

## Stock market confidence indices

April 2021

Bulletin No. 6



In April, the **One-Year Confidence Index** reached 91,89%, compared to the previous month this represents a decrease of 5.4 pp and relative to April 2020 an increase of 4.1 pp. This result shows that the proportion of analysts who expects a valuation of the COLCAP index in one year declined compared to the last month and jumped compared to the previous year.

The **Buy-on-Dips Confidence Index** reached 62.1%, which represents an increase of 2.1 pp compared to the past month and of 27.7 pp relative to the previous year.

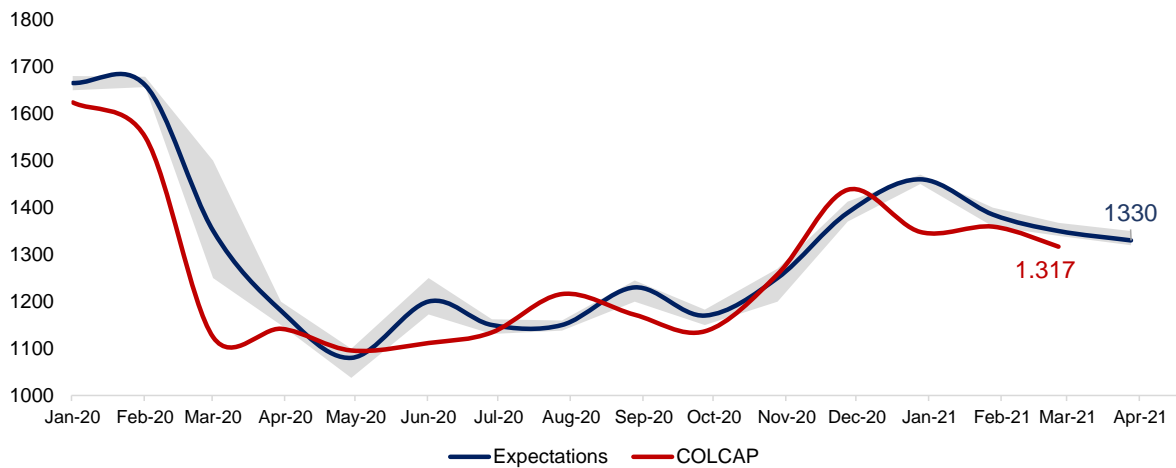
The **Crash Confidence Index** reached 67.7%, which represents a decrease of 12.9 pp compared to the past month and an increase of 16.4 pp relative to the previous year.

Finally, the **Valuation Confidence Index** reached 90.32%, which represents an increase of 5.8 pp compared to the past month and 1.7 pp relative to the previous year.

The Colombian 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. Currently, the COLCAP stands at low levels as compared to the past few years. The average of the index so far in April reached 1,322.22, which reflects a 1.09% devaluation relative to the average in March and 14.25% valuation with respect to the average in April 2020.

At the end of March, the COLCAP Index reached 1,316.81, this level is 33 units under the analyst's forecast (1,350). By the end of April, it is expected that the index ranges between 1,320 and 1,350, with 1,330 as the median response (Graph 1).

Graph 1. 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.

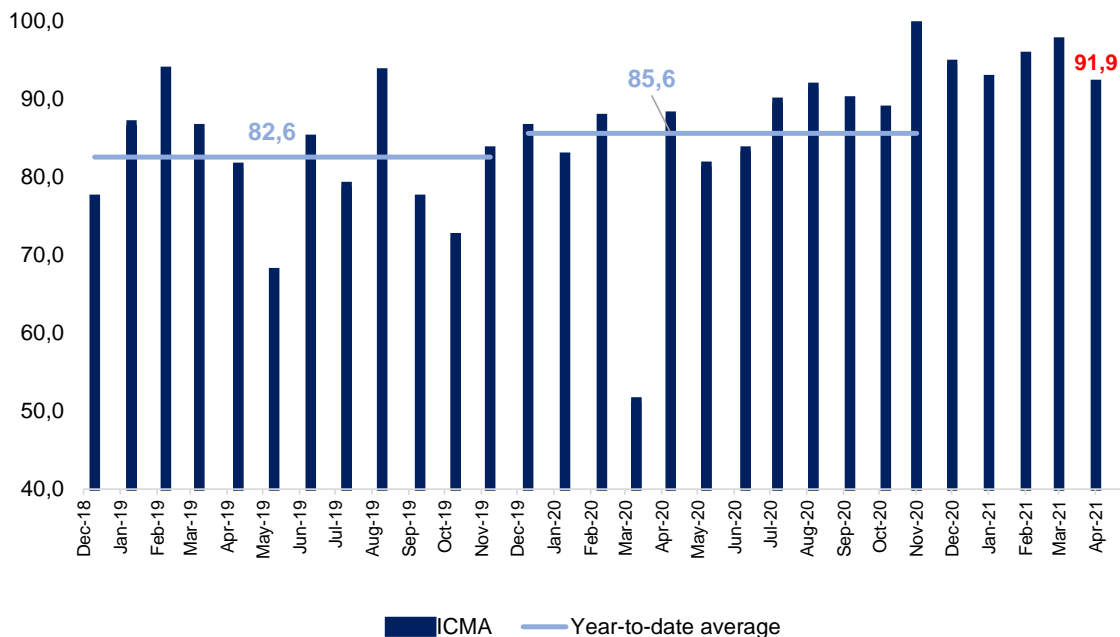
### One-Year Confidence Index<sup>1</sup>

The One-Year Confidence Index measures the proportion of analysts expecting an increase in the COLCAP in the coming year. In this edition, the index peaked at 91.89%, which indicates that more than 90% of the respondents expect an increase of the index in April 2022 regarding the current level (Graph 2). As against the past month (97.3%), this implies a decrease of 5.4 pp, and regarding the year-to-date mean (94.3%) a decline of 2.4 pp.

The confidence in the stock market presented a quick recovery after the sharp fall registered in March (51.2%). During 2021, it has been seen a positive trend, reaching 97%, nevertheless, this month showed a notable reduction. This is understood as a reduction in the analyst confidence, which can be attributed to the uncertainty about economic and political issues, in the midst of important reforms, and also to the arrival of the third Covid wave.

<sup>1</sup> The One-Year Confidence Index is calculated as the number of respondents that establish a price for the 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

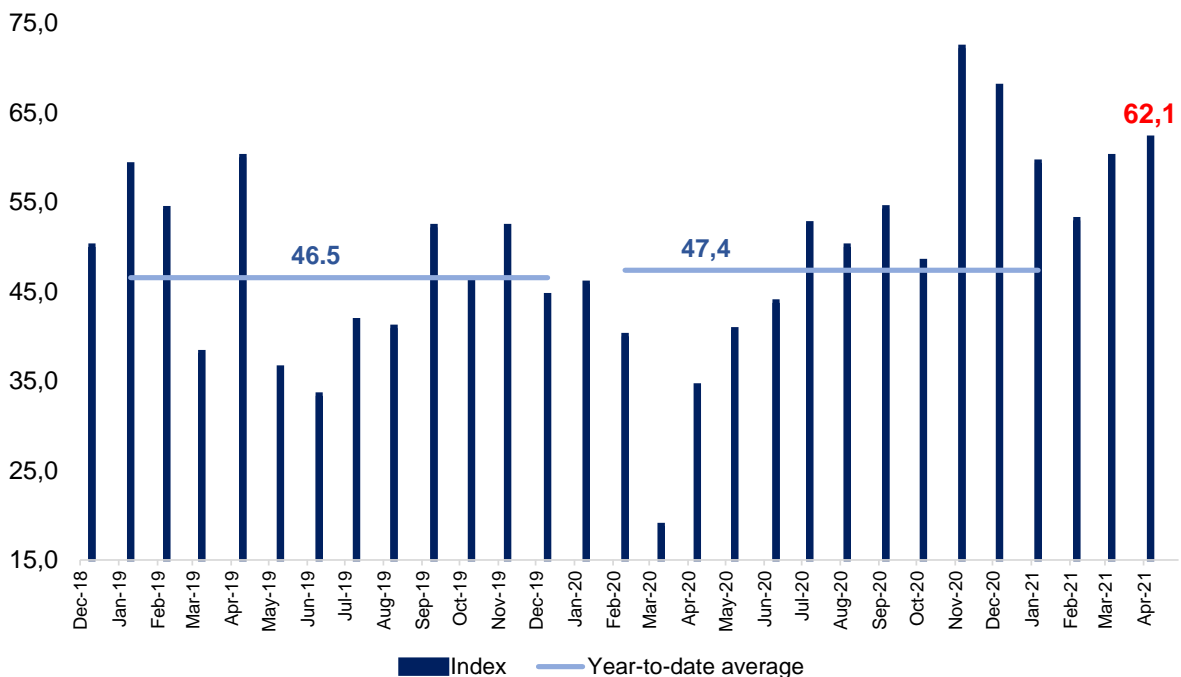
### Buy-on-Dips Confidence Index<sup>2</sup>

The Buy-on-Dips Confidence Index establishes the percent of the analysts expecting a rebound the next day should the market ever drop 3% in one day. This month the index reached 62.1%.

In 2021 the index opened the year with a decreasing trend, after the good results of the end of the year, when it closes in 67,9% (Graph 3). However, in March and April a slow recovery has taken place, although below November and December levels. In March, the index increased 7.1 pp regarding the previous month (52.9%), this implies that a higher proportion of analysts expect a recovery of the COLCAP after a drop the day before. In April of 2021, the index showed an increase of 2.1 pp compared to the last month, which implies once again higher expectations of stability and a future recovery of the COLCAP. Finally, compared to the year-to-date average (58.6%) this month was above by 3.5 pp.

<sup>2</sup> The Buy-on-Dips Confidence Index is calculated as the number of respondents who expect an increase in the 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

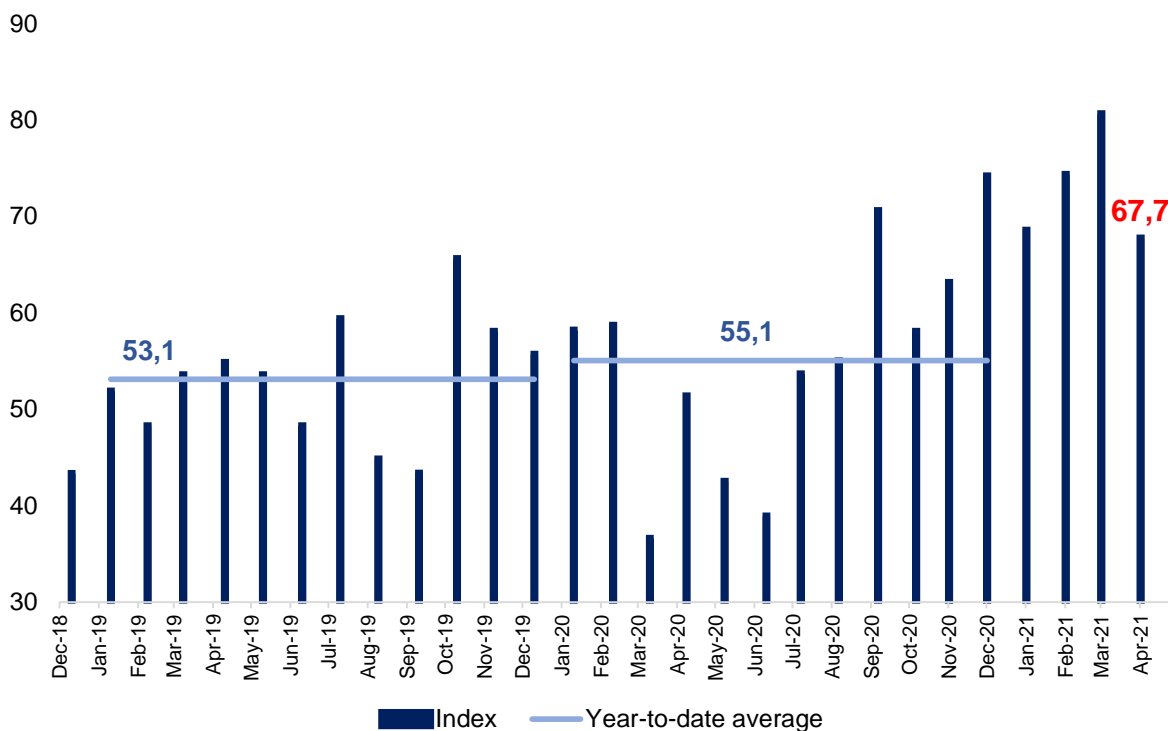
### Crash Confidence Index<sup>3</sup>

The Crash Confidence Index shows the proportion of analysts who attach little probability to a stock market crash in the next six months before a substantial drop in the international markets.

In April, the index reached 67.7%, which represents a decline of 12.9 pp compared to last month (80.7%) and of 5.1 pp relative to the year-to-date average (72.8%). This result implies a reduction in the number of analysts who perceive a low probability of a fall in the local stock market before a substantial drop in the international markets (Graph 4).

<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.

Graph 4. Crash Confidence Index



Source: Financial Opinion Survey, Fedesarrollo – BVC

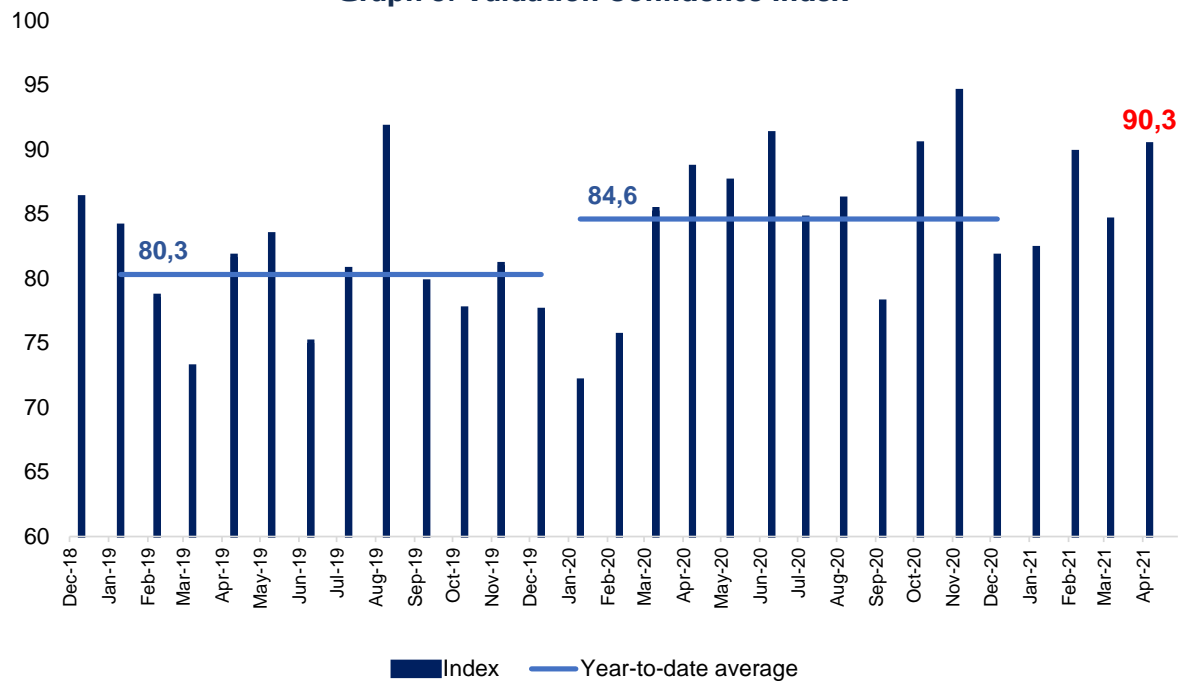
### Valuation Confidence Index<sup>4</sup>

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 April, the index reached 90.3%, which means 5.8 pp above the last month (84.5%). This result represents an increase of 1.7 pp as compared to the same month in 2020 and of 3.6 pp relative to the year-to-date average (86.7%). It is highlighted that since the first measurement of the index, it has stood in values above 60%. This indicates that over half of the analysts consider the stock prices are too low or about right regarding the fundamental value.

<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”.

**Graph 5. Valuation Confidence Index**



Source: Financial Opinion Survey, Fedesarrollo – BVC



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

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