

Stock market confidence indices

July 2021

Bulletin No. 9



In July, the **One-Year Confidence Index** reached 100%, which means an increase of 3.0 pp compared to the previous month and of 10.4 pp relative to July 2020. This result shows that the proportion of analysts who expects a valuation of the COLCAP index in one year jumped compared to the last month and the previous year.

The **Buy-on-Dips Confidence Index** reached 53.57%, which represents a decrease of 5.7 pp compared to the past month and an increase of 1.1 pp relative to the previous year.

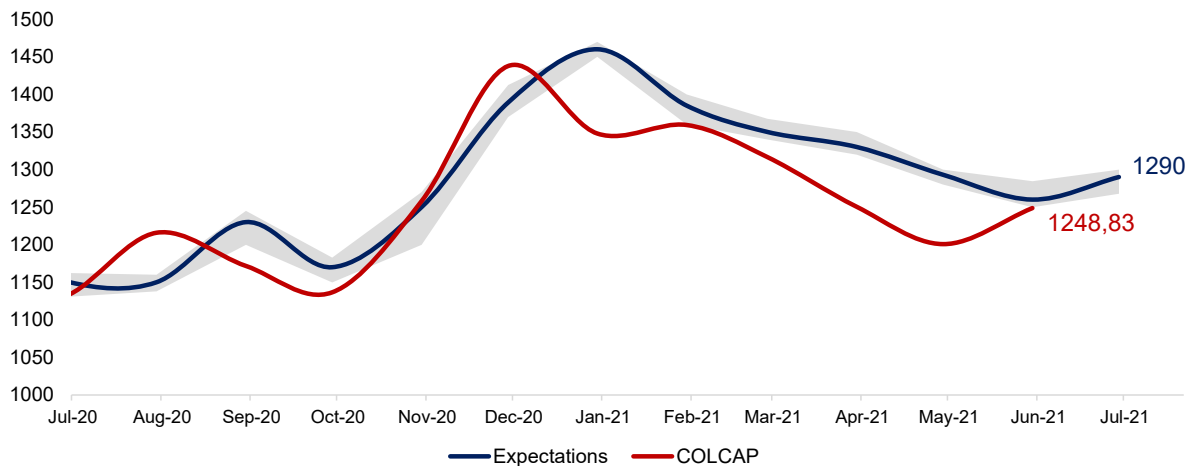
The **Crash Confidence Index** reached 64.52%, which represents a decrease of 6.9 pp compared to the past month and an increase of 10.9 pp relative to the previous year.

Finally, the **Valuation Confidence Index** reached 92.31%, which represents an increase of 1.6 pp compared to the past month and of 7.7 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. The average of the index so far in July is placed at 1,282.52, which reflects a 2.21% valuation relative to the average in June and a 11.43% valuation with respect to the average in July 2020.

At the end of June, the COLCAP Index reached 1,248.83, this level is 11 units under the analyst's forecast (1,260). By the end of July, it is expected that the index ranges between 1,268 and 1,300, with 1,290 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.

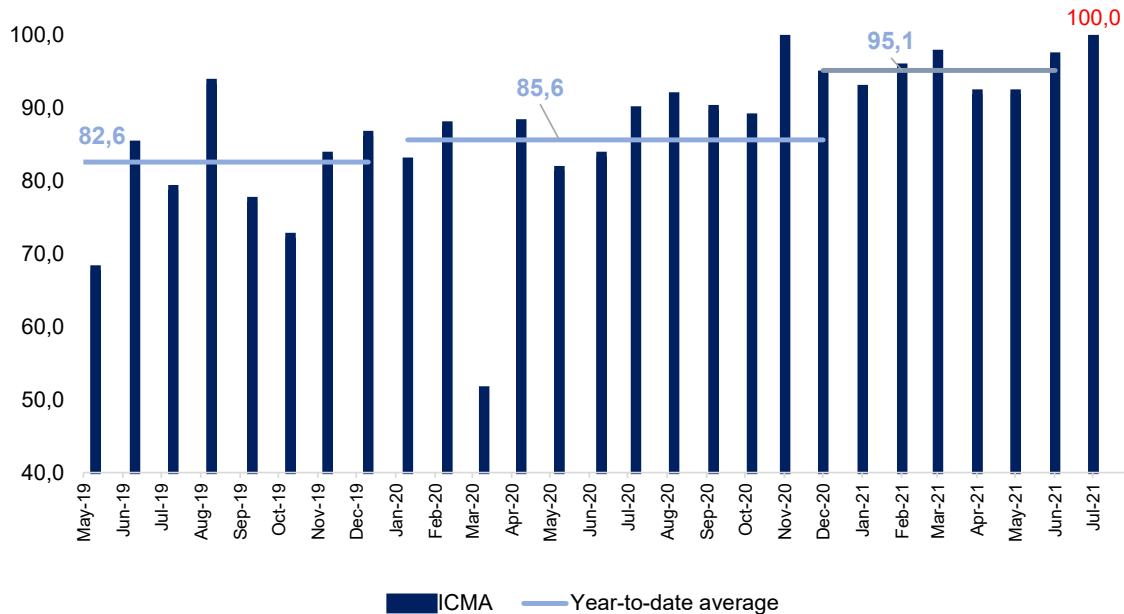
One-Year Confidence Index¹

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 100%, which indicates that all the respondents expect an increase of the index in July 2022 regarding the current level (Graph 2). Against the past month (98.9%), the index increased 3.0 pp, and regarding the year-to-date mean (95.1%) it increased 4.9 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, in April and May the index show a notable reduction, due to the uncertainty about economic and political issues, in the midst of important reforms, the social unrest and also the persistent third Covid wave. July's result reflects the positive answer from the market to the stabilization of the social atmosphere.

Graph 2. One-Year Confidence Index

¹ 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.



Source: Financial Opinion Survey, Fedesarrollo – BVC

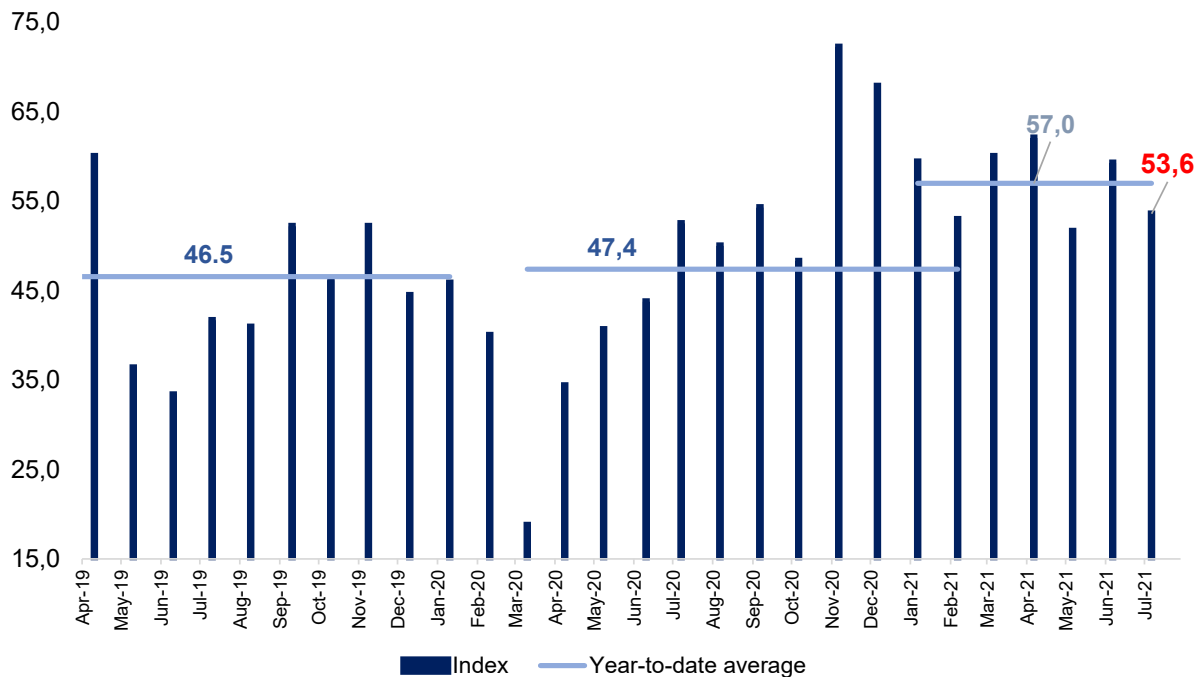
Buy-on-Dips Confidence Index²

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 53.57%.

In 2021 the index opened the year with a decreasing trend, after the good results of the end of the year, when it closed at 67,9% (Graph 3). However, in March and April a slow recovery has taken place, although below November and December levels. In March and April, the index increased, implying a higher proportion of analysts expecting a recovery of the COLCAP after a drop the day before. Nevertheless, in May of 2021, the index showed a downfall; later, June's result increased 7.6 pp, which implied higher expectations of stability and a future recovery of the COLCAP. Finally, compared to the year-to-date average (57.0%) this month was below by 3.4 pp.

² 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

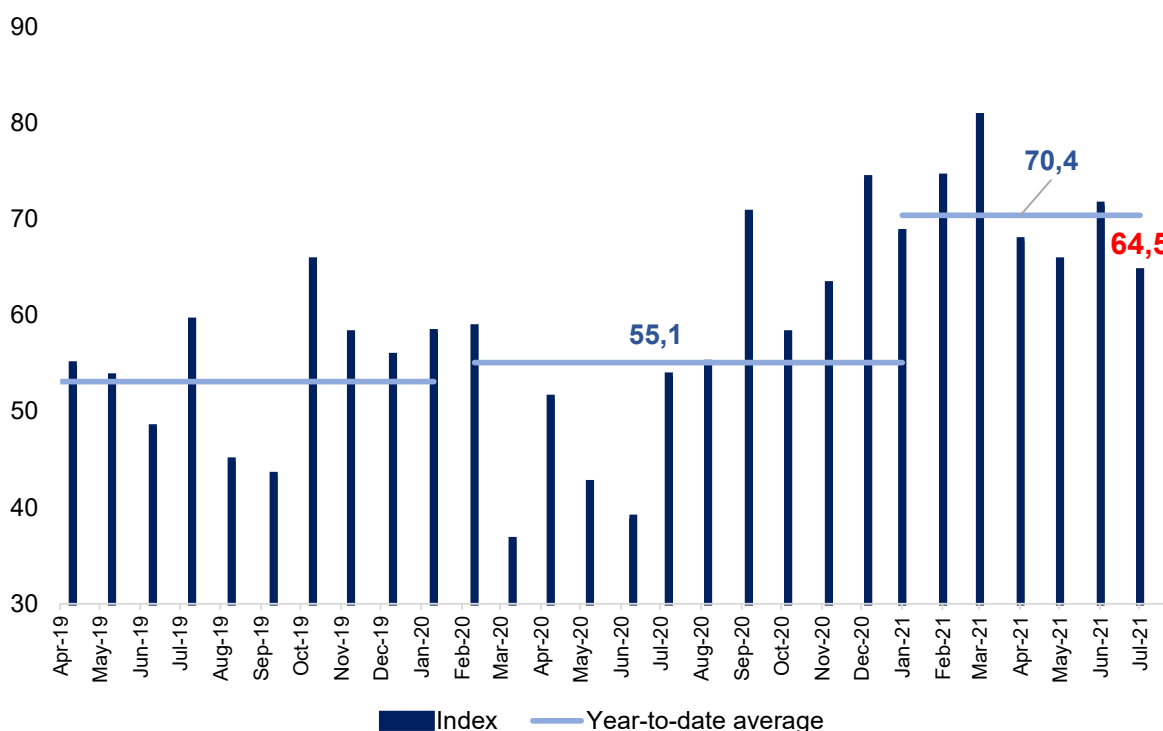
Crash Confidence Index³

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 July, the index reached 64.52%, which represents a decrease of 6.9 pp compared to last month (71.4%) and of 5.9 pp stable compared to the year-to-date average (70.4%). This result implies a drop 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).

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.

Graph 4. Crash Confidence Index



Source: Financial Opinion Survey, Fedesarrollo – BVC

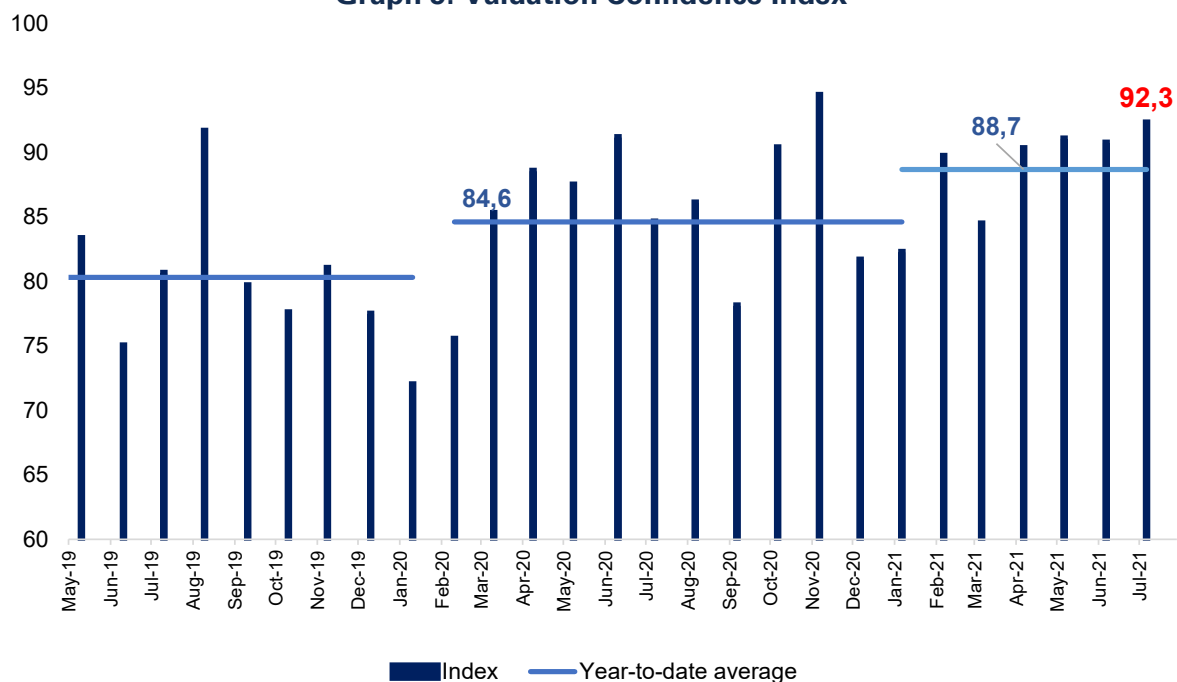
Valuation Confidence Index⁴

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 July, the index reached 92.31%, which means 1.6 pp above the last month (90.7%). This result represents an increase of 7.7 pp compared to the same month in 2020 and an increase of 3.6 pp relative to the year-to-date average (88.7%). 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.

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”.

Graph 5. Valuation Confidence Index



Source: Financial Opinion Survey, Fedesarrollo – BVC



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