

## Stock market confidence indices

February 2023

Bulletin No. 28



In January, the **One-Year Confidence Index** stood at 80.0%, up 14.5 pps from the previous month and down 5.3 pps from the same month in 2022. This indicates that the proportion of analysts forecasting a COLCAP valuation within one year increased versus the previous month and decreased versus the previous year.

The **Buy-on-Dips Confidence Index** reached 42.1%, down 7.9 pps versus the previous month and 2.3 pps versus the same month in 2022. This implies that analysts consider a rise in the MSCI COLCAP the day after a potential fall in the index less likely compared to January 2023 and February 2022.

The **Crash Confidence Index** stood at 45.5%, down 6.9 pps versus the previous month and down 8.1 pps versus the same month in 2022. This indicates that analysts consider the market more vulnerable to downturns in international markets compared to the previous month and compared to a year ago.

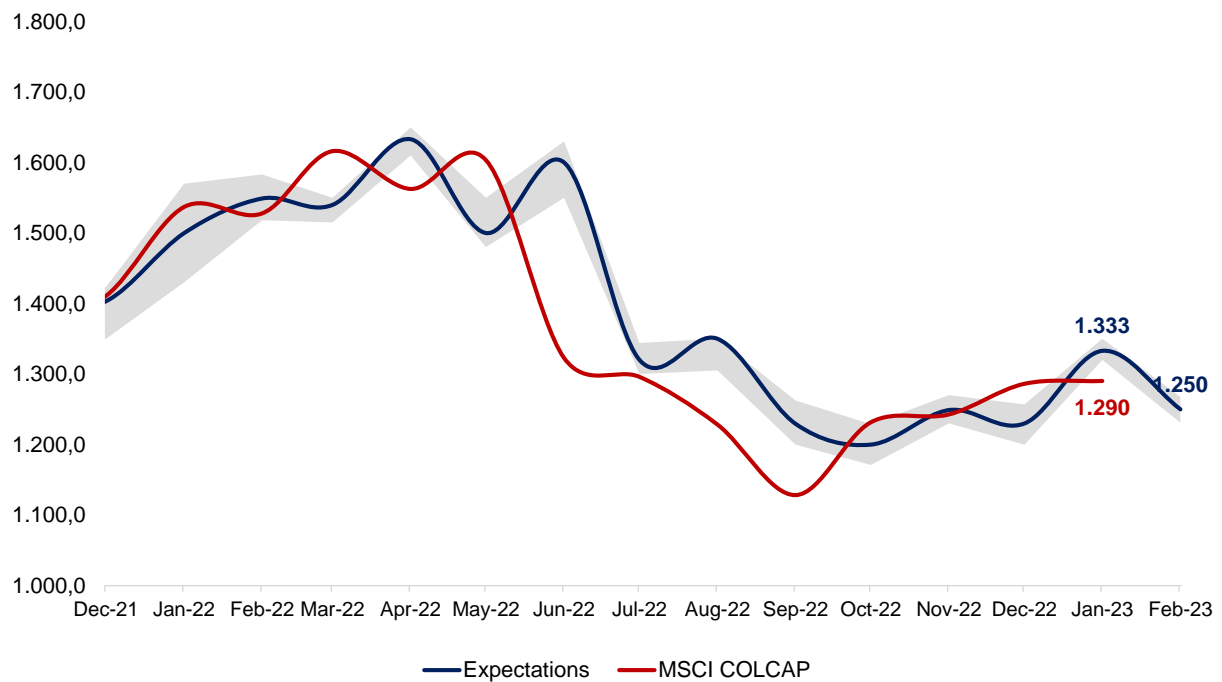
Finally, the **Valuation Confidence Index** stood at 95.0%, down 2.6 pps from the previous month's level and up 2.4 pps versus the same month in 2022. This implies that a smaller proportion of analysts believe that equity values underestimate the value of their fundamentals ahead of January 2023 but a larger proportion ahead of February 2022.

## 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 February 2023 (through February 16) is at 1,249.54, which represents a devaluation of 5.0% with respect to the average for January 2023 (1,315.28) and a devaluation of 17.14% with respect to the average for February 2022 (1,507.95).

At the end of January, the MSCI COLCAP stood at 1,290.11, which corresponds to 42.9 units above the analysts' forecast (1,333.0). By the end of February, the index is expected to be in a range between 1,231 and 1,267.5, with a median response of 1,250 (Graph 1).

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

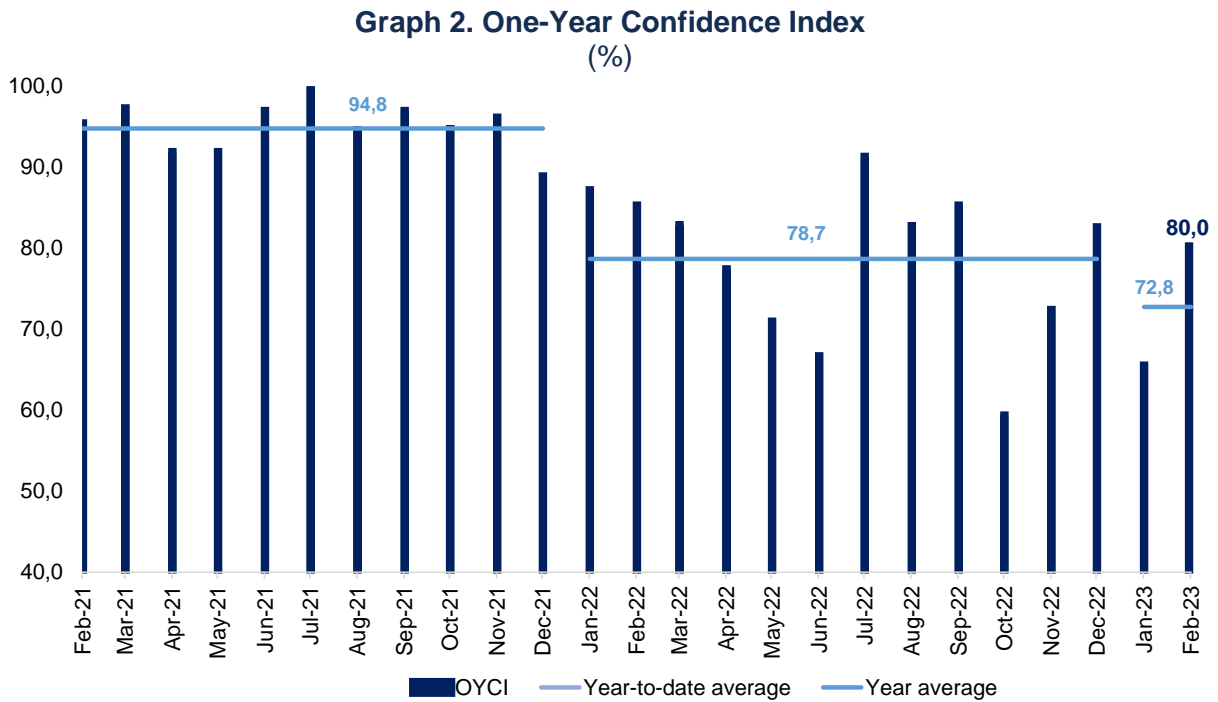


Source: Financial Opinion Survey, Fedesarrollo – BVC.

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 65,5%, which indicates that this proportion of the respondents expect a decrease of the index in January 2023 from its current level (1.326,74) (Graph 2). The index experienced a reduction of 17,1 pp compared to the previous month (82,6%) and of 21,7 pp compared to the same month of the previous year (87,2%), which reflects an annual and monthly drop in the stock market confidence.



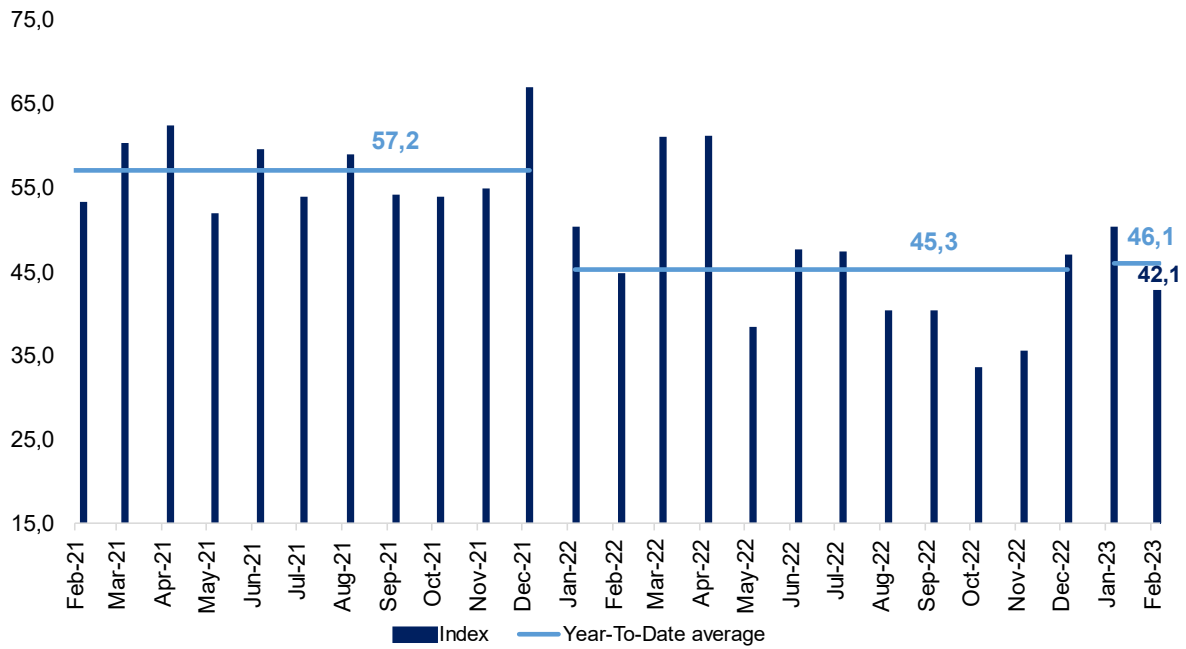
Source: Financial Opinion Survey, Fedesarrollo – BVC.

<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 February, standing at 42,1%. This represented a decrease of 7,9 pp compared to last month (50,0%) (Graph 3). Thus, analysts consider an immediate recovery of COLCAP less likely compared to the average of 2020, 2021 and 2022.

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



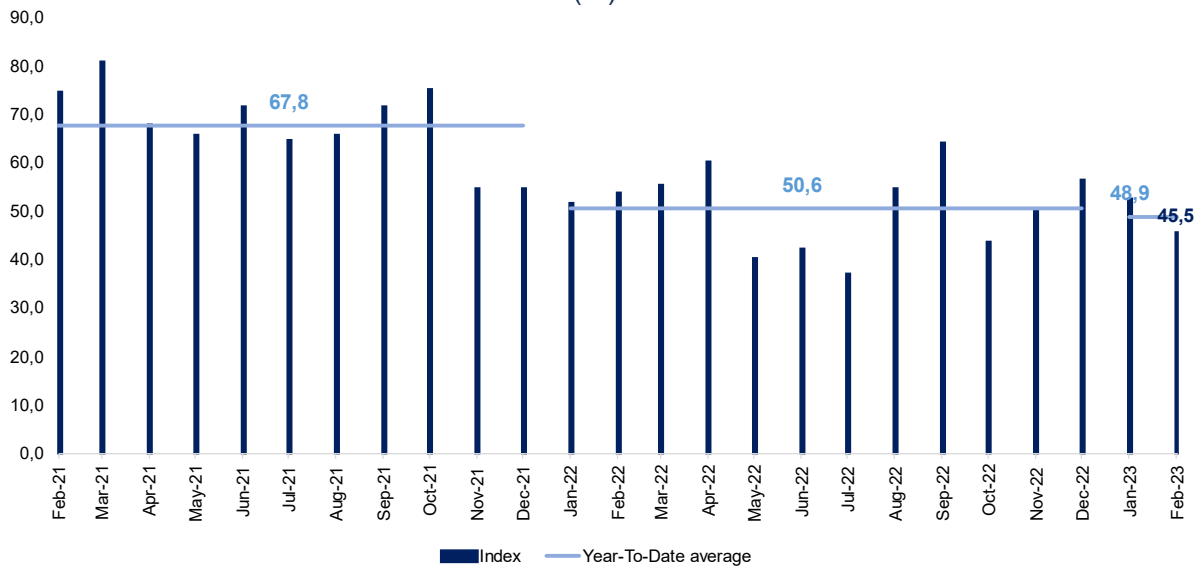
Source: Financial Opinion Survey, Fedesarrollo – BVC.

<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 February, the index decreased 6,9 pp with respect to the previous month's result (52,4%), standing at 45,5%, 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 January (Graph 4). In addition, it is 8,1 pp below the index for the same month of the previous year (53,6%).

**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 January, the index stood at 95,0%, which is 2,6 pp below the level of January (97,6%) and 2,4 pp above the level of February 2022 (92,6%). This indicates that, compared to last month, a lower proportion of analysts believe that stock values underestimate the value of their fundamentals, while compared to last year, this proportion is higher (Graph 5).

**Graph 5. Valuation Confidence Index (%)**



Source: Financial Opinion Survey, Fedesarrollo – BVC.



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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”.