

Stock market confidence indices
December 2023
Bulletin No. 38



In December, the **One-Year Confidence Index** stood at 87.0%, up 5.5 pps from the previous month and 4.3 pps from the same month in 2022. This indicates that the proportion of analysts who expect COLCAP to appreciate in a year's time increased compared to the previous month and compared to a year ago.

The **Buy-on-Dips Confidence Index** stood at 62.5%, up 20.4 pps versus the previous month and 15.8 pps versus the same month in 2022. This implies that analysts consider a rise in the MSCI COLCAP more likely the day after a potential fall in the index compared to November 2023 and December 2022.

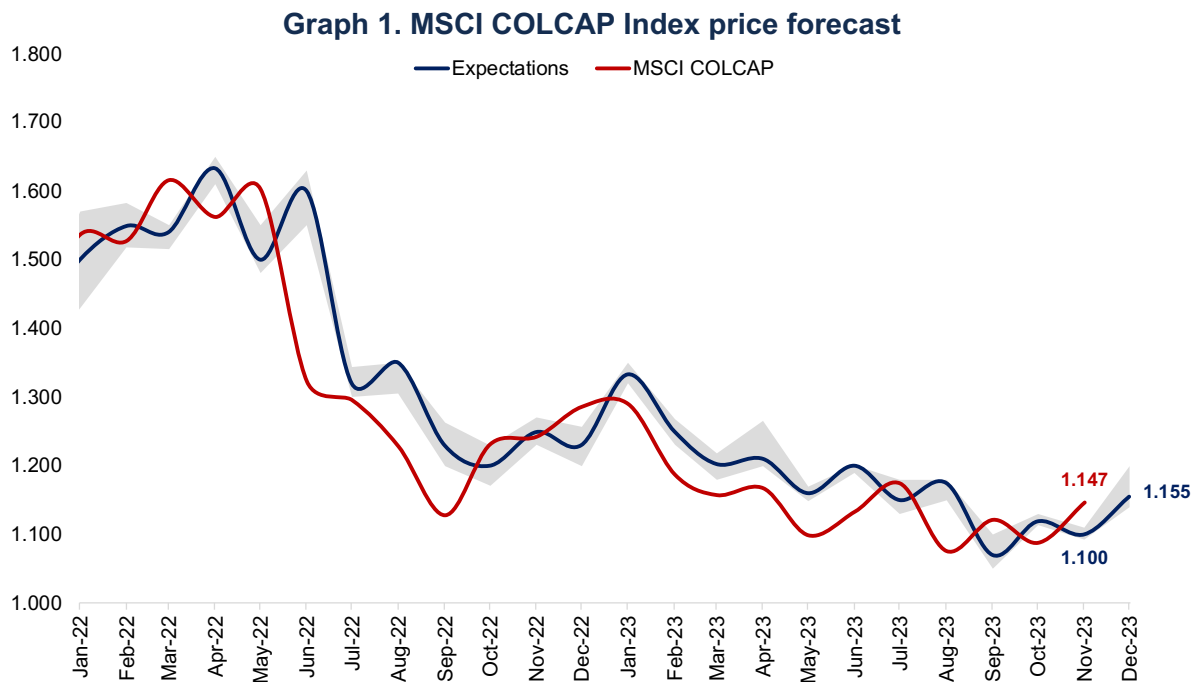
The **Crash Confidence Index** stood at 43.8%, down 3.6 pps versus the previous month and down 12.5 pps versus the same month in 2022. This indicates that analysts consider the market more vulnerable to downturns in international markets compared to the previous month and compared to a year ago.

Finally, the **Valuation Confidence Index** stood at 96.9%, up 4.0 pps from the previous month's level and down 3.1 pps from the same month in 2022. The above implies that a higher proportion of analysts believe that stock values underestimate the value of their fundamentals versus November 2023 and a lower proportion versus December 2022.

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 December 2023 (up to December 15) is at 1,153.15, which represents an appreciation of 3.3% with respect to the average for November 2023 (1,116.29) and a devaluation of 6.8% with respect to the average for December 2022 (1,237.66).

At the end of November, the MSCI COLCAP stood at 1,146.87, which corresponds to 46.9 units above the analysts' forecast (1,100.0). By the end of December, the index is expected to be in a range between 1,140 and 1,200, with a median response of 1,155.0 (Graph 1).

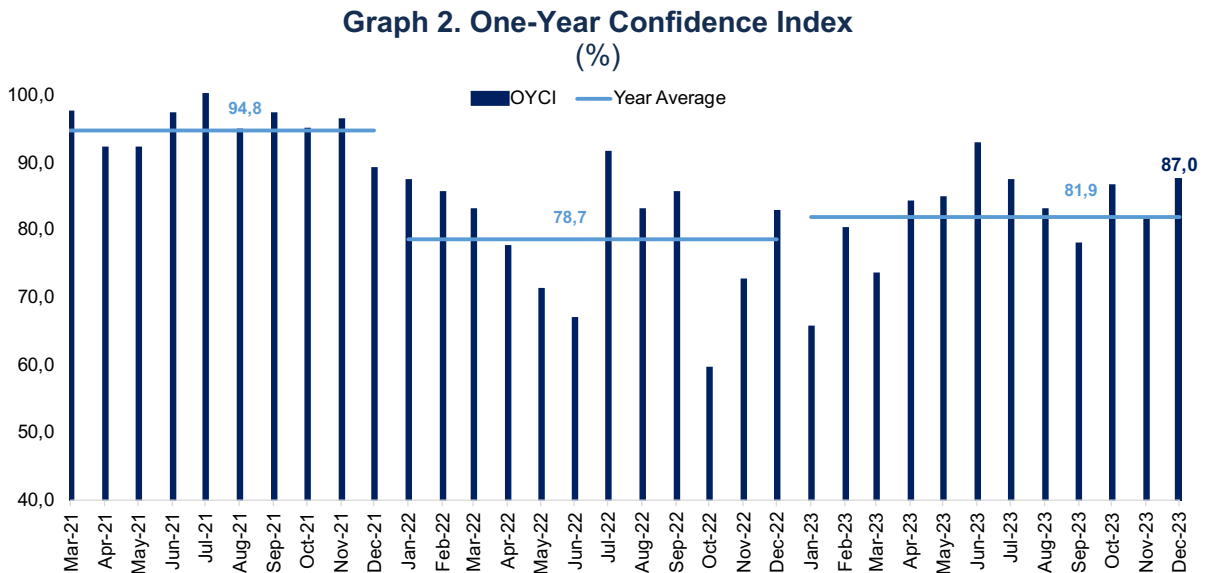


Source: Financial Opinion Survey, Fedesarrollo – bvc.

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 87.0%, indicating that this percentage of respondents expect an increase in the index in December 2024 from the current level (1,145.28) (Graph 2). The index experienced an increase of 5.5 pps versus the previous month (81.5%) and of 4.3 pps versus the same month of the previous year, reflecting a monthly and annual increase in stock market confidence.



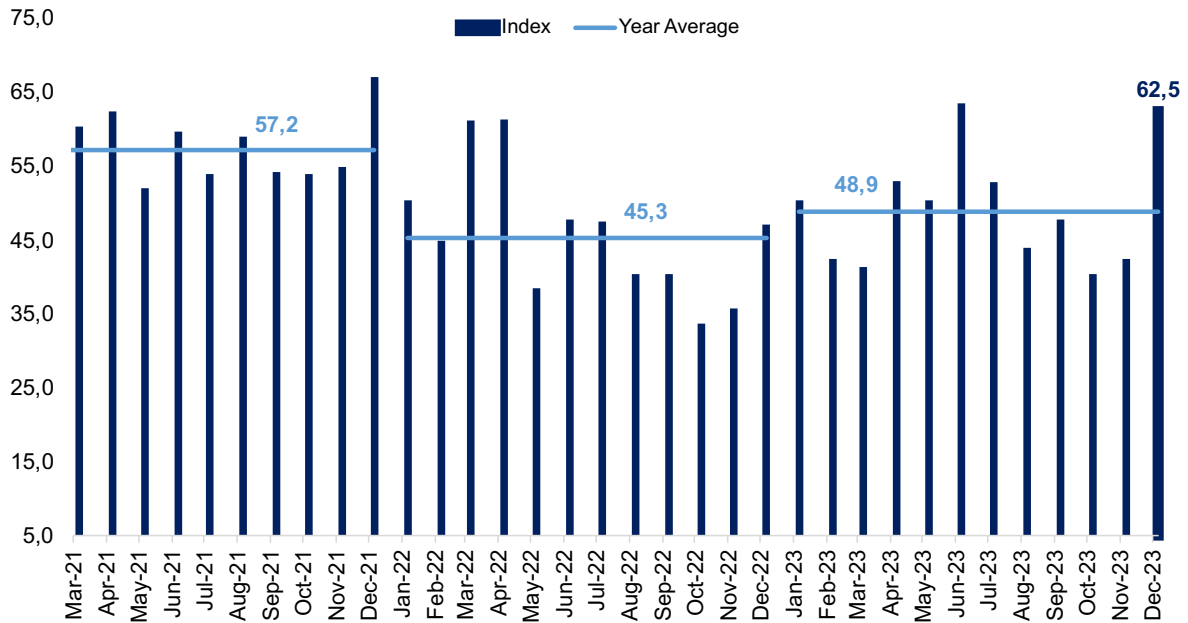
Source: Financial Opinion Survey, Fedesarrollo – bvc.

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 proportion of the analysts expecting a rebound the next day that the market hypothetically dropped 3%. The index increased in December 2023 compared to November of the same year, standing at 62.5% (Graph 3). Likewise, analysts consider an immediate recovery of COLCAP more likely compared to the 2022 average (45.3%).

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



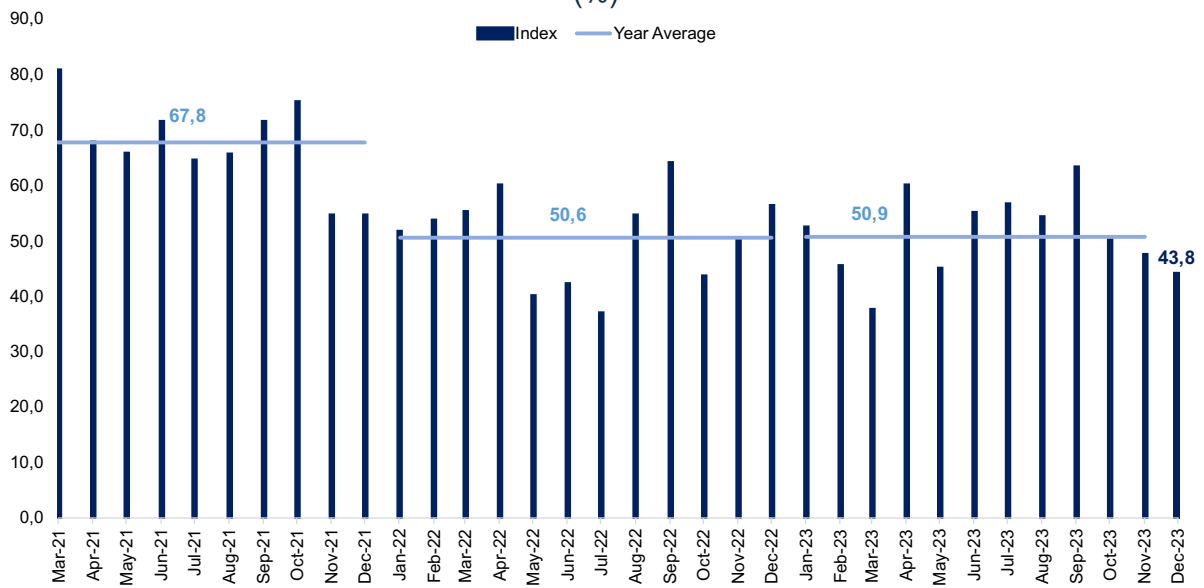
Source: Financial Opinion Survey, Fedesarrollo – bvc.

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 December, the index decreased 3.6 pps with respect to the previous month's result (47.4%), standing at 43.8%, 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 November (Graph 4). On the other hand, the index was 12.5 pps below the figure recorded in the same month of the previous year.

Graph 4. Crash Confidence Index
(%)



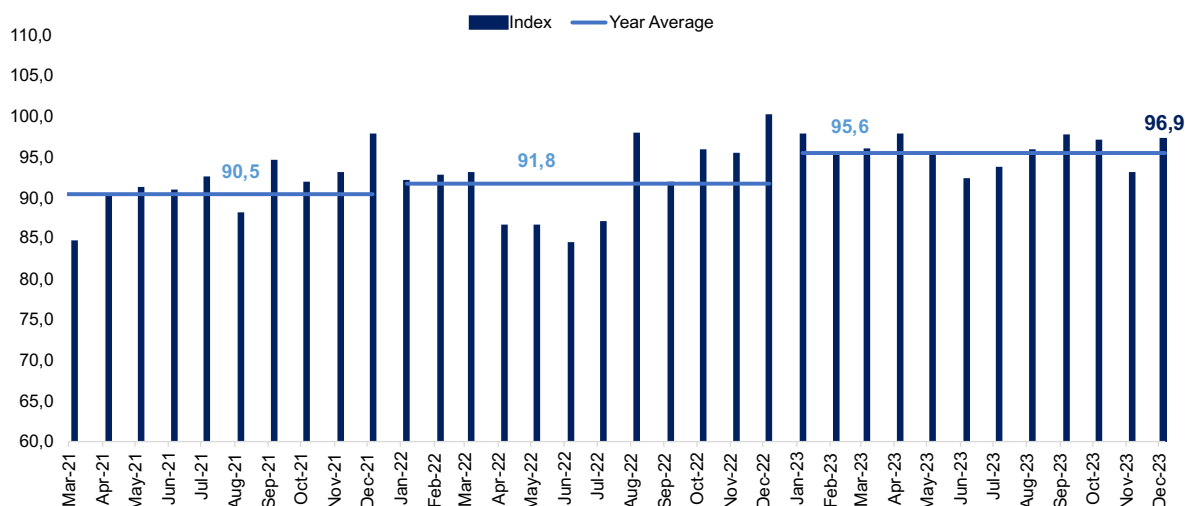
Source: Financial Opinion Survey, Fedesarrollo – bvc.

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 December, the index stood at 96.9%, which is 4.0 pps above the November level (92.9%) and 3.1 pps below the December 2022 level (100.0%). This indicates that a higher proportion of analysts versus the previous month and a lower 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:
 $Valuation\ Confidence\ Index = (1 * (\% \text{ too low})) + (0.5 * (\% \text{ about right}))$, 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”.