

## Stock market confidence indices

January 2023

Bulletin No. 27



In January, the **One-Year Confidence Index** reached 65,5%, which means a decrease of 17,1 pp compared to the previous month and a reduction of 21,7 pp relative to the same month in 2022. This result shows that the proportion of analysts who expects a valuation of the MSCI COLCAP index in one year decreased compared to the last month and to the previous year.

The **Buy-on-Dips Confidence Index** reached 50,0%, which represents an increase of 3,3 pp compared to the past month and the same level as January of 2022. The previous implies that analysts consider a MSCI COLCAP increase more likely the day after a potential drop in the index compared to December 2022 but just as likely than in January 2022.

The **Crash Confidence Index** reached 52,4%, meaning that it fell 3,9 pp compared to the previous month and rose 0,9 pp relative to January 2022. This indicates that analysts consider the market to be more vulnerable to downturns in international markets compared to a month ago but less vulnerable compared to a year ago.

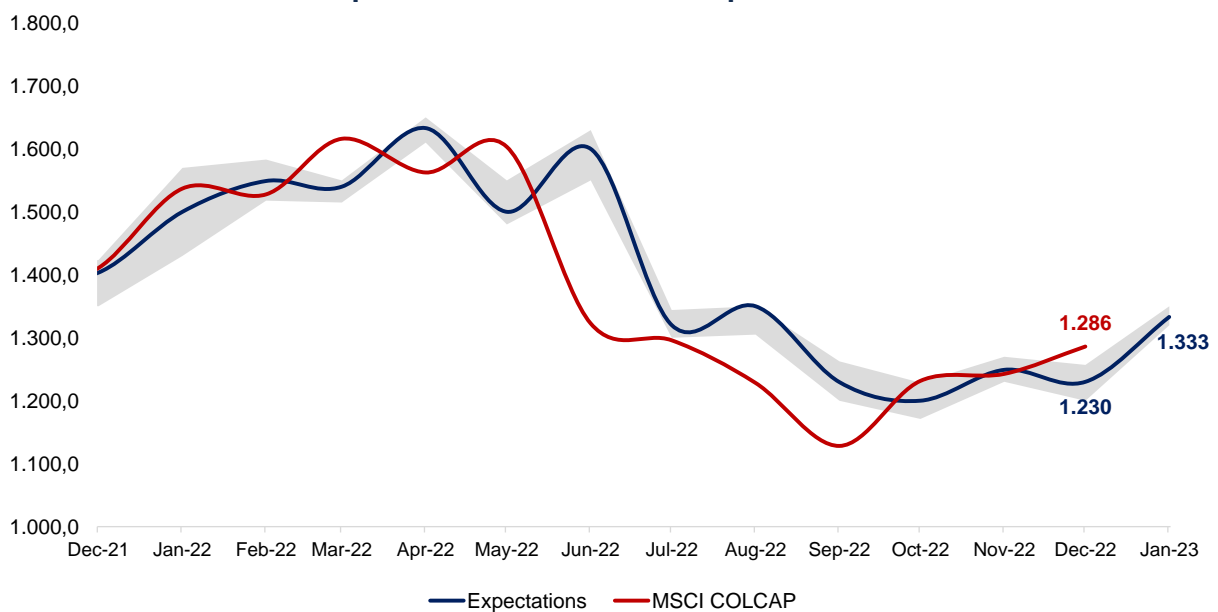
Finally, the **Valuation Confidence Index** reached 97,6%, which represents a decrease of 2,4 pp relative to the previous month and an increase of 5,7 pp compared to the same month of 2022. This implies that a lower proportion of analysts believe that stock values underestimate the value of their fundamentals compared to last month and a higher proportion compared to last year.

## 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 January 2023 (until January 18<sup>th</sup>) is at 1.320,78, which represents an appreciation of 6,72% with respect to the average of December 2022 (1.237,66) and a depreciation of 11,09% with respect to the average of January 2022 (1.485,49).

At the end of December, the MSCI COLCAP Index reached 1.286,07. This level is 56,1 units above the analyst’s forecast (1.230,0). By the end of January, it is expected that the index ranges between 1.320 and 1.350, with 1.333 as the median response (Graph 1).

**Graph 1. MSCI COLCAP Index price forecast**

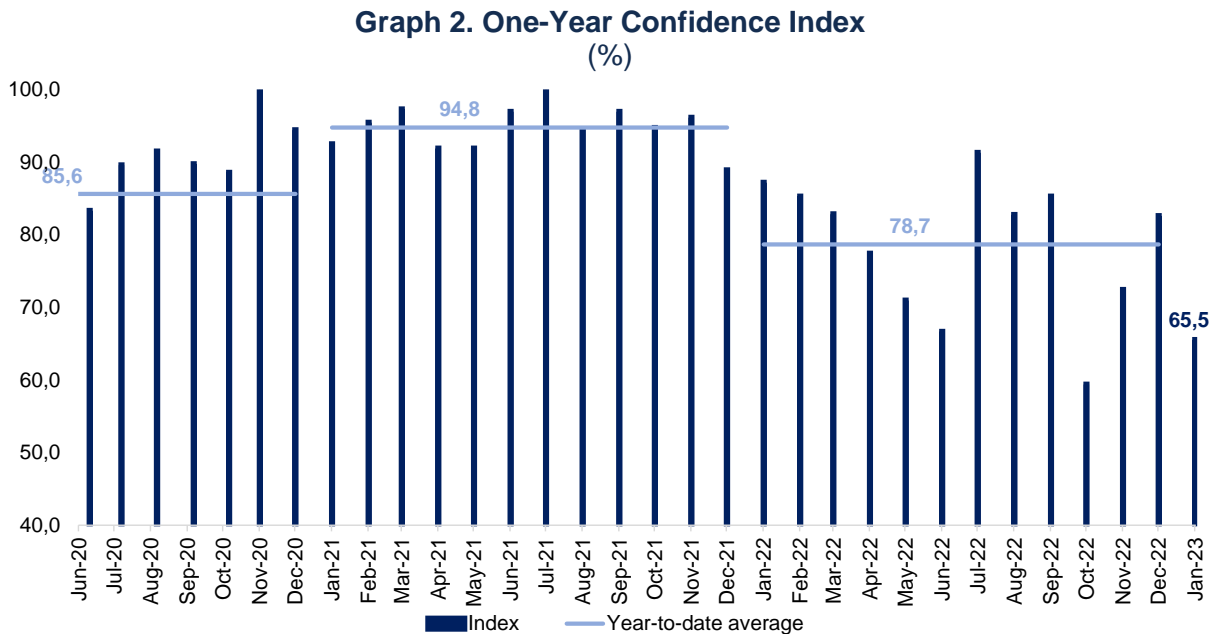


Source: Financial Opinion Survey, Fedesarrollo – BVC.

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 Index<sup>1</sup>

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 65,5%, which indicates that this proportion of the respondents expect a decrease of the index in January 2023 from its current level (1.326,74) (Graph 2). The index experienced a reduction of 17,1 pp compared to the previous month (82,6%) and of 21,7 pp compared to the same month of the previous year (87,2%), which reflects an annual and monthly drop in the stock market confidence.



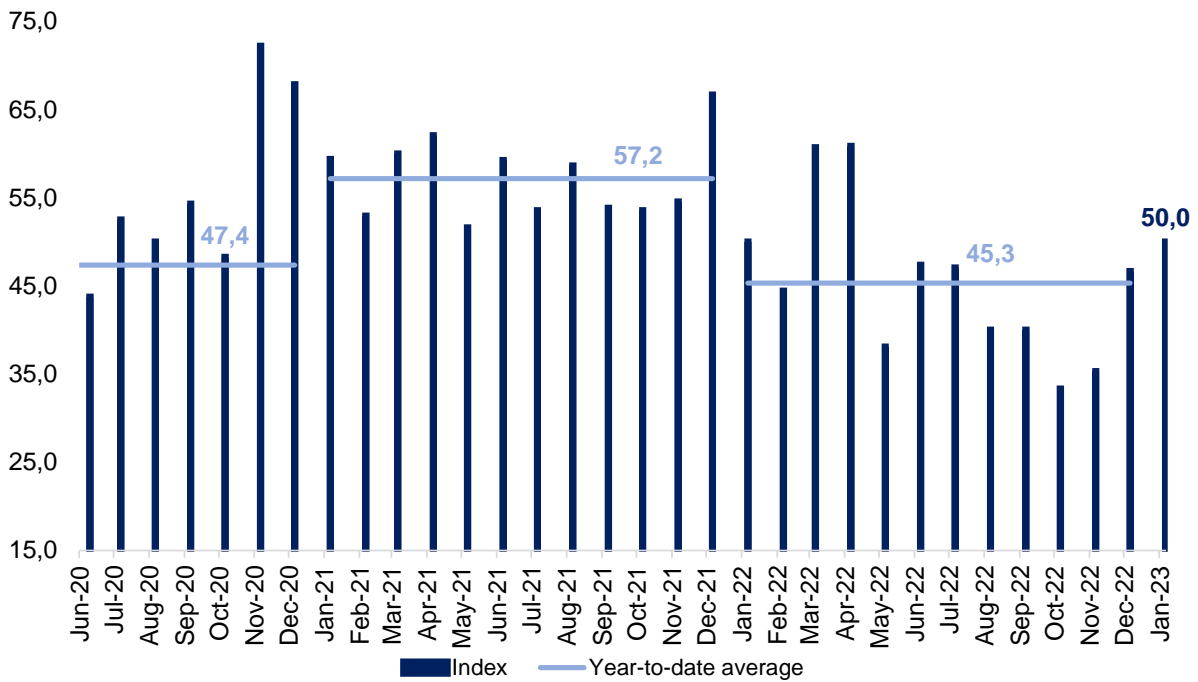
Source: Financial Opinion Survey, Fedesarrollo – BVC.

<sup>1</sup> 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<sup>2</sup>

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 an increase in January, standing at 50,0%. This represented an increase of 3,3 pp compared to last month (46,7%) (Graph 3). Yet, analysts consider an immediate recovery of COLCAP less likely compared to the average of 2021 but more likely than the average of 2020 and 2022.

**Graph 3. Buy-on-Dips Confidence Index (%)**



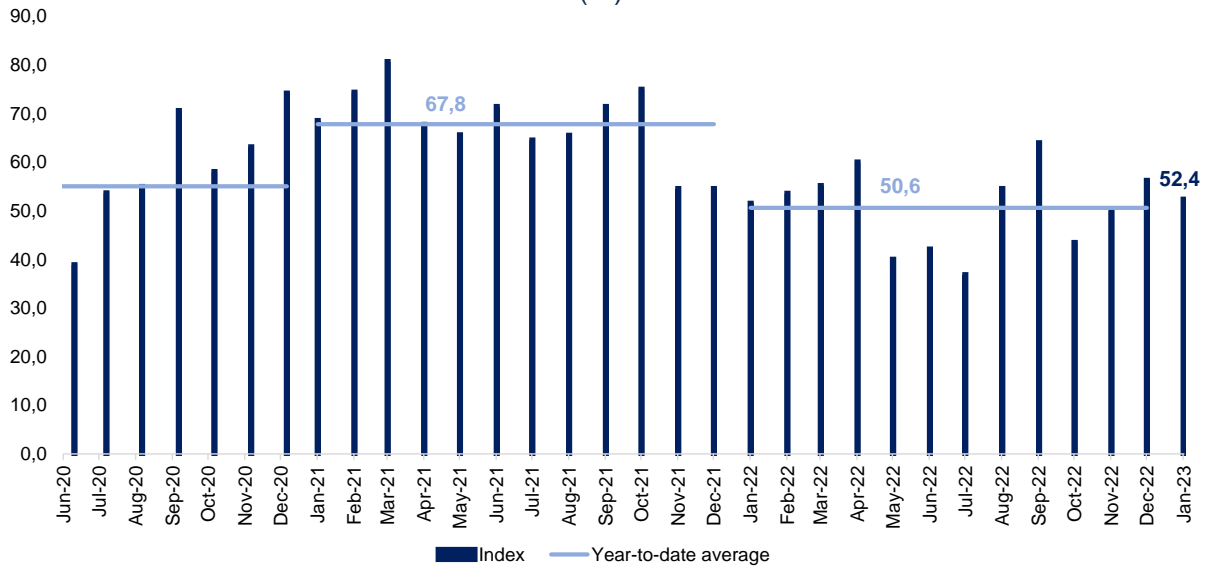
Source: Financial Opinion Survey, Fedesarrollo – BVC.

<sup>2</sup> 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.

### Crash Confidence Index<sup>3</sup>

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 January, the index decreased 3,9 pp with respect to the previous month's result (56,3%), standing at 52,4%, 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 increased compared to December (Graph 4). In addition, it is 0,9 pp above the index for the same month of the previous year (51,5%).

**Graph 4. Crash Confidence Index**  
(%)



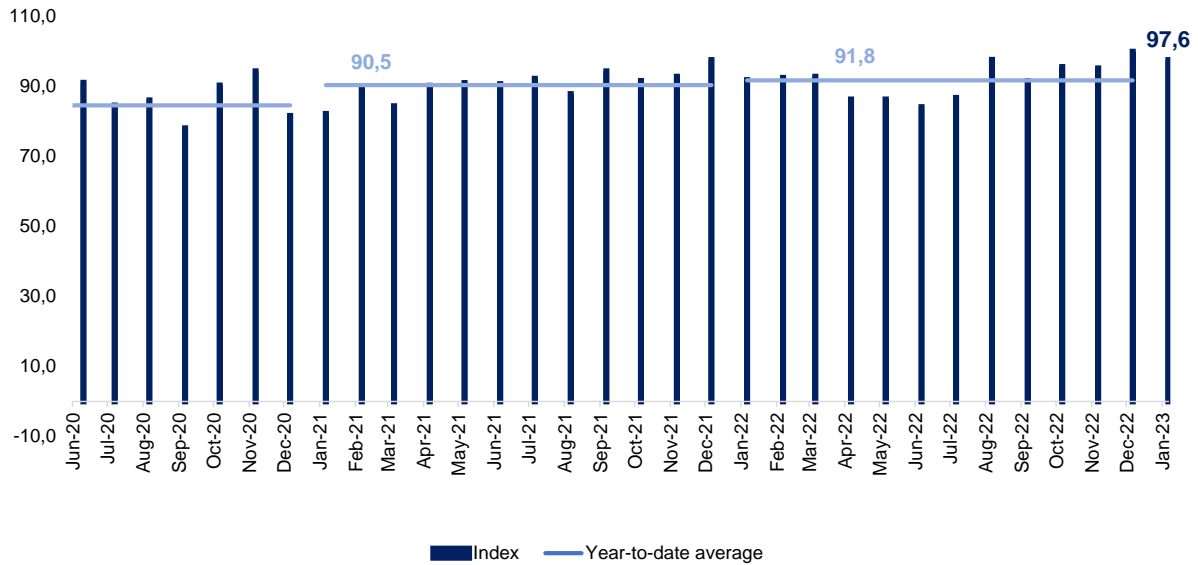
Source: Financial Opinion Survey, Fedesarrollo – BVC.

<sup>3</sup> 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<sup>4</sup>

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 January, the index stood at 97,6%, which is 2,4 pp below the level of December (100,0%) and 5,7 pp above the level of January 2022 (91,9%). This indicates that, compared to last month, a lower proportion of analysts believe that stock values underestimate the value of their fundamentals, while compared to last year, this proportion is higher (Graph 5).

**Graph 5. Valuation Confidence Index (%)**



Source: Financial Opinion Survey, Fedesarrollo – BVC.



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<sup>4</sup> 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”.