

Stock market confidence indices

February 2021

Bulletin No. 4



In February, the **One-Year Confidence Index** reached 95.5%, compared to the previous month this represents an increase of 3 pp and relative to February 2020 an increase of 8.0 pp. This result shows that the proportion of analysts who expects a valuation of the COLCAP index in one year jumped compared to the last month, as well as compared to the previous year.

The **Buy-on-Dips Confidence Index** reached 52.9%, which represents a decrease of 6.4 pp compared to the past month and an increase of 12,9 pp relative to the previous year.

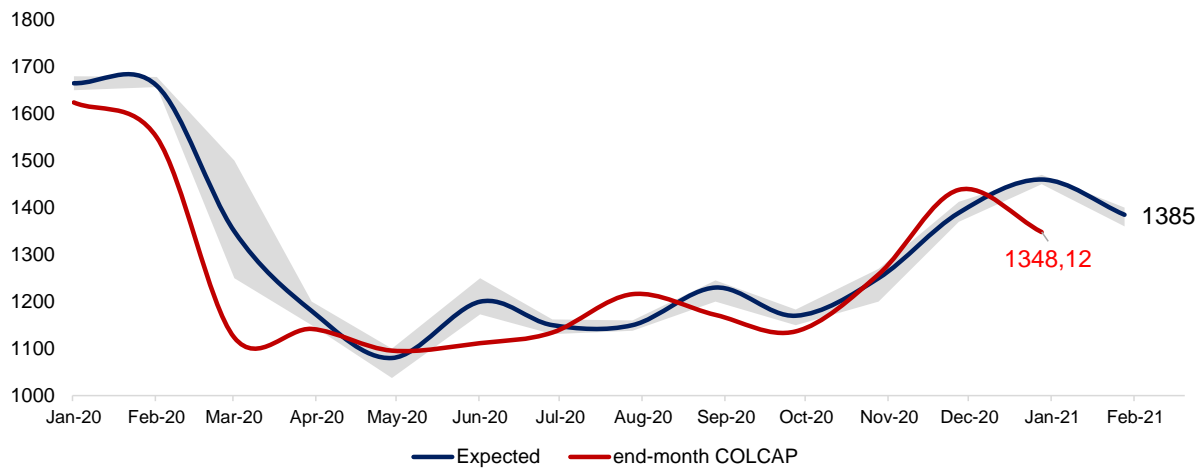
The **Crash Confidence Index** reached 74.36%, which represents an increase of 5.8 pp compared to the past month and an of 15.7 pp relative to the previous year.

Finally, the **Valuation Confidence Index** reached 89.71%, which represents an increase of 7.4 pp compared to the past month and 14.2 pp relative to the previous year.

The Colombian 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. Currently, the COLCAP stands at low levels as compared to the past few years. The year-to-date average reached 1,368.62, which reflects a 4.19% devaluation relative to the average in January and an 16.41% devaluation with respect to the average in February 2020.

At the end of January, the COLCAP Index reached 1,348.12, this level is 112 units under the analyst's forecast (1,460.00). By the end of February, it is expected that the index ranges between 1,360.00 and 1,400.00, with 1,385.00 as the median response (Graph 1).

Graph 1. 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.

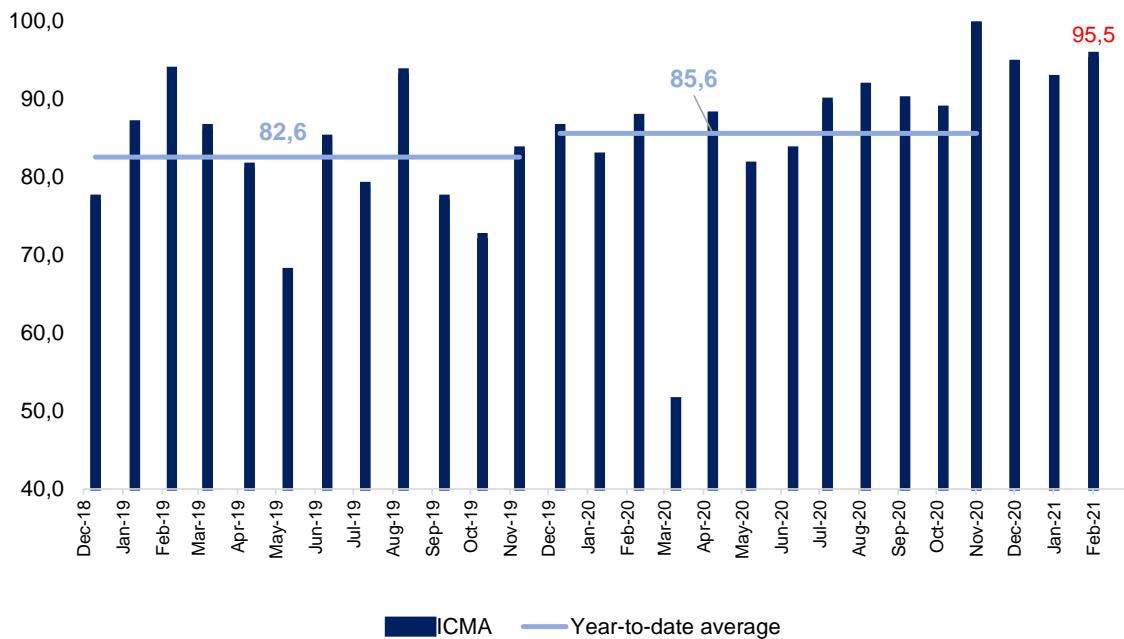
One-Year Confidence Index¹

The One-Year Confidence Index measures the proportion of analysts expecting an increase in the COLCAP in the coming year. In this edition, the index peaked at 95.5%, which indicates that more than 95% of the respondents expect an increase of the index in February 2022 regarding the current level (Graph 2). As against the past month (92.5%), this implies an increase of 3 pp, and regarding the year-to-date mean (94%) an increase of 1.5 pp.

The confidence in the stock market presented a quick recovery after the sharp fall registered in March (51.2%). Despite the covid crisis since July the index remains at levels above the current year average and near to 90.0%. In the beginning of 2021, it continues reflecting positive expectations.

Graph 2. One-Year Confidence Index

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



Source: Financial Opinion Survey, Fedesarrollo – BVC

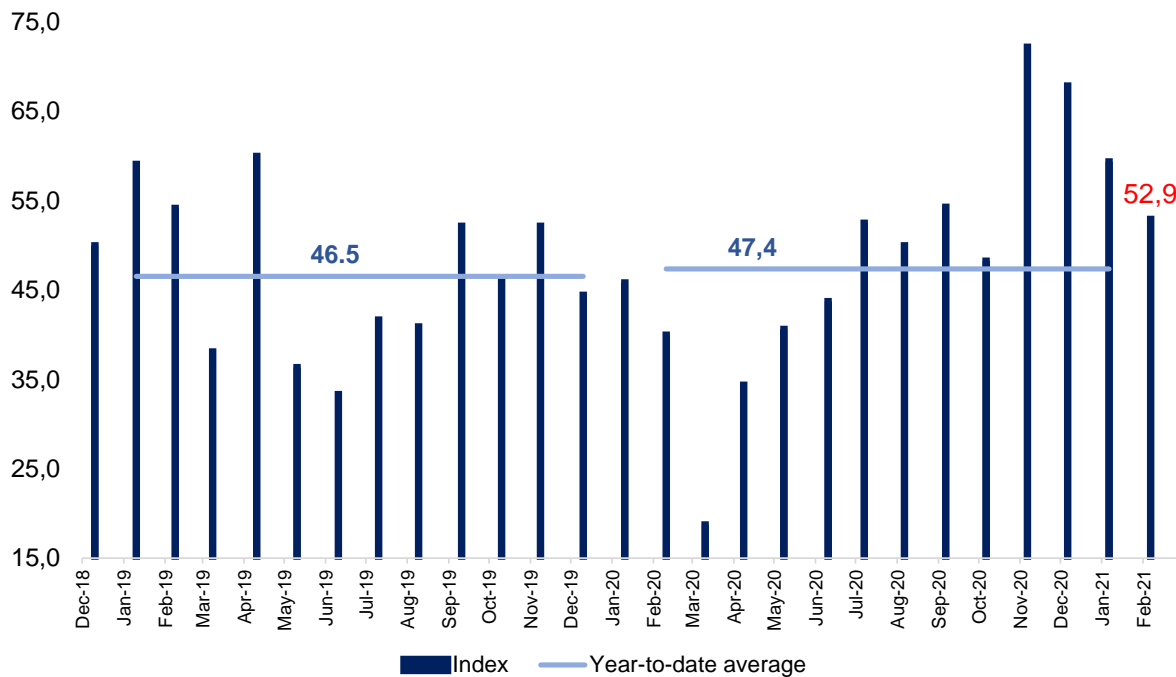
Buy-on-Dips Confidence Index²

The Buy-on-Dips Confidence Index establishes the percent of the analysts expecting a rebound the next day should the market ever drop 3% in one day. This month the index reached 52.9%.

After dropping to a minimum level in March (18.8%), the index presents a positive trend which receded slightly in August and October (Graph 3). In January, the index decreased 8.5 pp regarding the previous month (67.9%), this implies that a lower proportion of analysts expect a recovery of the COLCAP after a drop the day before. In February of 2021, the index showed a decrease of 6.4 pp compared to the last month, which implies lower expectations of stability and a future recovery of the COLCAP. Finally, compared to the year-to-date average (56.2%) this month was below by 3.2 pp.

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

Graph 3. Buy-on-Dips Confidence Index



Source: Financial Opinion Survey, Fedesarrollo – BVC

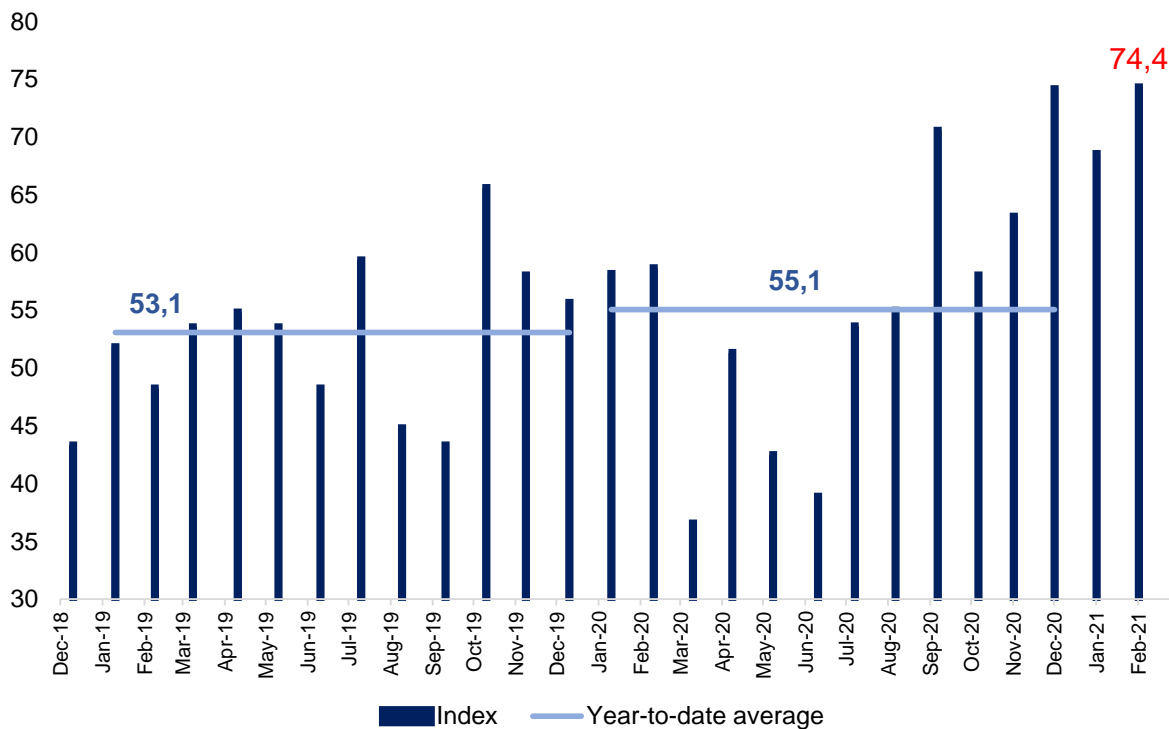
Crash Confidence Index³

The Crash Confidence Index shows the proportion of analysts who attach little probability to a stock market crash in the next six months before a substantial drop in the international markets.

In February, the index reached 74.36%, which represents an increase of 5.8 pp compared to last month (68.6%) and of 2.9 pp relative to the year-to-date average (71.5%). This result implies an increase in the number of analysts who perceive a low probability of a fall in the local stock market before a substantial drop in the international markets (Graph 4).

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.

Graph 4. Crash Confidence Index



Source: Financial Opinion Survey, Fedesarrollo – BVC

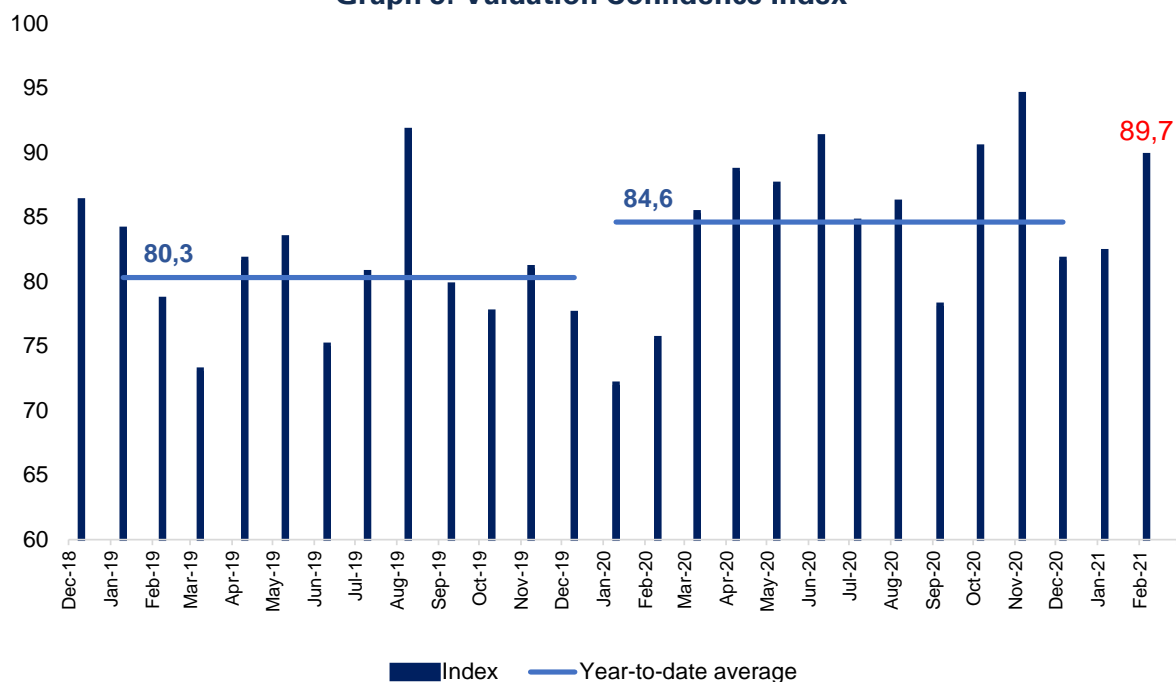
Valuation Confidence Index⁴

The Valuation Confidence Index is the proportion of analysts who think that the market is not too high compared with measures of true fundamental value (Graph 5).


In February, the index reached 89.71%, which means 7.4 pp over the last month of 2020 (82.3%). This result represents an increase of 14.2 pp as compared to the same month in 2020 and of 3.7 pp relative to the year-to-date average (86%). However, since the first measurement of the index, it has stood in values above 60%. This indicates that over half of the analysts consider the stock prices are too low or about right regarding the fundamental value.

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”.

Graph 5. Valuation Confidence Index



Source: Financial Opinion Survey, Fedesarrollo – BVC



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Published February 22, 2021

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