

Stock market confidence indices

August 2024

Bulletin No. 46



At the end of July, the **MSCI COLCAP** stood at 1,346, 29 units under analysts' forecast (1,375). The index is expected to reach 1,330 by the end of August.

In August, the **One-Year Confidence Index** stood at 93.1%, up 0.5 percentage points from the previous month (92.6%) and up 10.3 percentage points from the same month in 2023 (82.8%). This indicates that the proportion of analysts who expect COLCAP to appreciate in a year's time increased compared to a month ago and to a year ago.

The **Buy-on-Dips Confidence Index** stood at 55.0%, up 7.6 percentage points versus the previous month (47.4%) and 11.5 percentage points versus the same month in 2023 (43.5%). The above implies that analysts consider a rise in the MSCI COLCAP more likely the day after a potential drop in the index compared to July 2024 and August 2023.

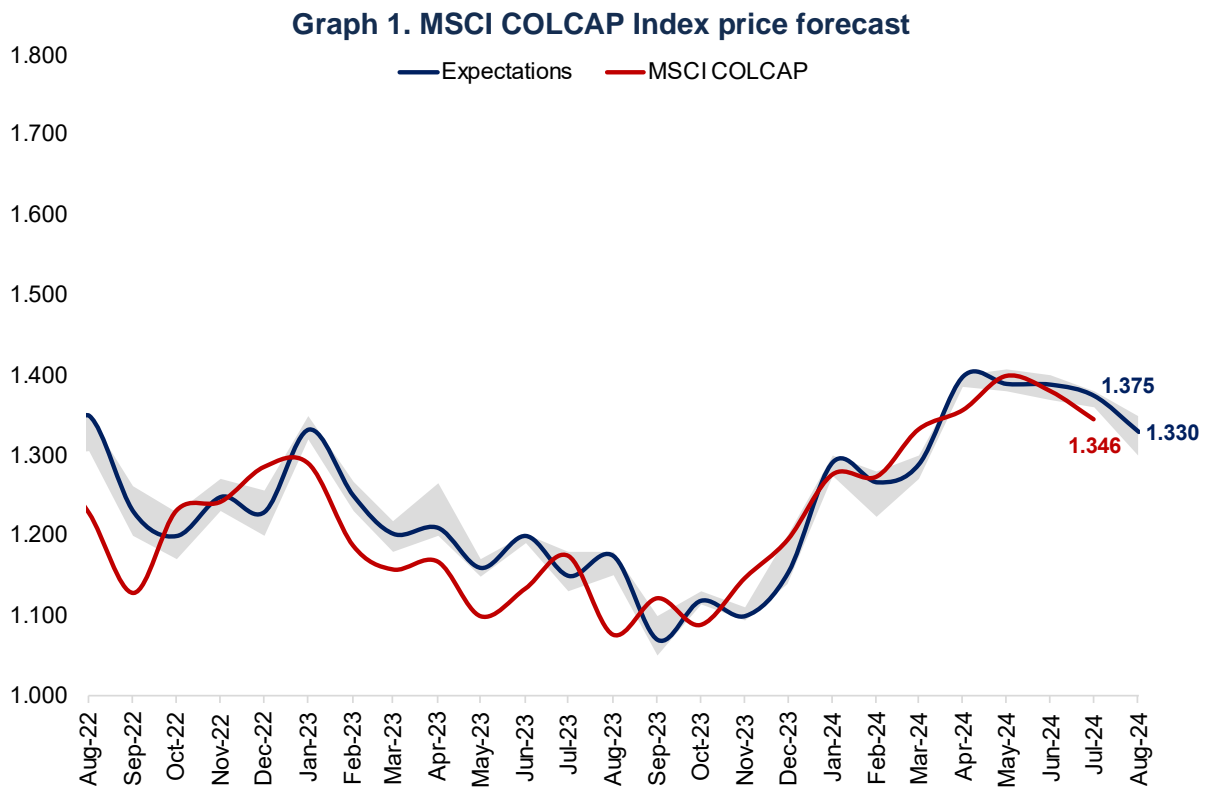
The **Crash Confidence Index** stood at 40.0%, up 1.9 percentage points versus the previous month (38.1%) and down 14.2 percentage points versus the same month in 2023 (54.2%). This indicates that analysts consider the market less vulnerable to downturns in international markets compared to the previous month and more vulnerable compared to a year ago.

Finally, the **Valuation Confidence Index** stood at 93.5%, up 0.6 percentage points versus the previous month's level (92.9%) and down 2.2 percentage points versus the same month in 2023 (95.7%). This implies that a higher proportion of analysts believe that stock values underestimate the value of their fundamentals versus July 2024 and a lower proportion believes the same versus August 2023.

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 is one of the most important leading indexes in the stock market. The average so far in August 2024 (up to August 16) is at 1,327, which represents a 2.8% decrease with respect to the average for July 2024 (1,366) and a 17% increase with respect to the average for August 2023 (1,135).

At the end of July, the MSCI COLCAP stood at 1,346, which corresponds to 29 units under analysts' forecast (1,375). By the end of August, the index is expected to be in a range between 1,300 and 1,350, with a median response of 1,330 (Graph 1).



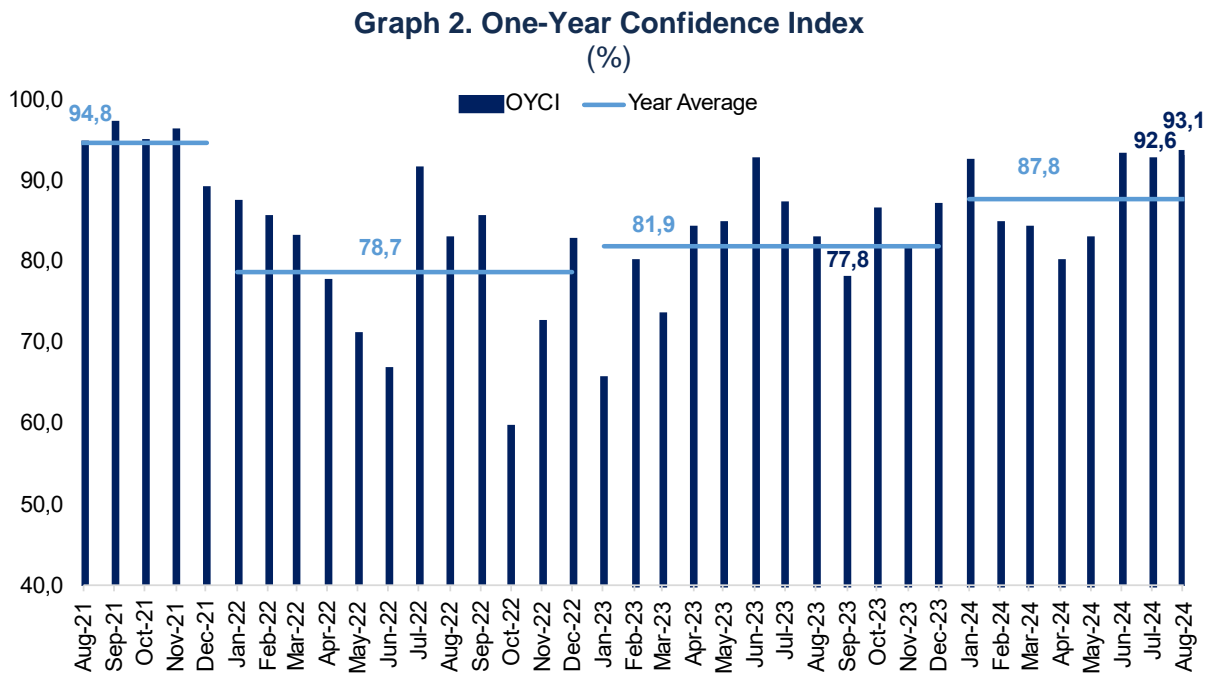
Source: Financial Opinion Survey, Fedesarrollo – bvc.

The four confidence indices for the Colombian stock market are presented down below. These indices are calculated based on the Shiller (2000)¹ methodology and using the analysts' expectations collected in the Financial Opinion Survey.

¹ Shiller, Robert J. (2000). Irrational Exuberance. Princeton University Press. Princeton, N. J

One-Year Confidence Index²

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 93.1%, indicating that this percentage of respondents expects an increase in the index in August 2024 compared to the level prior to the survey (1,299)³ (Graph 2). The index experienced a 0.5 percentage points increase versus the previous month (92.6%) and a 10.3 percentage points increase versus the same month of the previous year (82.8%), reflecting a monthly and annual increase in stock market confidence.



Source: Financial Opinion Survey, Fedesarrollo – bvc.

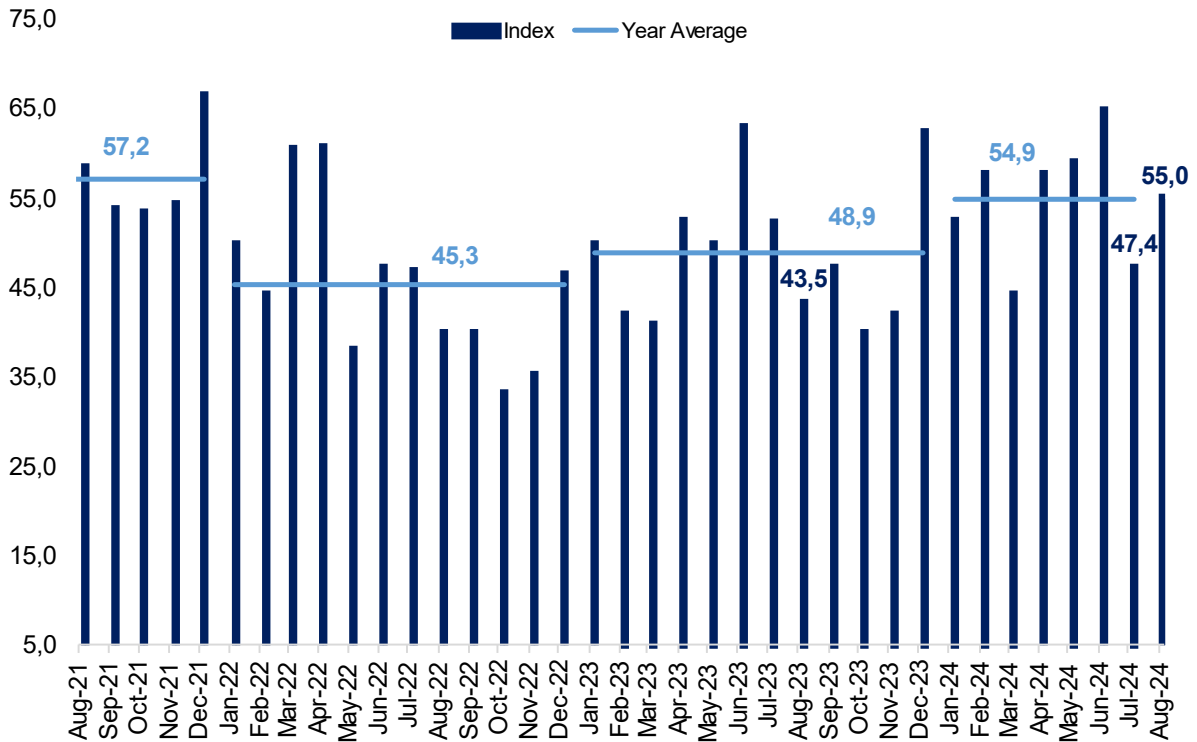
² The One-Year Confidence Index is calculated as the number of respondents that establish a price for the MSCI COLCAP index in 12-months higher than the current level of the index, divided by the total responses excluding invalid answers.

³ Level of August 8th.

Buy-on-Dips Confidence Index⁴

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 7.6 percentage points in August 2024 compared to July (47.4%), standing at 55.0% (Graph 3). Likewise, analysts consider an immediate recovery of COLCAP more likely compared to the same month of 2023 (43.5%), which represents an increase of 11.55 percentage points.

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



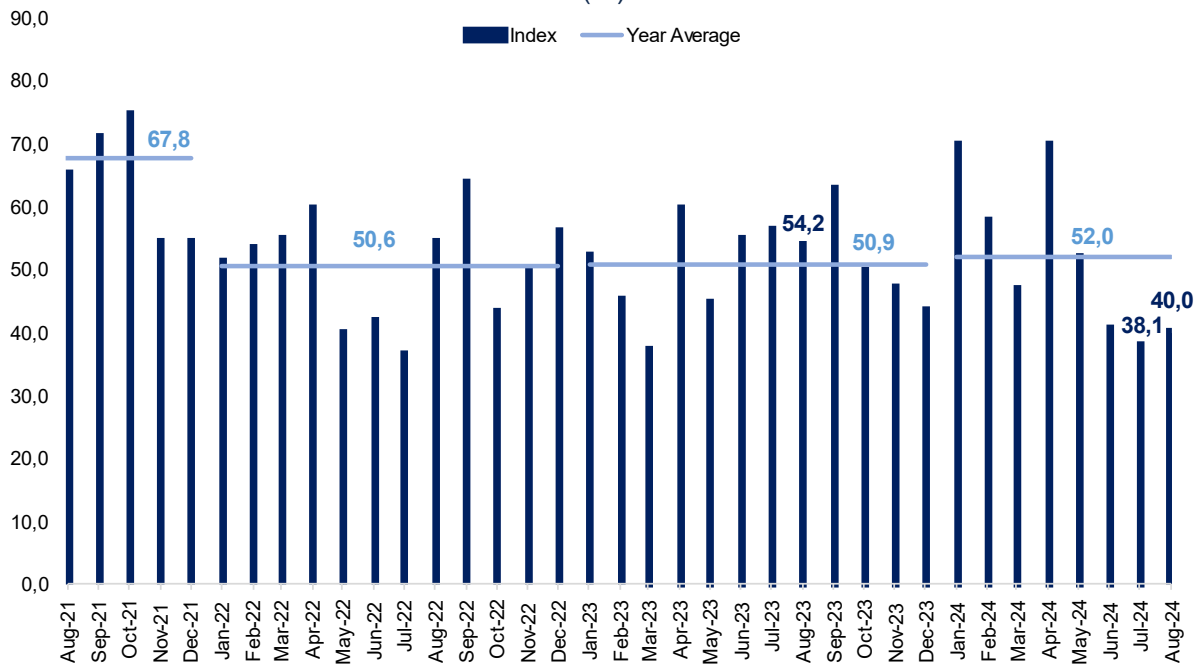
Source: Financial Opinion Survey, Fedesarrollo – bvc.

⁴ 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 Index⁵

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 August, the index increased 1.9 percentage points with respect to the previous month's result (38.1%), reaching 40.0%, 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 compared to July (Graph 4). In turn, the index was 14.2 percentage points under the figure recorded in the same month of the previous year (54.2%), reflecting lesser confidence in the immunity of the stock market to external shocks versus de previous year.

Graph 4. Crash Confidence Index
(%)



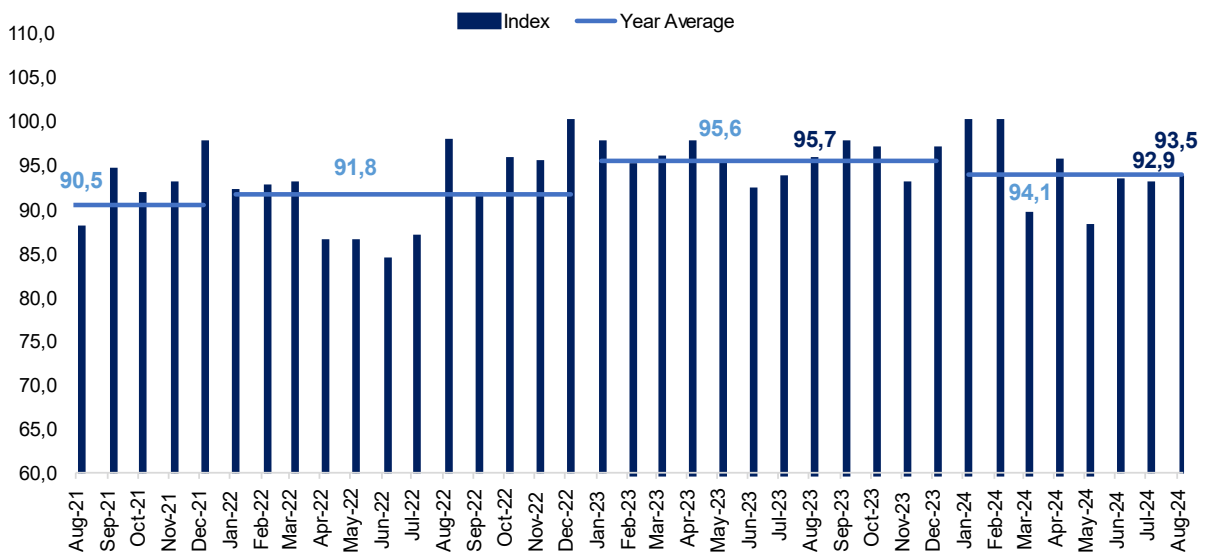
Source: Financial Opinion Survey, Fedesarrollo – bvc.

⁵ 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 Index⁶

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 August, the index stood at 93.5%, 0.6 percentage points above the July level (92.9%) and 2.2 percentage points below the August 2023 level (95.7%). This indicates that a slightly higher proportion of analysts versus the previous month and a lesser proportion 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.



FEDESARROLLO
Centro de Investigación Económica y Social

Contact us if you wish to access historical results and further information

+601 3259777 ext. 340
comercial@fedesarrollo.org.co

Published August 21st, 2024

Comments to José Julián Parra: jparra@fedesarrollo.org.co

⁶ 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”.