

Stock market confidence indices
September 2023
Bulletin No. 35



In September, the **One-Year Confidence Index** stood at 77.8%, down 5.0 pps from the previous month and 7.5 pps from the same month in 2022. This indicates that the proportion of analysts who expect COLCAP to appreciate in a year's time decreased compared to the previous month and compared to a year ago.

The **Buy-on-Dips Confidence Index** stood at 47.4%, up 3.9 pps versus the previous month and 7.4 pps versus the same month in 2022. This implies that analysts consider a rise in the MSCI COLCAP more likely the day after a potential fall in the index compared to August 2023 and to September 2022.

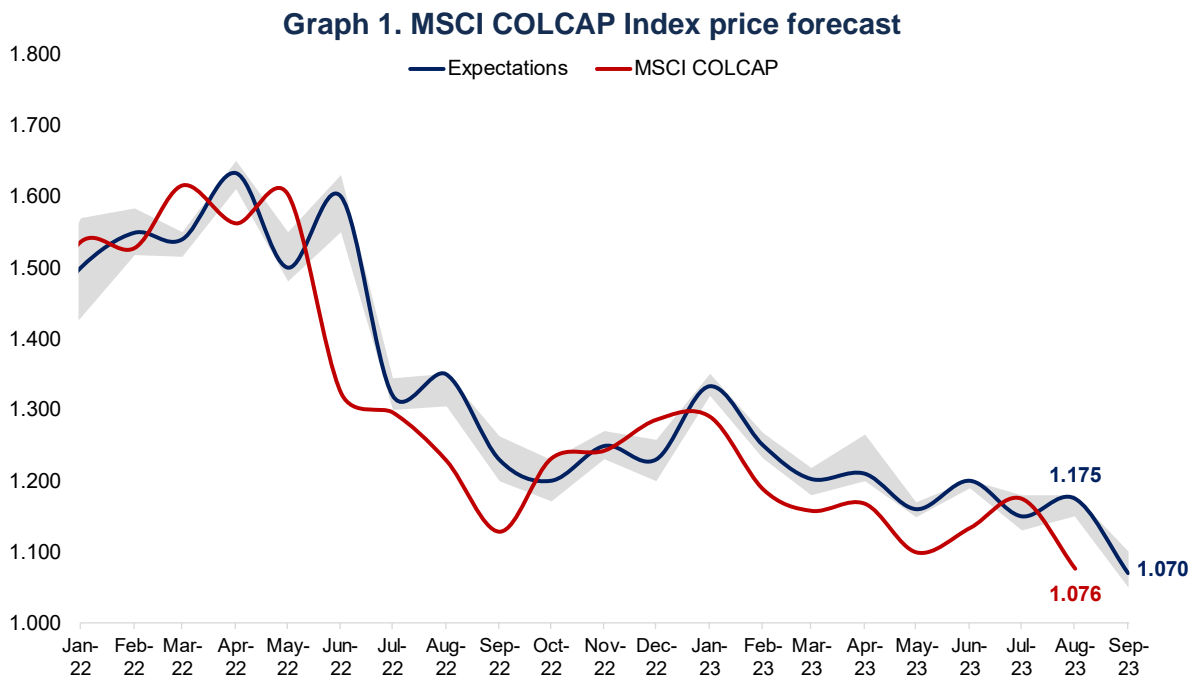
The **Crash Confidence Index** stood at 63.2%, up 9.0 pps versus the previous month and down 0.8 pps versus the same month in 2022. This indicates that analysts consider the market less vulnerable to downturns in international markets compared to the previous month and more vulnerable compared to a year ago.

Finally, the **Valuation Confidence Index** stood at 97.5%, up 1.8 pps from the previous month's level and up 5.8 pps versus the same month in 2022. This implies that a higher proportion of analysts believe that stock values underestimate the value of their fundamentals versus August 2023 and versus September 2022.

MSCI COLCAP Index

The Colombian MSCI COLCAP Index is a market-capitalization weighted index that includes the 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 2023 (through September 18) is at 1,074.87, which represents a 5.3% devaluation with respect to the average for August 2023 (1,135.13) and a 9.9% devaluation with respect to the average for September 2022 (1,193.19).

At the end of August, the MSCI COLCAP stood at 1,076.12, which corresponds to 98.9 units below analysts' forecast (1,175.0). By the end of September, the index is expected to be in a range between 1,050 and 1,100, with a median response of 1,070.0 (Graph 1).

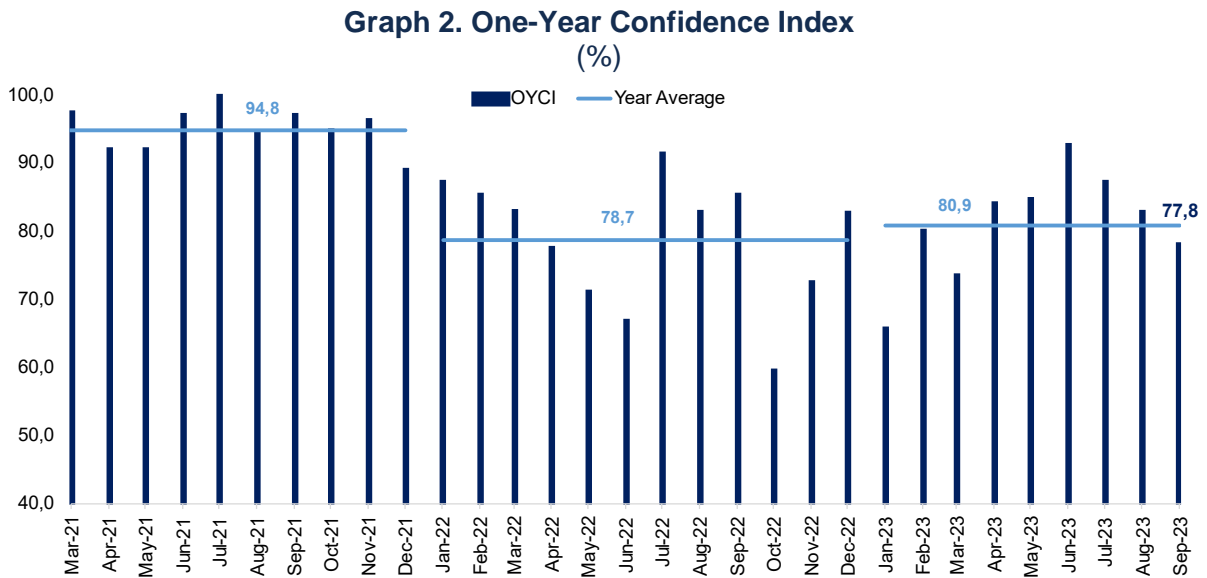


Source: Financial Opinion Survey, Fedesarrollo – bvc.

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 stood at 77.8%, indicating that this percentage of respondents expect an increase in the index in September 2024 from the current level (1,063.3) (Graph 2). The index experienced a decrease of 5.0 pps versus the previous month (82.8%) and of 7.5 pps versus the same month of the previous year, reflecting a monthly and annual decrease in stock market confidence.

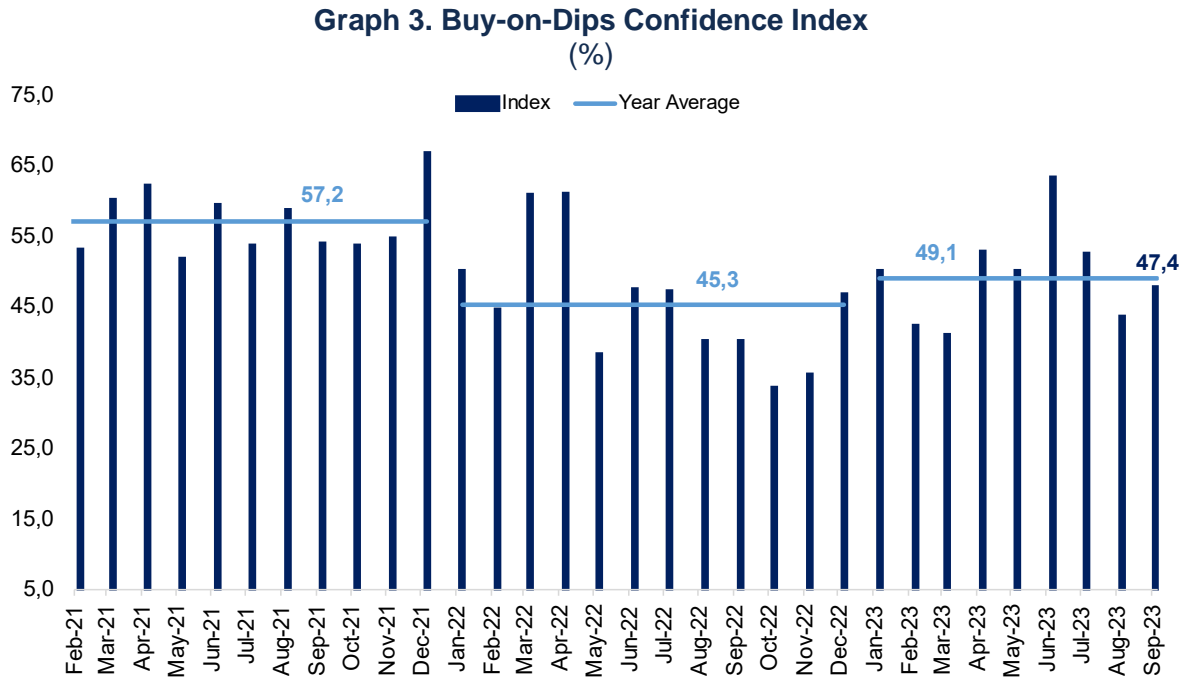


Source: Financial Opinion Survey, Fedesarrollo – bvc.

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 Index²

The Buy-on-Dips Confidence Index establishes the proportion of the analysts expecting a rebound the next day that the market hypothetically dropped 3%. The index increased in September 2023 compared to August of the same year, standing at 47.4% (Graph 3). Likewise, analysts consider an immediate recovery of COLCAP more likely compared to the 2022 average (45.3%).

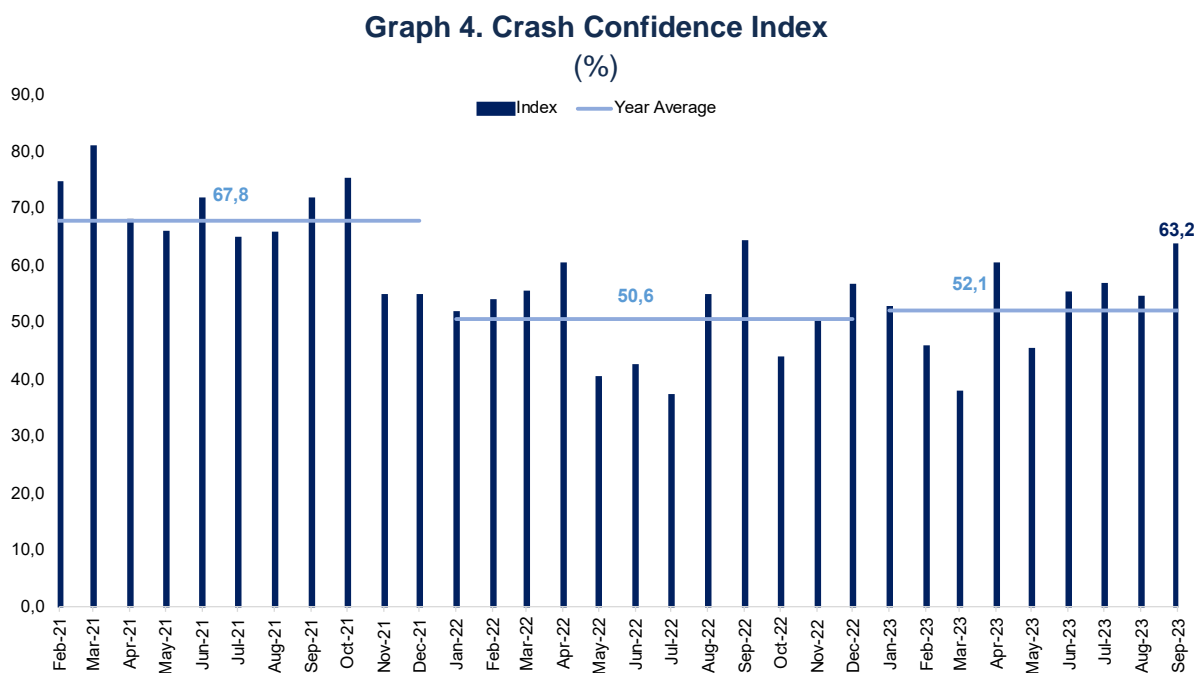


Source: Financial Opinion Survey, Fedesarrollo – bvc.

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.

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 after a substantial drop in the international markets. In September, the index increased 9.0 pps with respect to the previous month's result (54.2%), standing at 63.2%, indicating 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 with respect to August (Graph 4). On the other hand, the index was 0.8 pps below the figure recorded in the same month of the previous year.



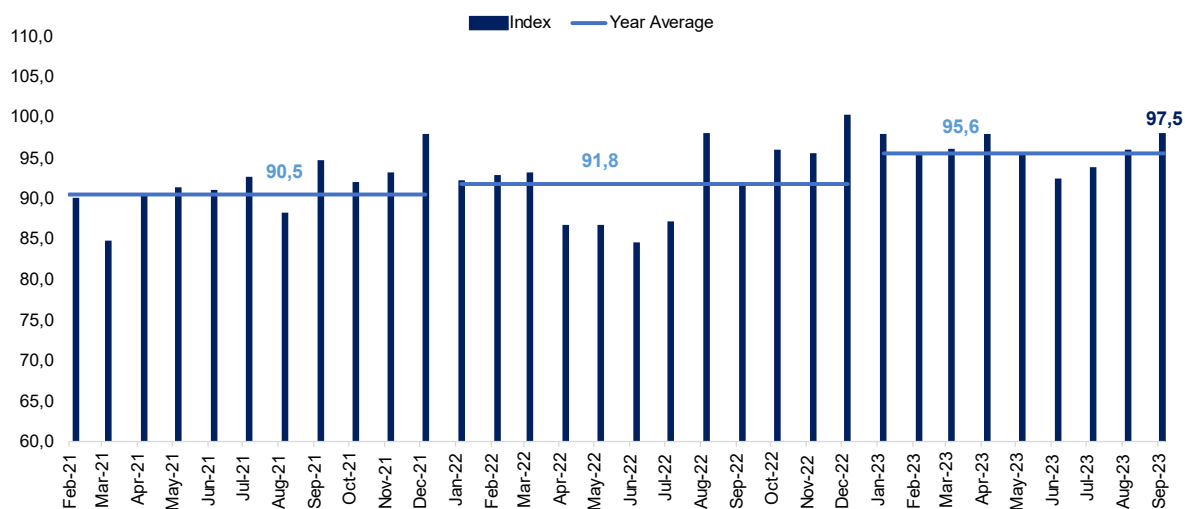
Source: Financial Opinion Survey, Fedesarrollo – bvc.

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 Index⁴

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. In September, the index stood at 97.5%, which is 1.8 pps above August's level (95.7%) and 5.8 pps above September 2022 (91.7%). This indicates that a higher proportion of analysts versus the previous month and versus the same month last year believe that the value of stocks underestimates 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:
 $Valuation\ Confidence\ Index = (1 * (\% \text{ too low})) + (0.5 * (\% \text{ about right}))$, 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”.