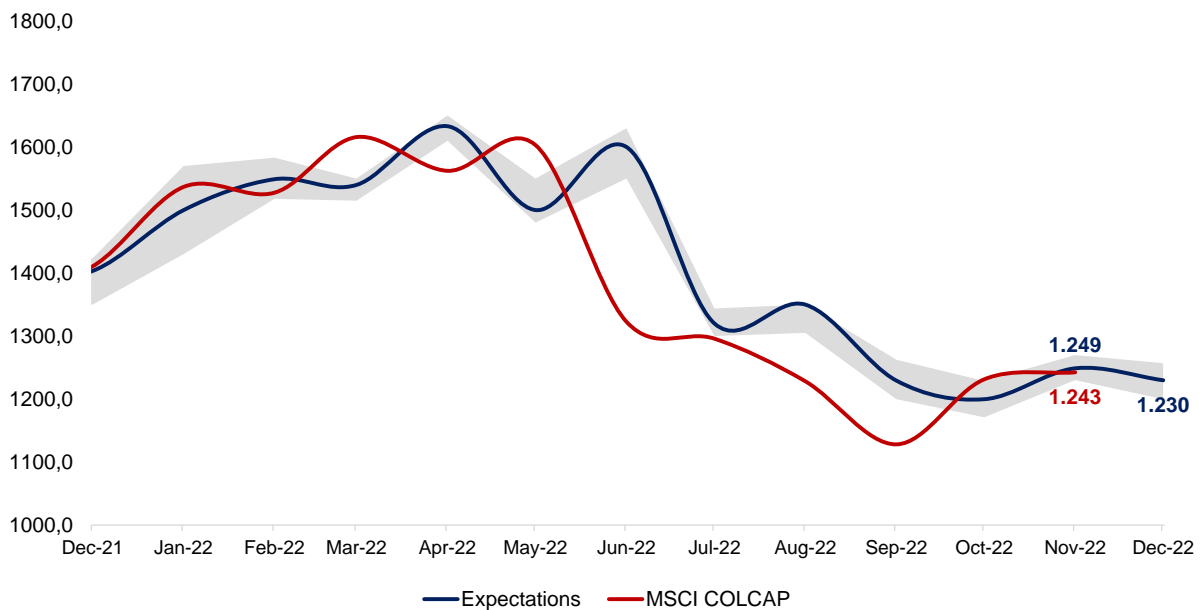
Finally, the **Valuation Confidence Index** reached 100,0%, which represents an increase of 4,8 pp relative to the previous month and of 2,4 pp compared to the same month of 2021. This implies that a higher proportion of analysts believe that stock values underestimate the value of their fundamentals compared to last month and last year.

## 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 December 2022 (until December 16<sup>th</sup>) is at 1.229,03, which represents a depreciation of 2,34% with respect to the average of November 2022 (1.258,43) and of 12,22% with respect to the average of December 2021 (1.400,08).

At the end of November, the MSCI COLCAP Index reached 1.242,63. This level is 6,4 units below the analyst's forecast (1.249,0). By the end of December, it is expected that the index ranges between 1.200 and 1.257, with 1.230 as the median response (Graph 1).

**Graph 1. MSCI COLCAP Index price forecast**



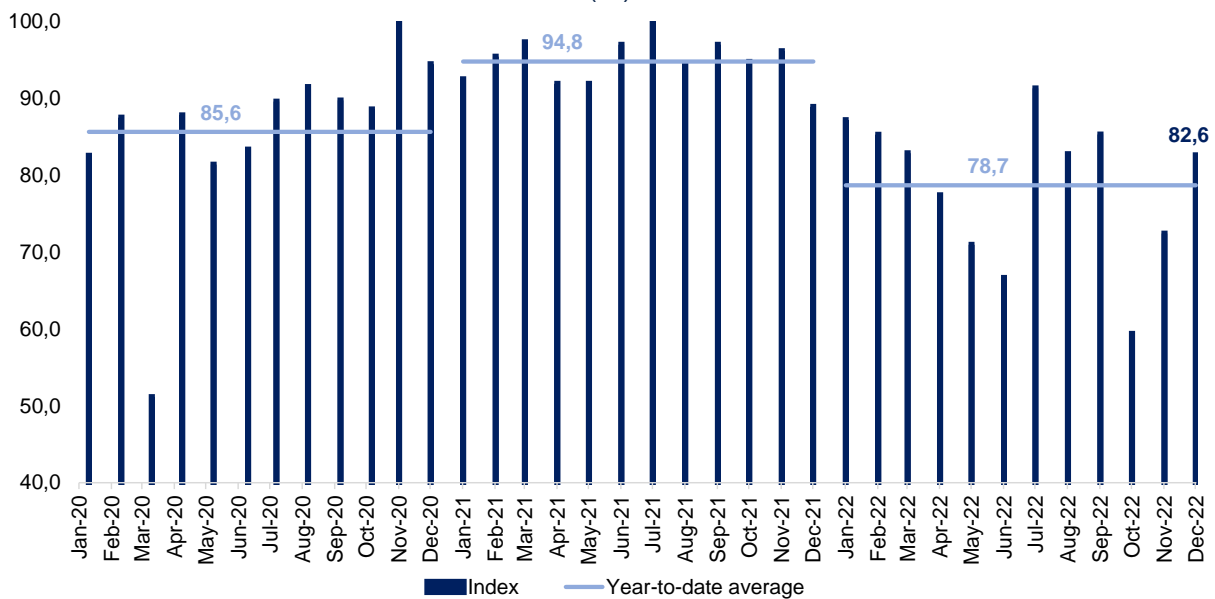
Source: Financial Opinion Survey, Fedesarrollo – BVC

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 Index<sup>1</sup>

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 82,6%, which indicates that this proportion of the respondents expect an increase of the index in December 2023 from its current level (1. 217,68) (Graph 2). The index experienced an increase of 10,2 pp compared to the previous month (72,4%) and a reduction of 6,3 pp compared to the same month of the previous year (88,9%), which reflects an annual drop and monthly increase in the stock market confidence.

**Graph 2. One-Year Confidence Index (%)**



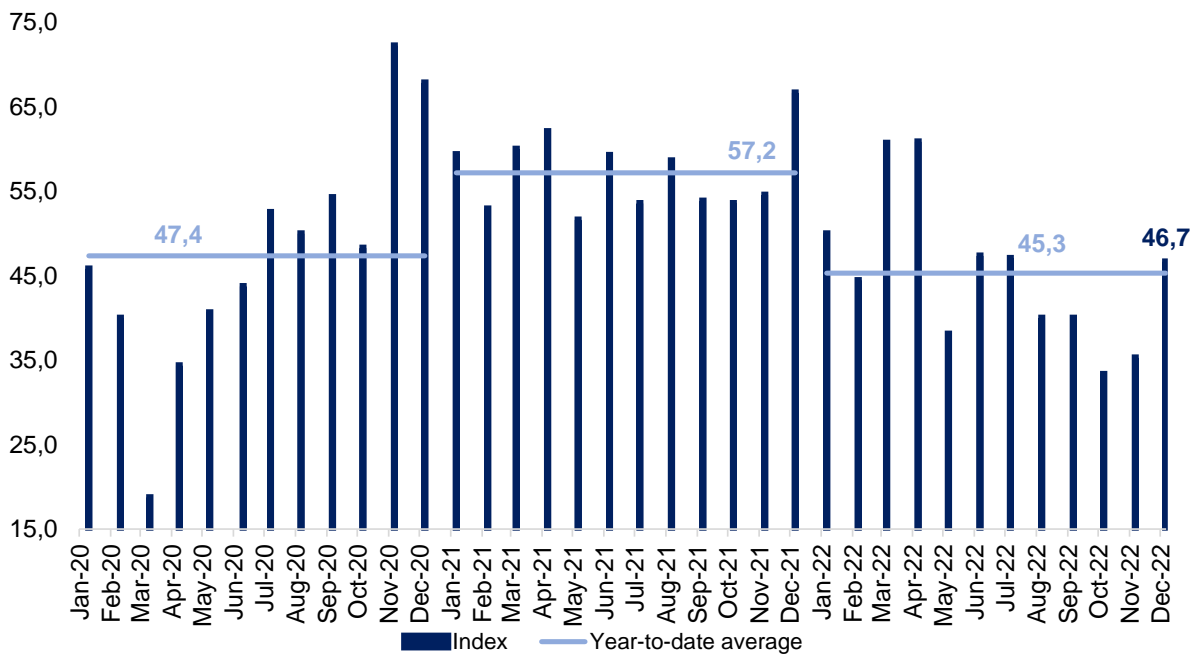
Source: Financial Opinion Survey, Fedesarrollo – BVC

<sup>1</sup> 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 Index<sup>2</sup>

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 an increase in December, standing at 46,7%. This represented an increase of 11,4 pp compared to last month (35,3%) (Graph 3). Yet, 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 (%)**



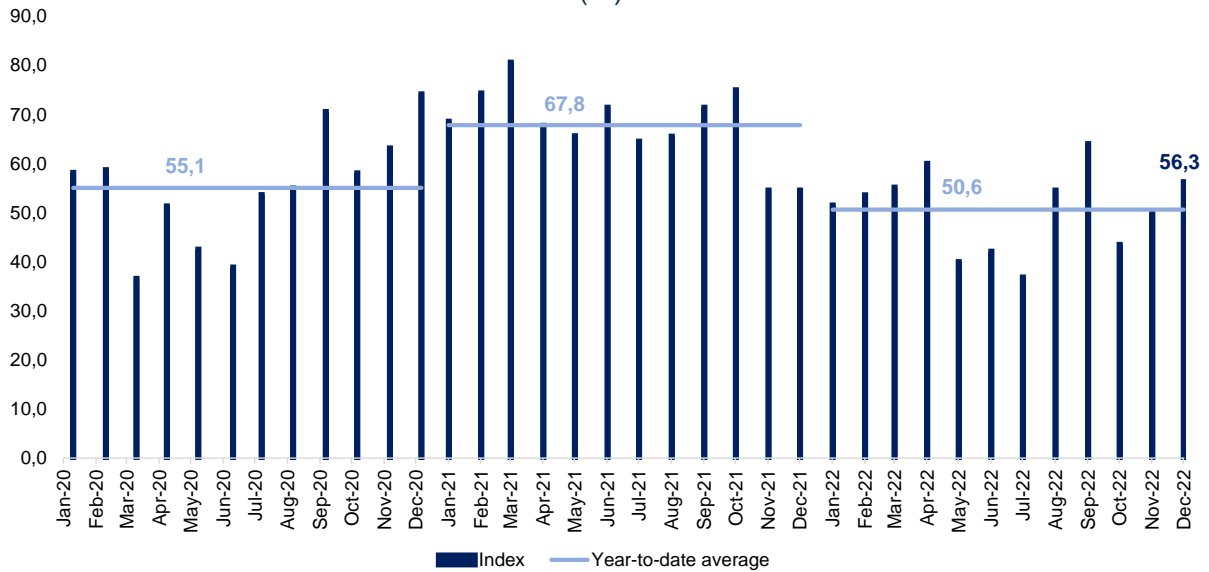
Source: Financial Opinion Survey, Fedesarrollo – BVC

<sup>2</sup> 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 Index<sup>3</sup>

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 December, the index increased 6,3 pp with respect to the previous month's result (50,0%), standing at 56,3%, 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 decreased compared to November (Graph 4). In addition, it is 1,7 pp above the index for the same month of the previous year (54,6%).

**Graph 4. Crash Confidence Index**  
(%)



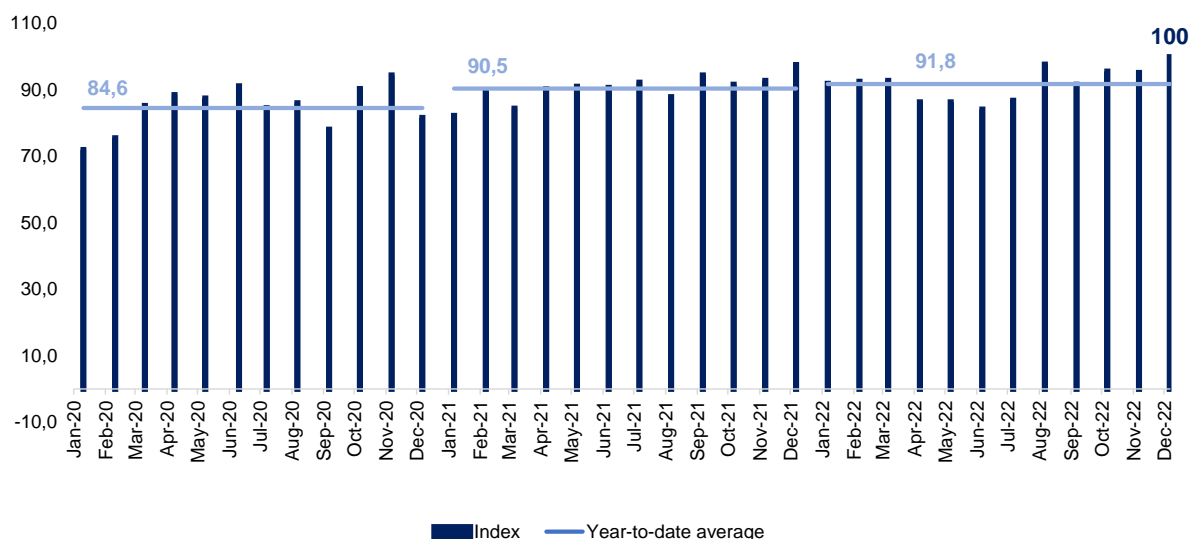
Source: Financial Opinion Survey, Fedesarrollo – BVC

<sup>3</sup> 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 Index<sup>4</sup>

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 December, the index stood at 100,0%, which is 4,8 pp above the level of November (95,2%) and 2,4 pp above the level of December 2021 (97,6%). This indicates that, compared to last month and last year, 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



**Contact us if you wish to access historical results and further information**

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Published December 20, 2022

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<sup>4</sup> 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”.