Stock market confidence indices
September 2022
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FEDESARROLLO
Centro de Investigación Económica y Social

In September, the **One-Year Confidence Index** reached 85,3%, which means a growth of 2,5 pp compared to the previous month and a reduction of 11,7 pp relative to the same month in 2021. This result shows that the proportion of analysts who expects a valuation of the MSCI COLCAP index in one year increased compared to the last month and compared to the previous year.

The **Buy-on-Dips Confidence Index** reached 40,0%, which represents a stable behavior compared to the past month and a decrease of 13,9 pp relative to the same month of 2021. The previous implies that analysts consider a MSCI COLCAP increase with the same probability than the day after a potential drop in the index compared to August 2022 but less likely than September 2021.

The **Crash Confidence Index** reached 64,0%, meaning that it increased 9,5 pp compared to the previous month and decreased 7,4 pp relative to September 2021. This indicates that analysts consider the market to be more vulnerable to downturns in international markets compared to a year ago.

Finally, the **Valuation Confidence Index** reached 91,7%, which represents an increase of 6,1 pp relative to the previous month and 2,8 pp compared to the same month of 2021. This implies that a smaller proportion of analysts believe that stock values underestimate the value of their fundamentals.

MSCI COLCAP Index

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 so far in September 2022 (until September 15th) is at 1.213,70, which represents a depreciation of 8,15% with respect to the average of August 2022 (1.321,38) and 8,29% with respect to the average of September 2021 (1.323,37).

At the end of August, the MSCI COLCAP Index reached 1.228,33. This level is 121,7 units below the analyst's forecast (1.350). By the end of September, it is expected that the index ranges between 1.200 and 1.263, with 1.230 as the median response (Graph 1).

**Graph 1. MSCI COLCAP Index price forecast**
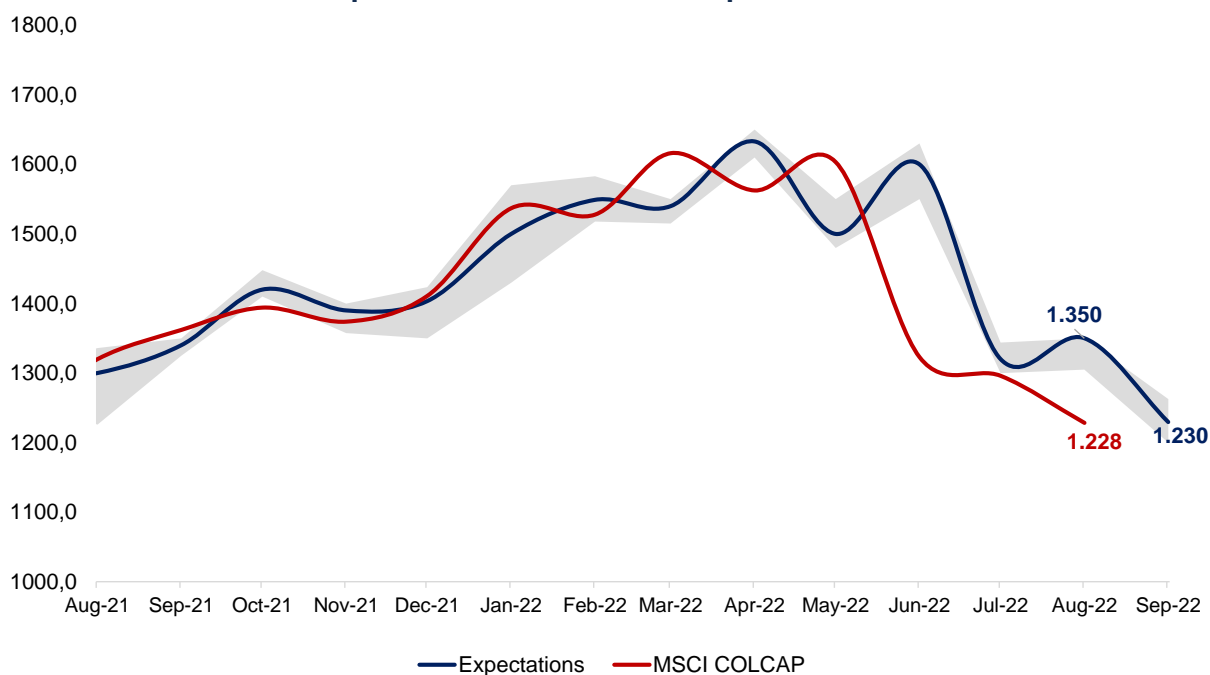
Source: Financial Opinion Survey, Fedesarrollo – BVC

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.

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One-Year Confidence Index[1]

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 85,3%, which indicates that this proportion of the respondents expect an increase of the index in September 2023 from its current level (1.213,70) (Graph 2). The index experienced an increase of 2,5 pp compared to the previous month (82,8%) and a reduction of 11,7 pp compared to the same month of the previous year (97,0%), which reflects a monthly growth in the stock market confidence even with the annual drop.
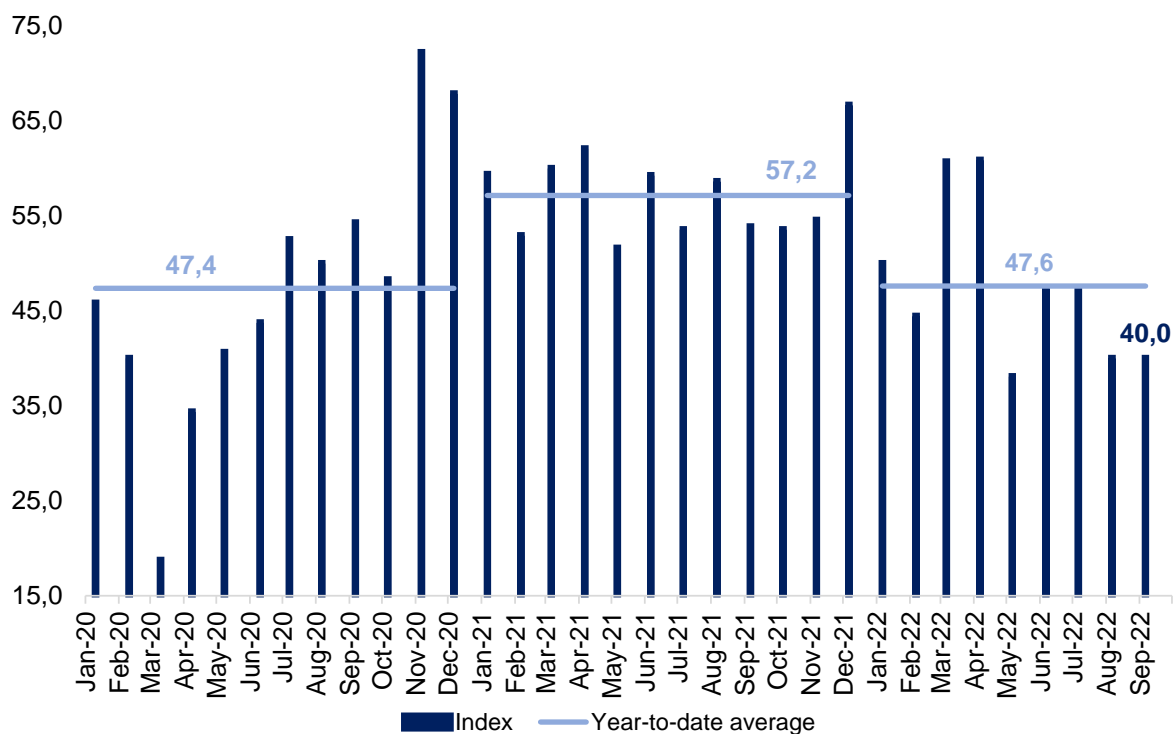
Graph 2. One-Year Confidence Index
(%)
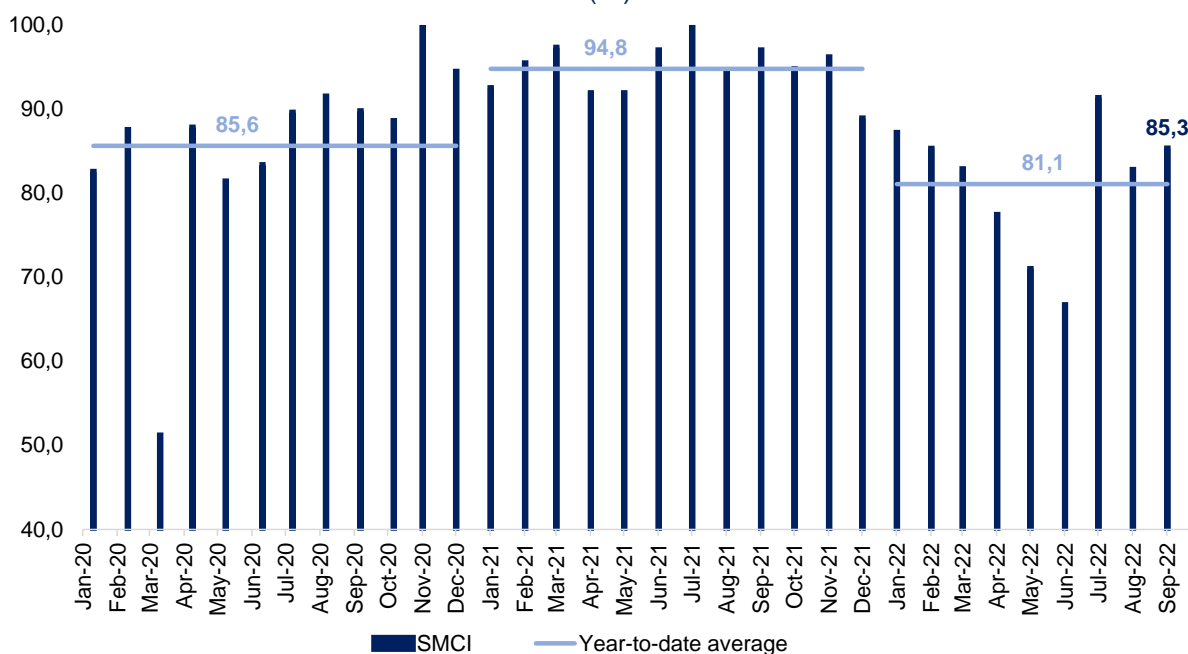
Source: Financial Opinion Survey, Fedesarrollo – BVC

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[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 Index[2]

The Buy-on-Dips Confidence Index establishes the percent of the analysts expecting a rebound the next day that the market hypothetically dropped 3%. The index experienced a stable behavior in September, standing at 40,0%. This represented a decrease of 13,9 pp compared to September 2021 (53,9%) (Graph 3). Thus, analysts consider an immediate recovery of COLCAP less likely compared to the average of 2020, 2021 and so far in 2022.
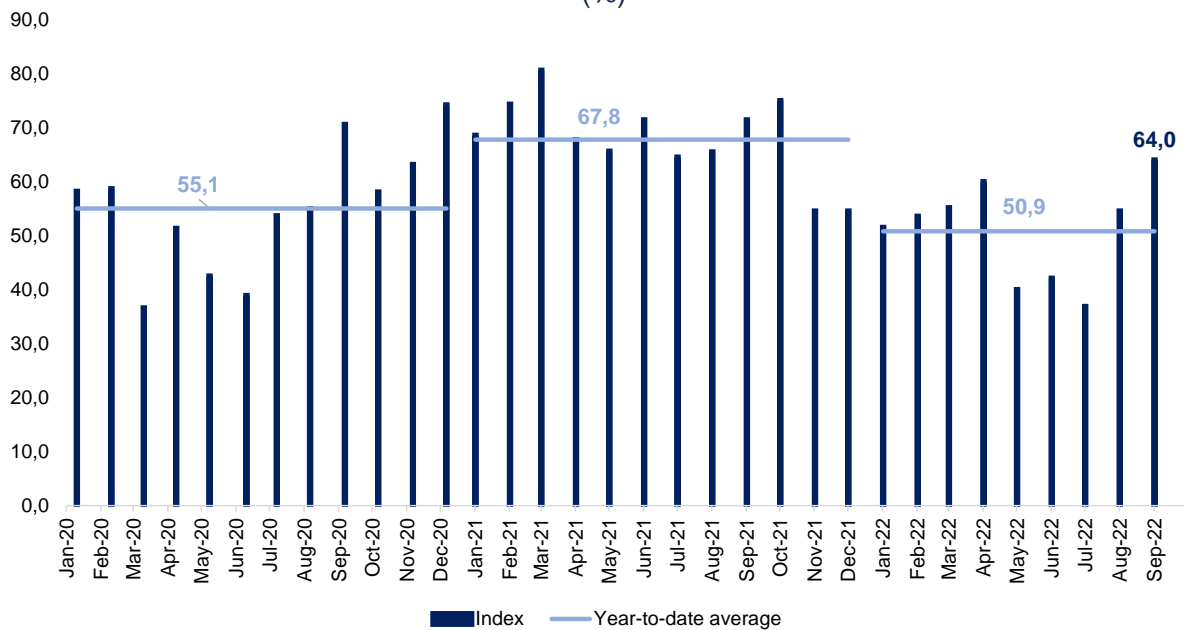
Graph 3. Buy-on-Dips Confidence Index
(%)

Source: Financial Opinion Survey, Fedesarrollo – BVC

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[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.

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Crash Confidence Index[3]

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 September, the index increased 9,5 pp with respect to the previous month's result (54,5%), standing at 64,0%, which indicates that the perception of the probability of an eventual fall of the local stock market in the face of the deterioration of international markets decreased compared to August (Graph 4). In addition, it is 7,4 pp below the index for the same month of the previous year (71,4%).

Graph 4. Crash Confidence Index
(%)

Source: Financial Opinion Survey, Fedesarrollo – BVC

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[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 Index[4]

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 September, the index stood at 91,7%, which is 6,1 pp above the level of August (97,7%) and 2,8 pp below the level of September 2021 (94,4%). This indicates that, compared to both periods, a smaller proportion of analysts believe that stock values underestimate the value of their fundamentals (Graph 5).

Graph 5. Valuation Confidence Index
(%)
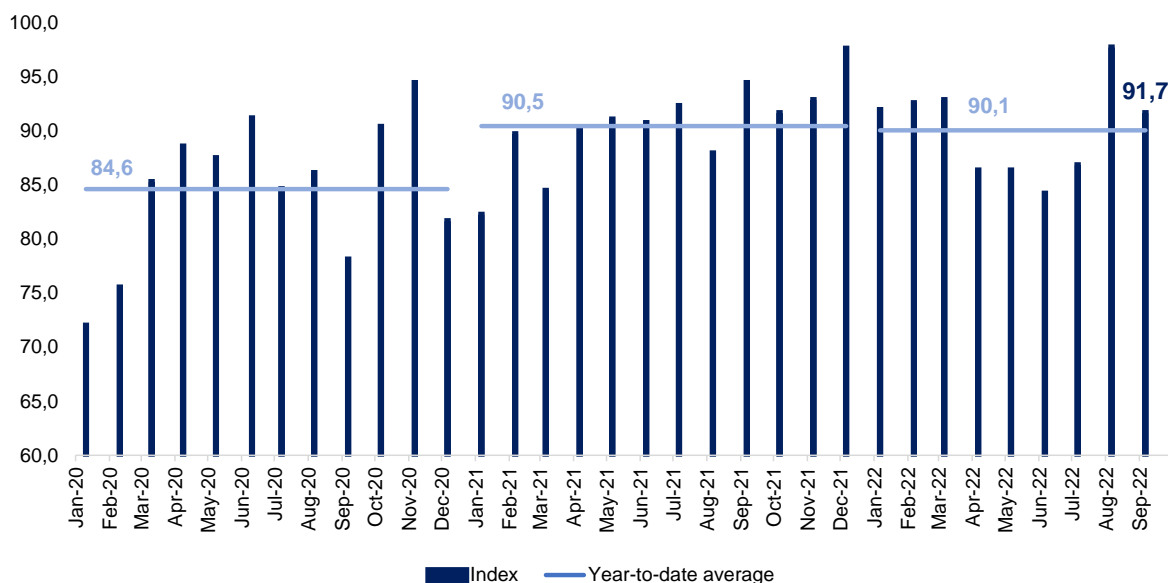
Source: Financial Opinion Survey, Fedesarrollo – BVC

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[4] The Valuation Confidence Index is calculated as:
$Valuation\ Confidence\ Index = \big(1 * (\%\ too\ low)\big) + \big(0.5 * (\%\ about\ right)\big)$, 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".