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In May, the **One-Year Confidence Index** stood at 84.6%, up 0.6 pps from the previous month and 13.6 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 the previous year.

The **Buy-on-Dips Confidence Index** reached at 50.0%, representing a decrease of 2.6 pps versus the previous month and an increase of 11.9 pps versus the same month in 2022. This implies that analysts consider a rise in the MSCI COLCAP less likely the day after a potential drop in the index compared to April 2023 and more likely compared to May 2022.

The **Crash Confidence Index** stood at 45.0%, down 15.0 pps versus the previous month and up 5.0 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 less vulnerable compared to a year ago.

Finally, the **Valuation Confidence Index** stood at 95.2%, down 2.4 pps from the previous month's level and up 8.9 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 April 2023 and a larger proportion ahead of May 2022.

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MSCI COLCAP Index

The Colombian MSCI COLCAP Index is a market-capitalization weighted index that includes the 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 May 2023 (up to May 19) is at 1,149.98, which represents a devaluation of 5.5% with respect to the average for April 2023 (1,216.60) and a devaluation of 24.4% with respect to the average for May 2022 (1,520.85).

At the end of April, the MSCI COLCAP stood at 1,167.51, which corresponds to 42.5 units below analysts' forecast (1,210.0). By the end of May, the index is expected to be in a range between 1,148.3 and 1,170.0, with a median response of 1,160.0 (Graph 1).

### Graph 1. MSCI COLCAP Index price forecast
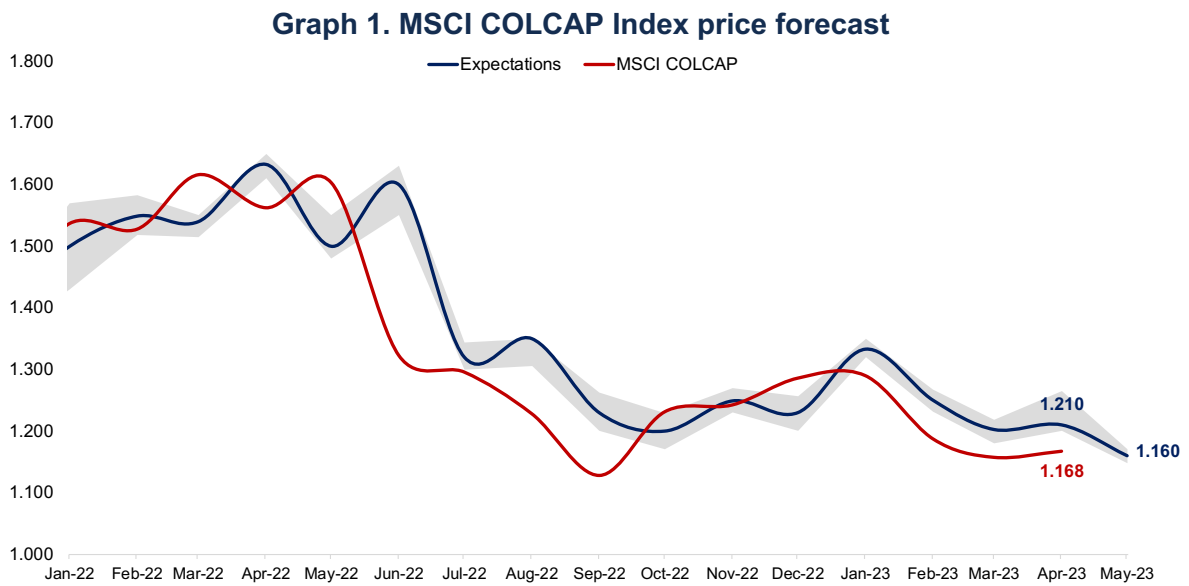
Source: Financial Opinion Survey, Fedesarrollo – bvc.

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.

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One-Year Confidence Index[1]

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 84.6%, indicating that this percentage of respondents expects an increase in the index in May 2024 from the current level (1164.18) (Graph 2). The index experienced an increase of 0.6 pps versus the previous month (84.0%) and 13.6 pps versus the same month last year (71.0%), reflecting a monthly and annual increase in stock market confidence.
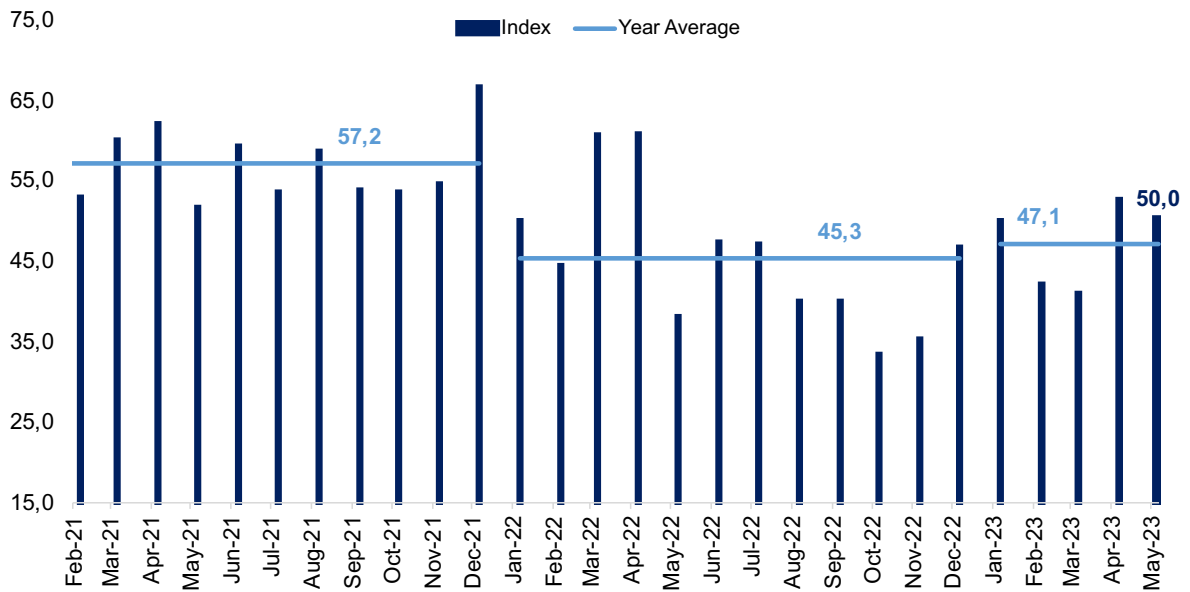
Graph 2. One-Year Confidence Index
(%)
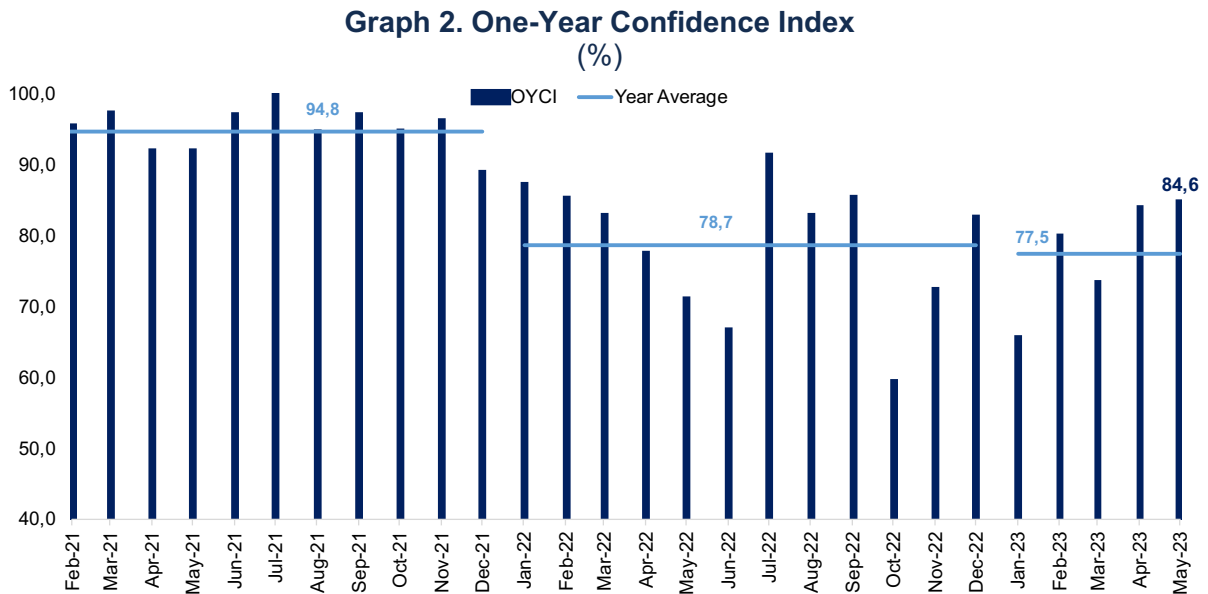
Source: Financial Opinion Survey, Fedesarrollo – bvc.

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[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 Index[2]

The Buy-on-Dips Confidence Index establishes the proportion of the analysts expecting a rebound the next day that the market hypothetically dropped 3%. The index decreased in May 2023 compared to April of the same year, standing at 50.0%. Specifically, it presented a decrease of 2.6 pps compared to last month (52.6%) (Graph 3). Likewise, analysts consider an immediate recovery of the COLCAP more likely compared to the 2022 average (45.3%).
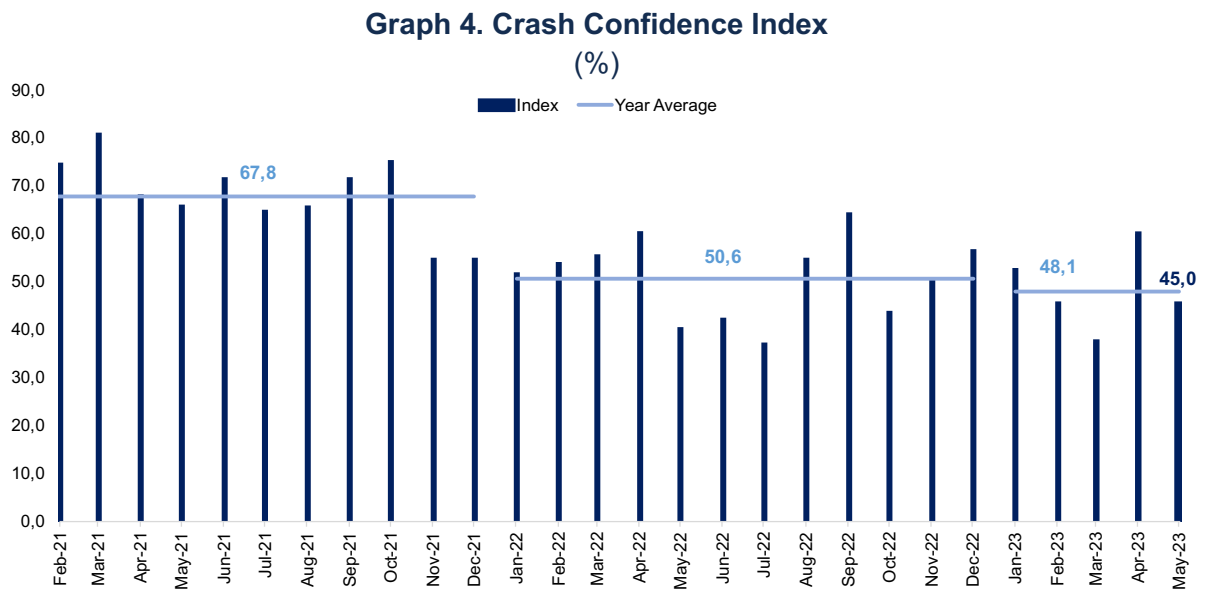
Graph 3. Buy-on-Dips Confidence Index
(%)

Source: Financial Opinion Survey, Fedesarrollo – bvc.

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[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 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 after a substantial drop in the international markets. In May, the index decreased 15.0 pps with respect to the previous month's result (60.0%), standing at 45.0%, indicating 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 with respect to April (Graph 4). In turn, the index was 5.0 pps above the figure recorded in the same month of the previous year.

Graph 4. Crash Confidence Index
(%)

Source: Financial Opinion Survey, Fedesarrollo – bvc.

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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.

Valuation Confidence Index[4]

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 May, the index stood at 95.2%, which is 2.4 pps below April's level (97.6%) and 8.9 pps above May 2022 (86.4%). This indicates that a lower proportion of analysts versus the previous month and a higher proportion versus the same month last year believe that the value of stocks underestimates the value of their fundamentals (Graph 5).

Graph 5. Valuation Confidence Index
(%)
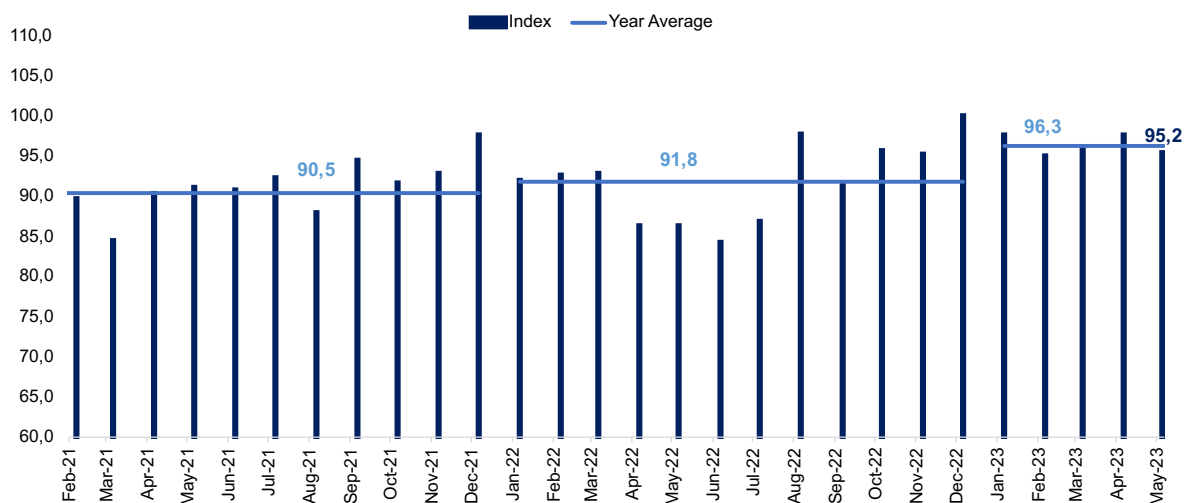
Source: Financial Opinion Survey, Fedesarrollo – bvc.

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[4] The Valuation Confidence Index is calculated as:
$Valuation\ Confidence\ Index = \big(1 * (\%\ too\ low)\big) + \big(0.5 * (\%\ about\ right)\big)$, 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".