

Stock market confidence indices

February 2022

Bulletin No. 16



In February, the **One-Year Confidence Index** reached 85.29%, which means a decrease of 1.9 pp compared to the previous month and of 10.2 pp relative to February 2021. This result shows that the proportion of analysts who expects a valuation of the MSCI COLCAP index in one year fell compared to the last month and to the previous year.

The **Buy-on-Dips Confidence Index** reached 44.44%, which represents a decrease of 5.6 pp compared to the past month and a decrease of 8.5 pp relative to the previous year.

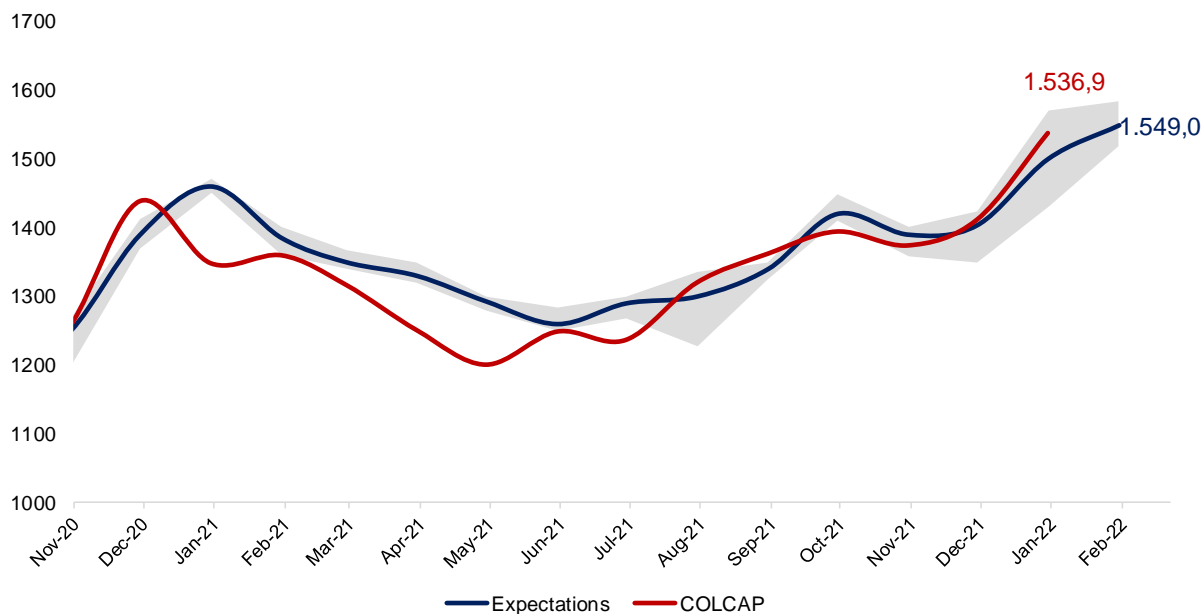
The **Crash Confidence Index** reached 53.57%, meaning that it increased 2.1 pp compared to the previous month, but decreased 20.8 pp relative to February of 2021.

Finally, the **Valuation Confidence Index** reached 92.59%, which represents an increase of 0.7 pp compared to the past month and an increase of 2.9 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 February is placed at 1,527.25, which reflects a 2.81% valuation relative to the average in January, and a 12.03% valuation with respect to the average in February 2021.

At the end of January, the MSCI COLCAP Index reached 1,536.92, this level is 37 units over the analyst's forecast (1,500). By the end of February, it is expected that the index ranges between 1,518 and 1,583, with 1,549 as the median response (Graph 1).

Graph 1. MSCI COLCAP Index price forecast



Source: Financial Opinion Survey, Fedesarrollo – BVC

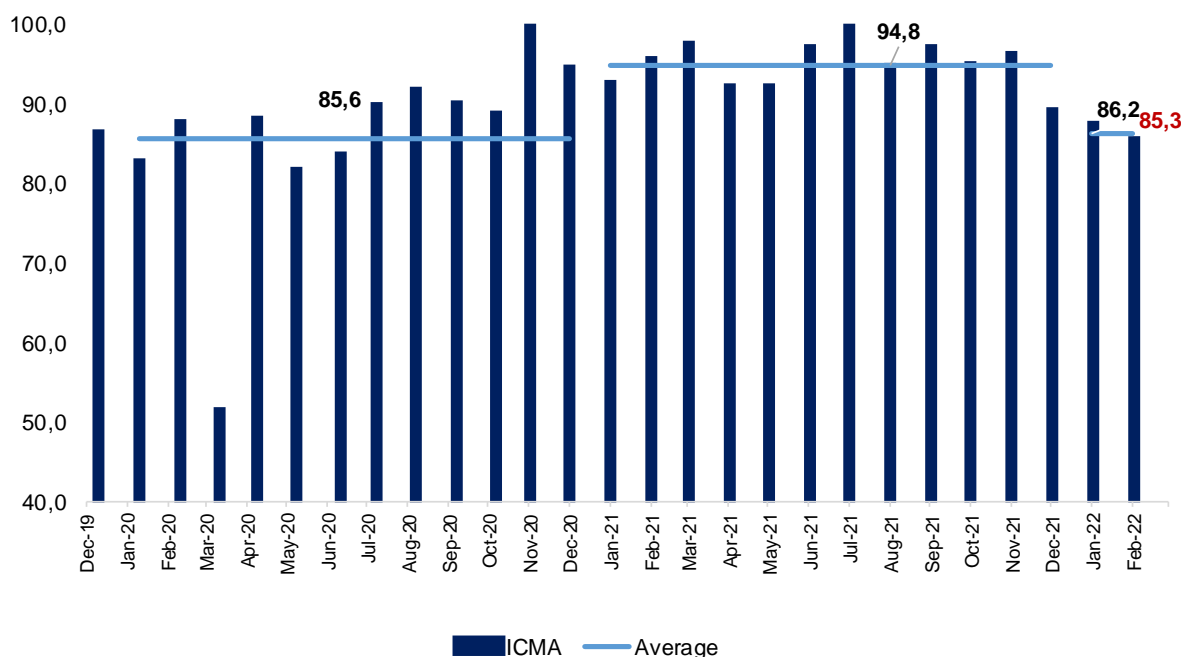
The four confidence indices for the Colombian stock market are presented down below. These indices are calculated based on the Shiller (2000) methodology and using the analysts' expectations collected in the Financial Opinion Survey.

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 reached 85.29%, which indicates that close to 85% of the respondents expect an increase of the index in February 2023 regarding the current level (Graph 2). Also is important to notice that the index is placed below the average that it had in 2021 and in 2020, showing that the confidence in the MSCI COLCAP it dropped compared to the last year.

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.

Graph 2. One-Year Confidence Index



Source: Financial Opinion Survey, Fedesarrollo – BVC

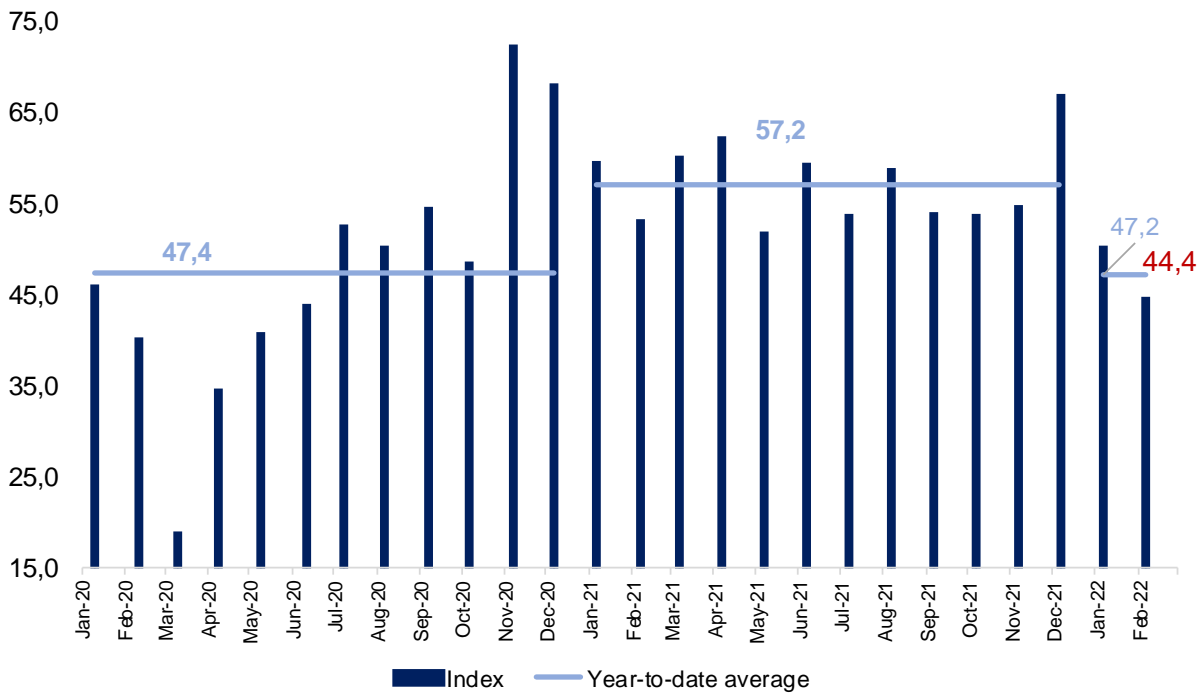
Buy-on-Dips Confidence Index²

The Buy-on-Dips Confidence Index establishes the percent of the analysts expecting a rebound the next day that the market hypothetically dropped 3%. This month the index reached 44,44%.

In 2020 the index showed very low numbers, considering that it was the year where the pandemic started to affect the entire world, and as is possible to see, even though January of 2022 locates the index close to the 2020 average, in February it dropped (Graph 3). Relative to January it decreased 5.6 pp. Compared to with February 2021 it is observed a decrease of 8.5 pp.

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.

Graph 3. Buy-on-Dips Confidence Index



Source: Financial Opinion Survey, Fedesarrollo – BVC

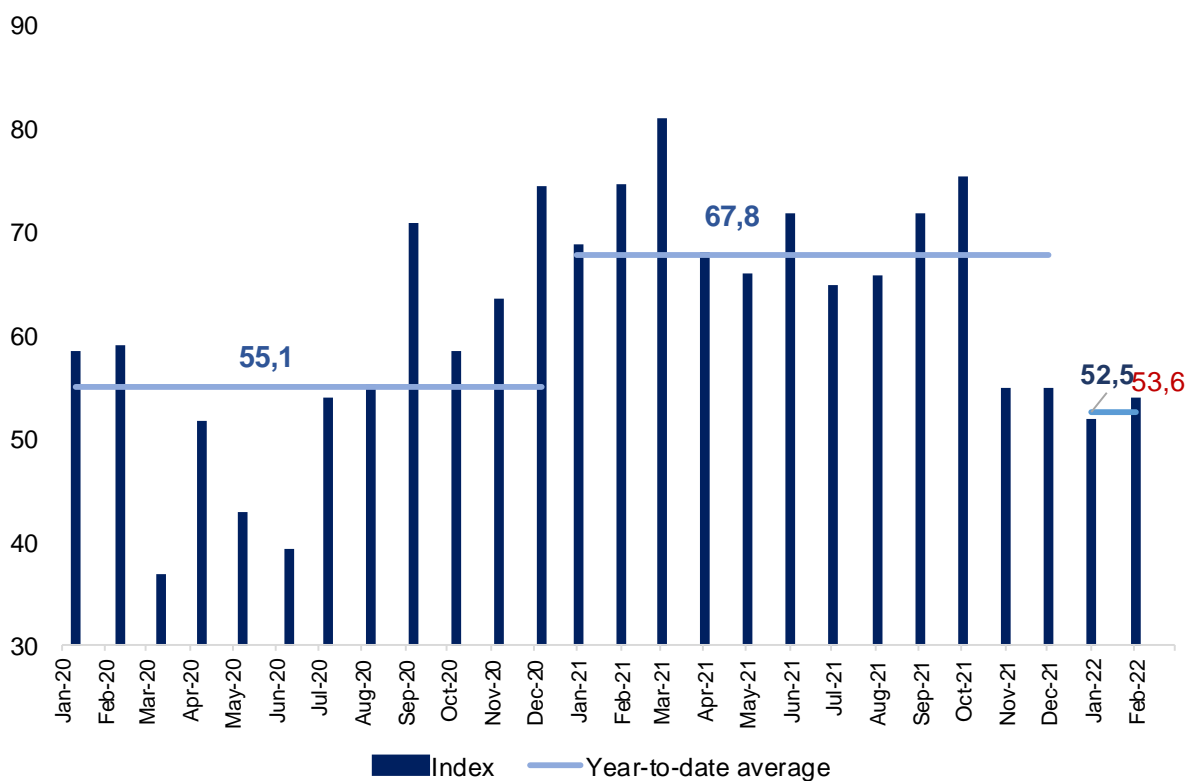
Crash Confidence Index³

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 had an increase of 2.1 pps compared to January, placing itself at 53,57%. This result shows that the number of analysts who perceive a low probability of a fall in the local stock market after a substantial drop in the international markets has increased after the 2021 ended, and even compared to January (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

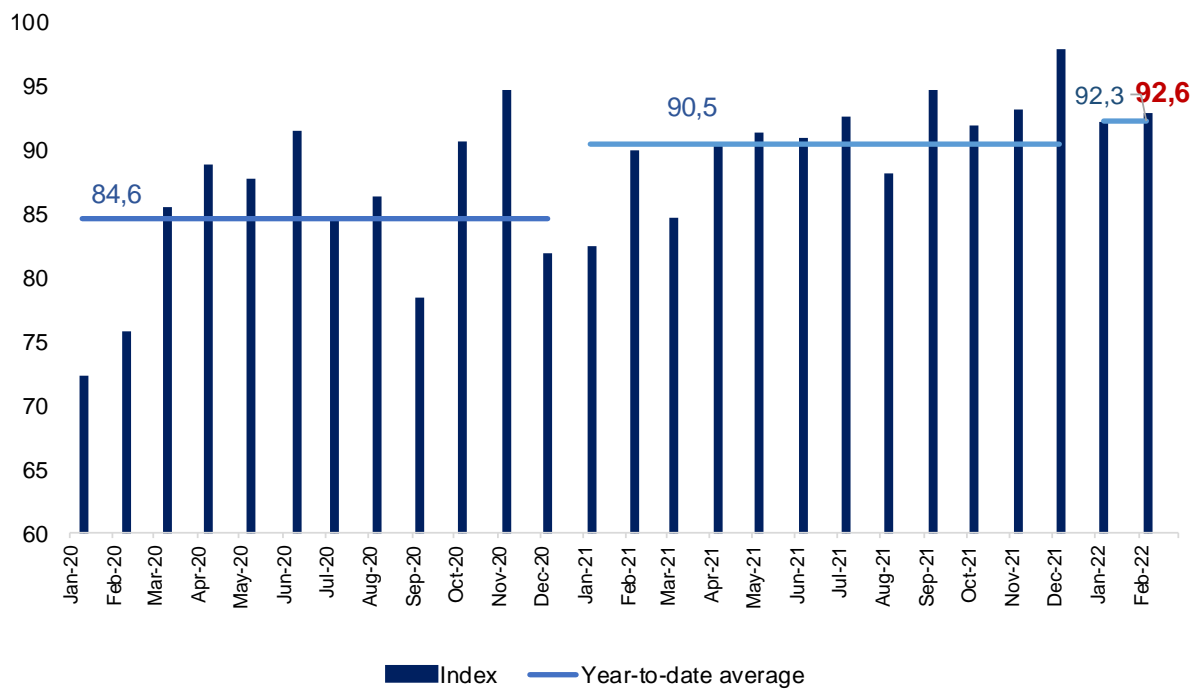
Valuation Confidence Index⁴

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 92.59%, which means 0.7 pp over the last month (91.6%) and represents an increase of 2.9 pp compared to the same month in 2021. It is evident that the average so far in 2022 is placed over the average in 2021.

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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