

Stock market confidence indices

October 2021

Bulletin No. 12



In October, the **One-Year Confidence Index** reached 94.74%, which means a decrease of 2.2 pp compared to the previous month and an increase of 6.2 pp relative to October 2020. This result shows that the proportion of analysts who expects a valuation of the COLCAP index in one year fell compared to the last month and jumped compared to the previous year.

The **Buy-on-Dips Confidence Index** reached 53.57%, which represents a decrease of 0.3 pp compared to the past month and an increase of 5.3 pp relative to the previous year.

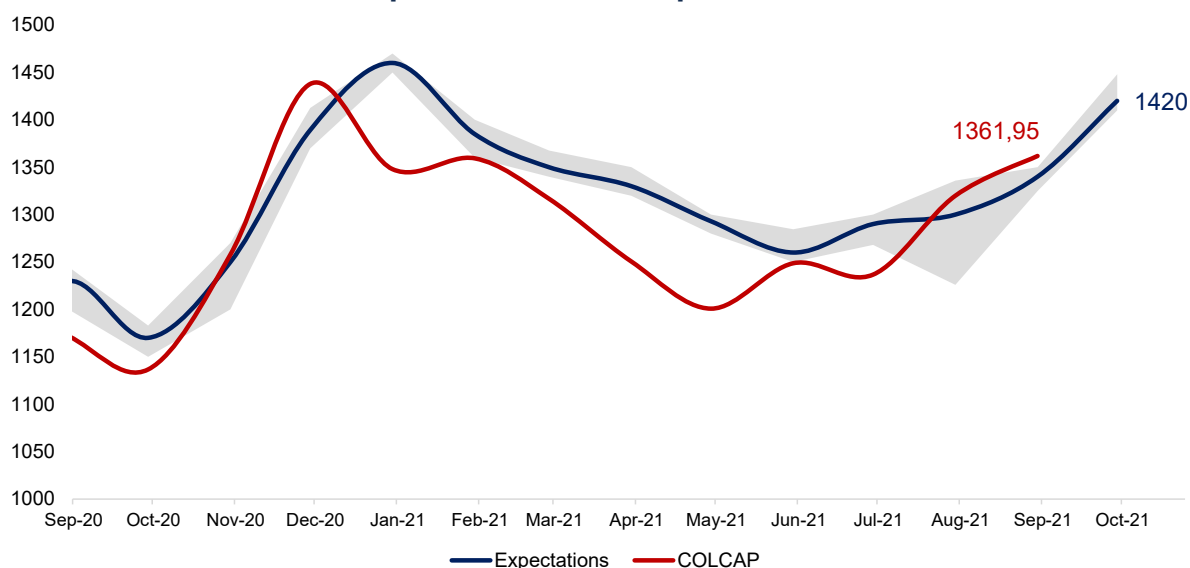
The **Crash Confidence Index** reached 75.0%, which represents an increase of 3.6 pp compared to the past month and of 16.9 pp relative to the previous year.

Finally, the **Valuation Confidence Index** reached 91.67%, which represents a decrease of 2.8 pp compared to the past month and an increase of 1.3 pp relative to the previous year.

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 of the index so far in October is placed at 1,394.67, which reflects a 5.29% valuation relative to the average in September and a 19.46% valuation with respect to the average in October 2020.

At the end of September, the MSCI COLCAP Index reached 1,361.95, this level is 22 units above the analyst's forecast (1,340). By the end of October, it is expected that the index ranges between 1,410 and 1,448, with 1,420 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.

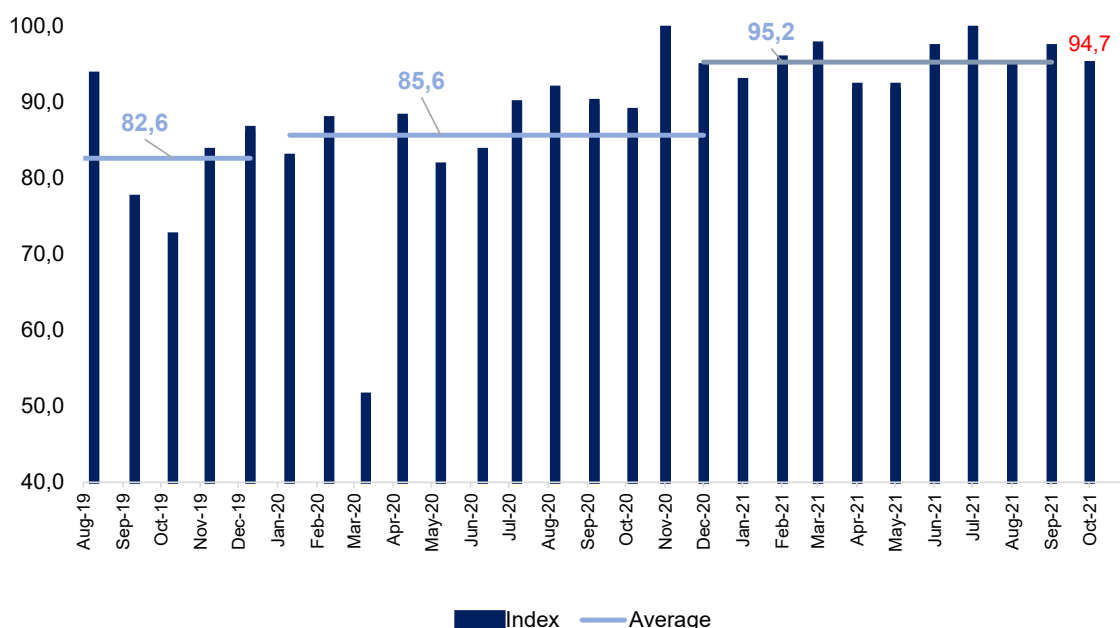
One-Year Confidence Index¹

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 reached 94,7%, which indicates that more than 90% of the respondents expect an increase of the index in October 2022 regarding the current level (Graph 2). Against the past month (97.0%), the index decreased 2.2 pp, and regarding the year-to-date mean (95.2%) of 0.5 pp.

During 2021, it has been seen a positive trend that stopped with the drop of April and May (91.9%), which was due to the uncertainty about economic and political issues, in the midst of important reforms, the social unrest and also the persistent third Covid wave.

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.

Graph 2. One-Year Confidence Index



Source: Financial Opinion Survey, Fedesarrollo – BVC

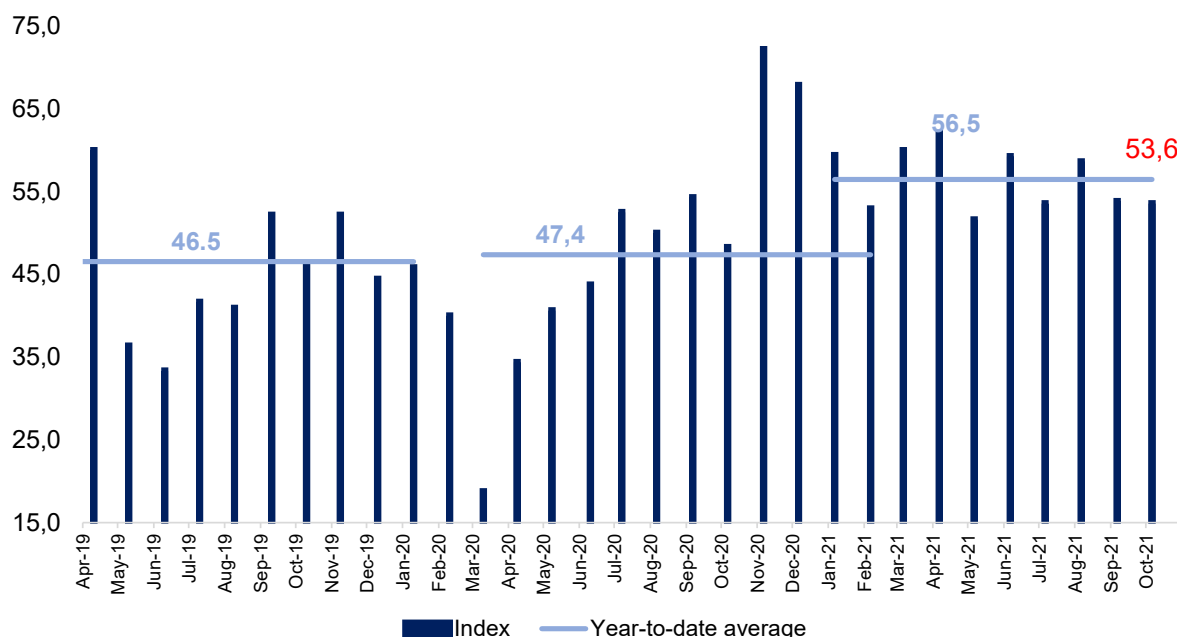
Buy-on-Dips Confidence Index²

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 53.57%.

In 2021 the index showed a slow recovery during March and April, implying a higher proportion of analysts expecting a recovery of the COLCAP after a drop the day before, although the levels continued below November and December levels (Graph 3). This month the index decreased 0.3 pp compared to the last month, showing lower expectations of stability and a future recovery of the COLCAP. Finally, compared to the year-to-date average (56.5%) this month was below by 2.9 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

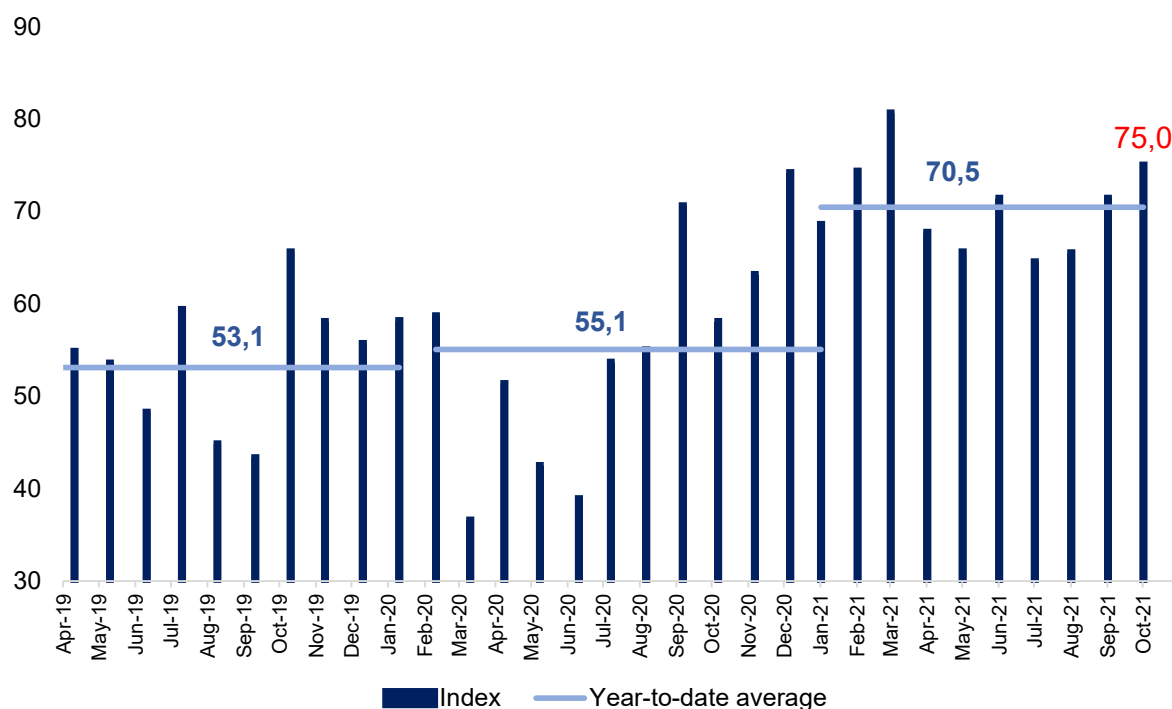
Crash Confidence Index³

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 October, the index reached 75.0%, which represents an increase of 3.6 pp compared to last month (71.4%) and of 4.5 pp compared to the year-to-date average (70.5%). This result implies a rise 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

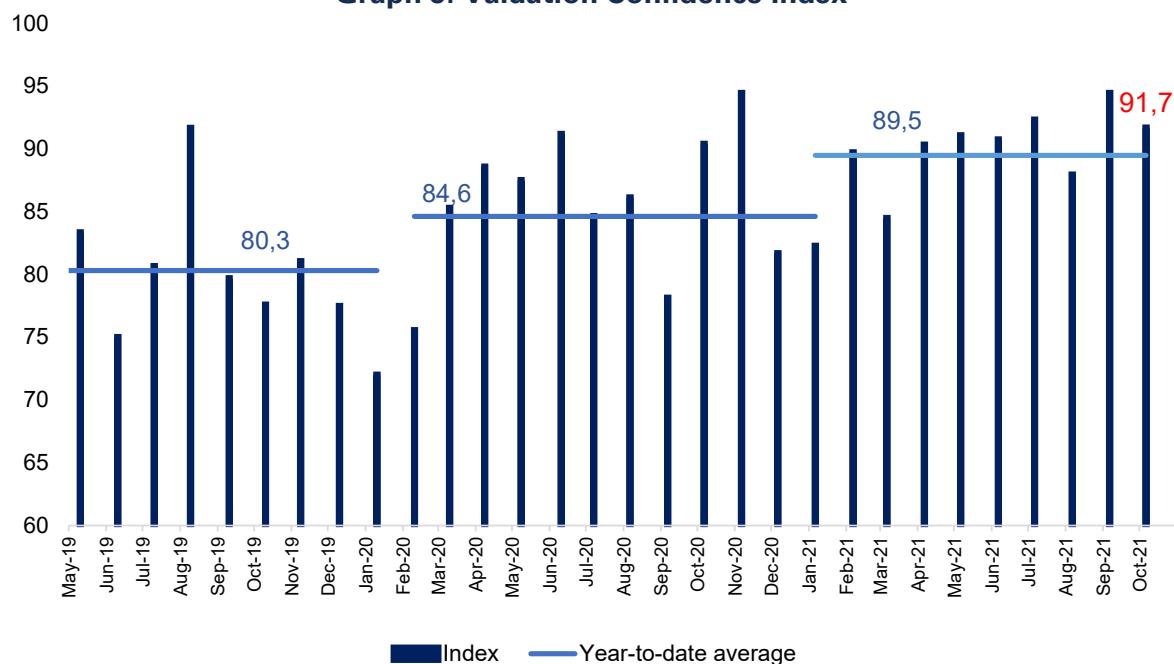
The Valuation Confidence Index is the proportion of analysts who think that the market is not too high compared with measures of true fundamental value (Graph 5).

In October, the index reached 91.67%, which means 2.8 pp below the last month (94.4%). This result represents an increase of 1.3 pp compared to the same month in 2020 and an increase of 2.2 pp relative to the year-to-date average (89.5%). It is highlighted that 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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