

Stock market confidence indices

December 2021

Bulletin No. 14



In December, the **One-Year Confidence Index** reached 88.89%, which means a decrease of 7.3 pp compared to the previous month and of 5.6 pp relative to December 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 to the previous year.

The **Buy-on-Dips Confidence Index** reached 66.67%, which represents an increase of 12.1 pp compared to the past month and a decrease of 1.2 pp relative to the previous year.

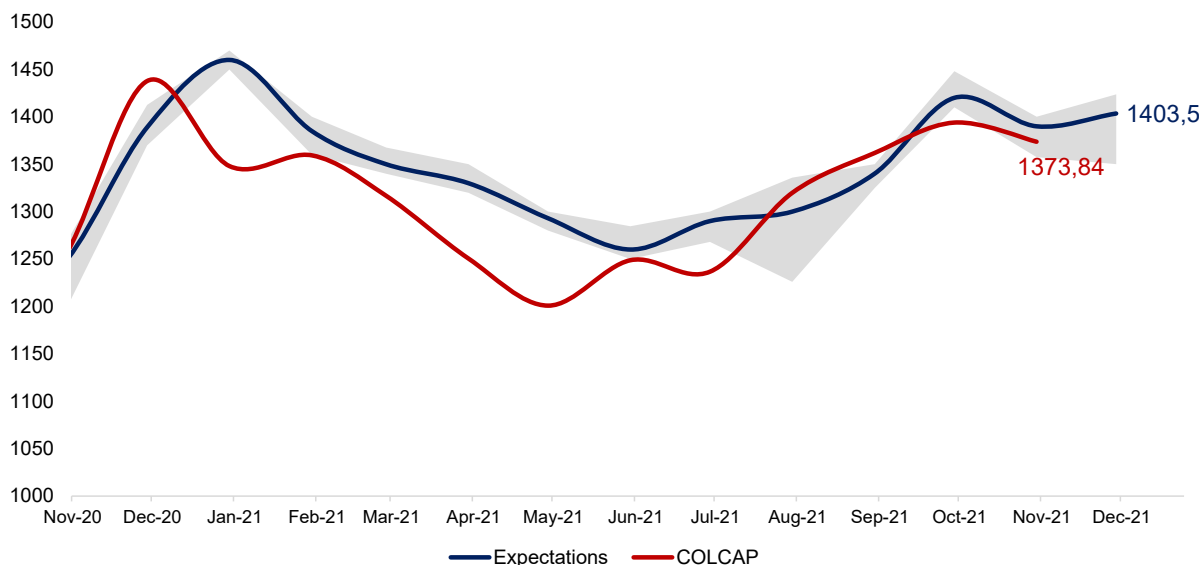
The **Crash Confidence Index** reached 54.55%, staying at the same level that the previous month and decreasing 19.6 pp relative to December of 2020.

Finally, the **Valuation Confidence Index** reached 97.62%, which represents an increase of 4.8 pp compared to the past month and of 16 pp relative to the same month one year ago.

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 December is placed at 1,417.07, which reflects a 4.66% valuation relative to the average in November and a 2.20% valuation with respect to the average in December 2020.

At the end of November, the MSCI COLCAP Index reached 1,373.84, this level is 16 units below the analyst's forecast (1,390). By the end of December, it is expected that the index ranges between 1,350 and 1,423, with 1,403 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.

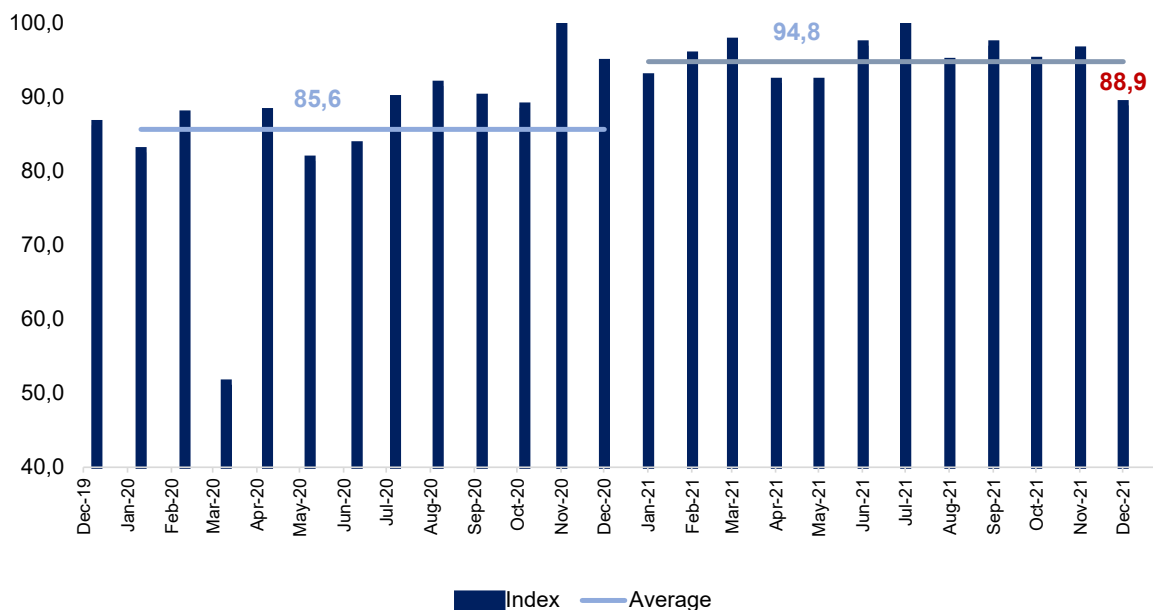
One-Year Confidence Index¹

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 88.89%, which indicates that more than 85% of the respondents expect an increase of the index in December 2022 regarding the current level (Graph 2). Against the past month (96.2%), the index decreased 7.3 pp, and regarding the year-to-date mean (94.8%) of 5.9 pp.

This year started with the index in 92,5%, then, the highest point was seen in July (100%). Closing 2021, December is the only month with an under 90% result.

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

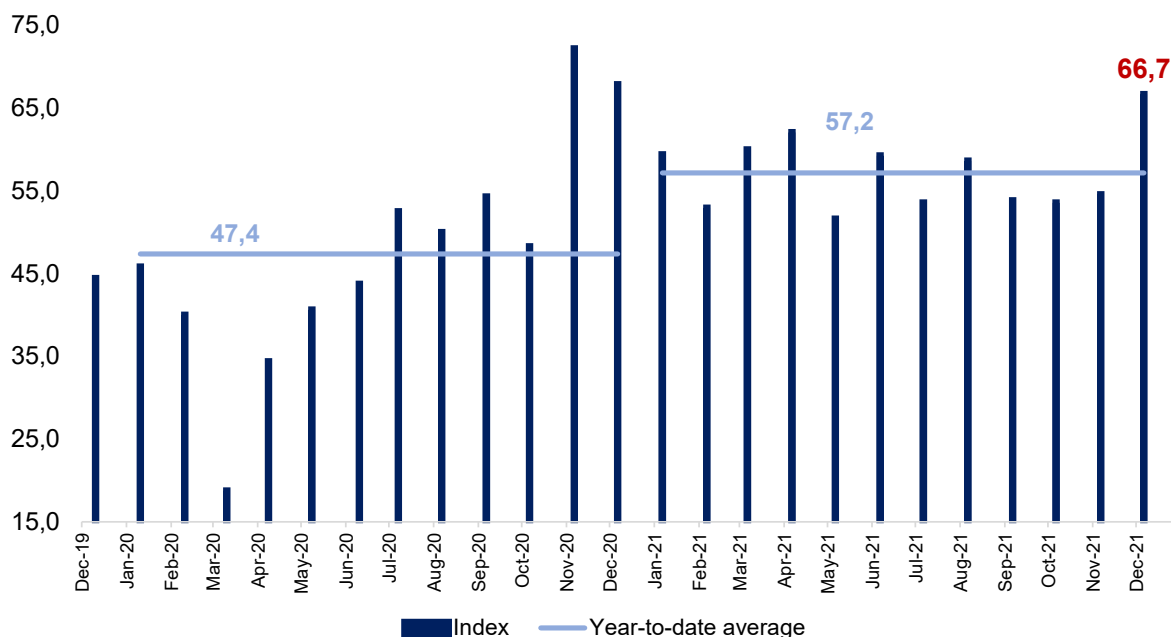
Buy-on-Dips Confidence Index²

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 66.67%.

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 reached its highest level of the year; relative to November it increased 12.1 pp and 9.5 pp relative to the average of 2021. Comparing with December 2020 it is observed a decrease of 1.2 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

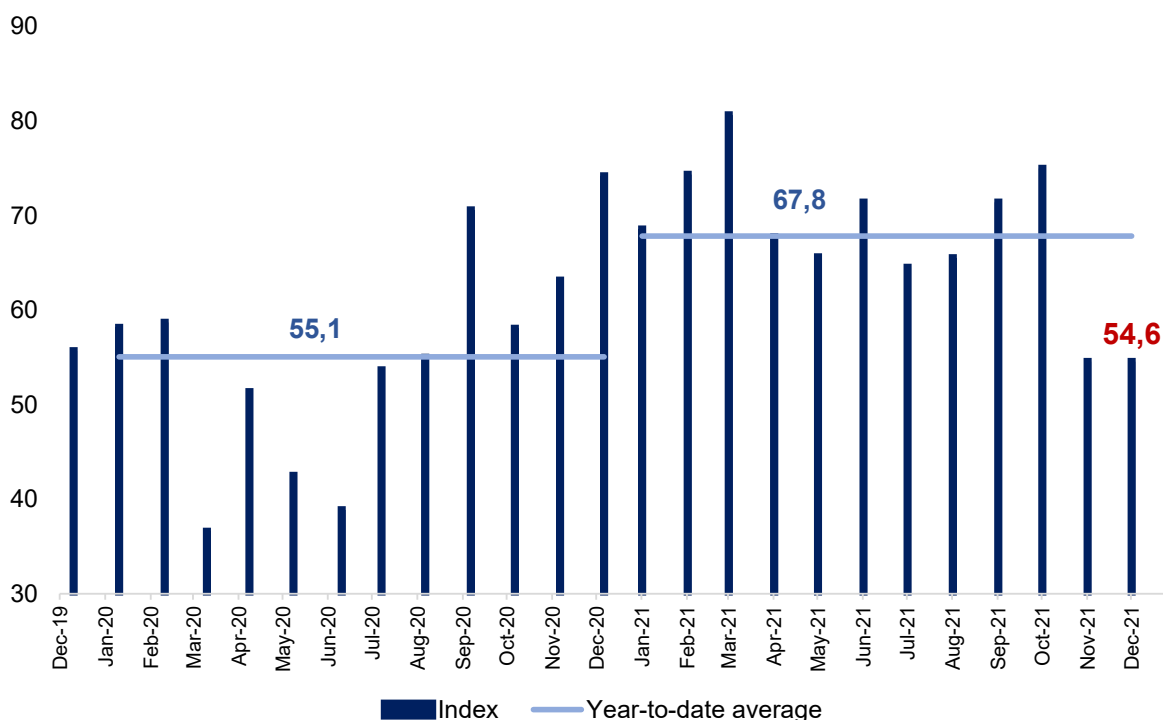
Crash Confidence Index³

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 December, the index reached 54.6%, which represents the same result of the previous month and a decrease of 13.3 pp compared to 2021's average (67.8%). This result shows stability 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). However, the last two months registered a substantial drop compared to the previous months and to December 2020 (74.2%).

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

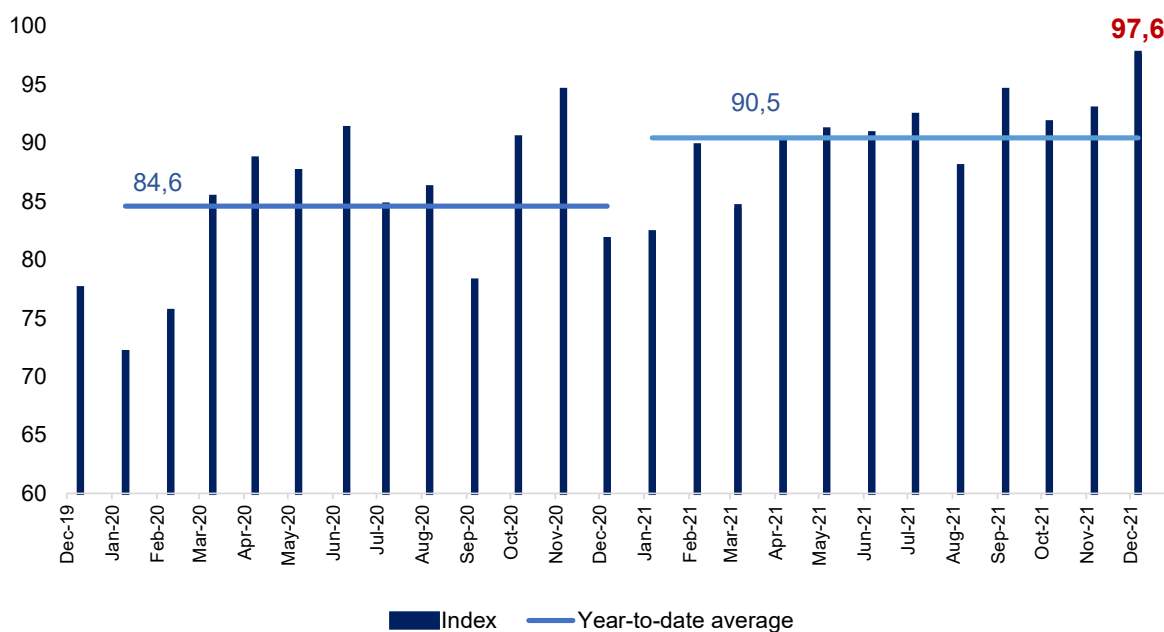
Valuation Confidence Index⁴

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 December, the index reached 97.62%, which means 4.8 pp above the last month (92.9%) and represents an increase of 16 pp compared to the same month in 2020. It is highlighted that in this edition the index reached its highest level since 2018. Thus, the last quarter shows a positive trend, and the year average was 90.5%

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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