

Stock market confidence indices

June 2022

Bulletin No. 20



In June, the **One-Year Confidence Index** reached 66,7%, which means a decrease of 4,3 pp compared to the previous month and a decrease of 30,3 pp relative to the same month in 2021. This result shows that the proportion of analysts who expects a valuation of the MSCI COLCAP index in one year fell compared to the last month and to the previous year.

The **Buy-on-Dips Confidence Index** reached 47,4%, which represents an increase of 9,3 pp compared to the past month and a decrease of 11,9 pp relative to the same month of 2021. The previous implies that analysts consider a MSCI COLCAP increase less likely the day after a potential drop in the index compared to June 2021.

The **Crash Confidence Index** reached 42,1%, meaning that it increased 2,1 pp compared to the previous month and decreased 29,3 pp relative to June 2021. This indicates that analysts consider the market to be more vulnerable to downturns in international markets compared to June 2021.

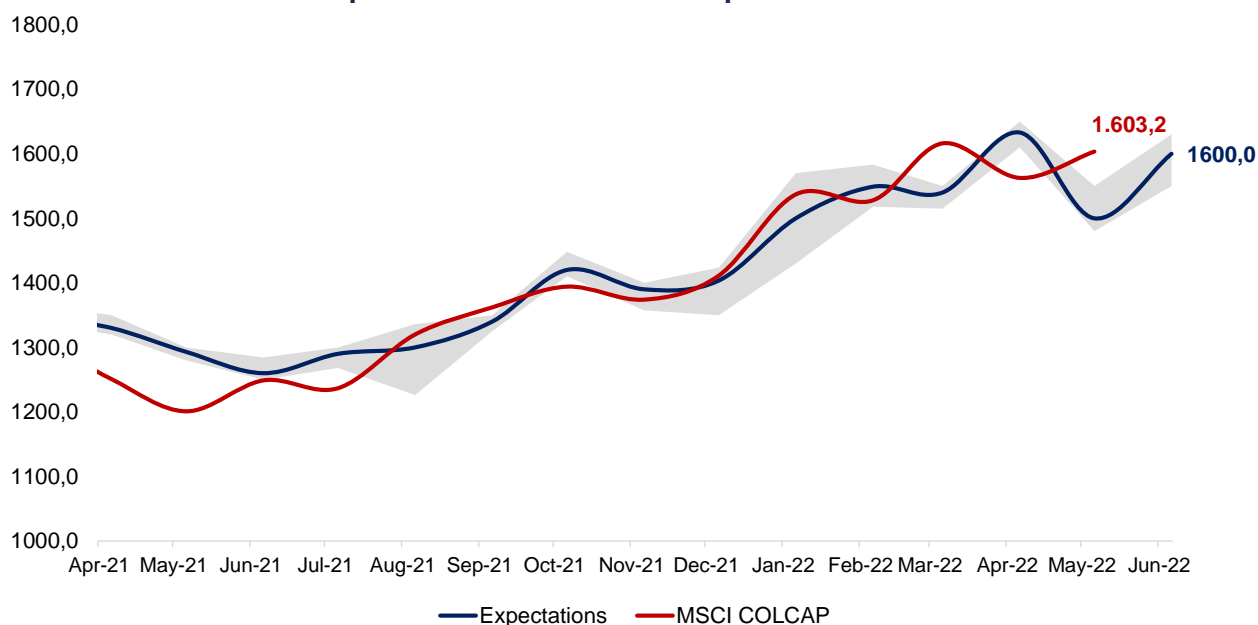
Finally, the **Valuation Confidence Index** reached 84,2%, which represents a decrease of 2,2 pp relative to the previous month. Compared to the same month of 2021, it represents a decrease of 6,5 pp. This implies that a higher proportion of analysts believe that stock values fairly reflect the value of their fundamentals.

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 June 2022 is at 1.562,82, which represents an appreciation of 2,76% with respect to the average of May 2022 and an appreciation of 24,55% with respect to the average of June 2021.

At the end of May, the MSCI COLCAP Index reached 1.603,23. This level is 103,2 units above the analyst's forecast (1.500). By the end of June, it is expected that the index ranges between 1.550 and 1.630, with 1.600 as the median response (Graph 1).

Graph 1. MSCI COLCAP Index price forecast



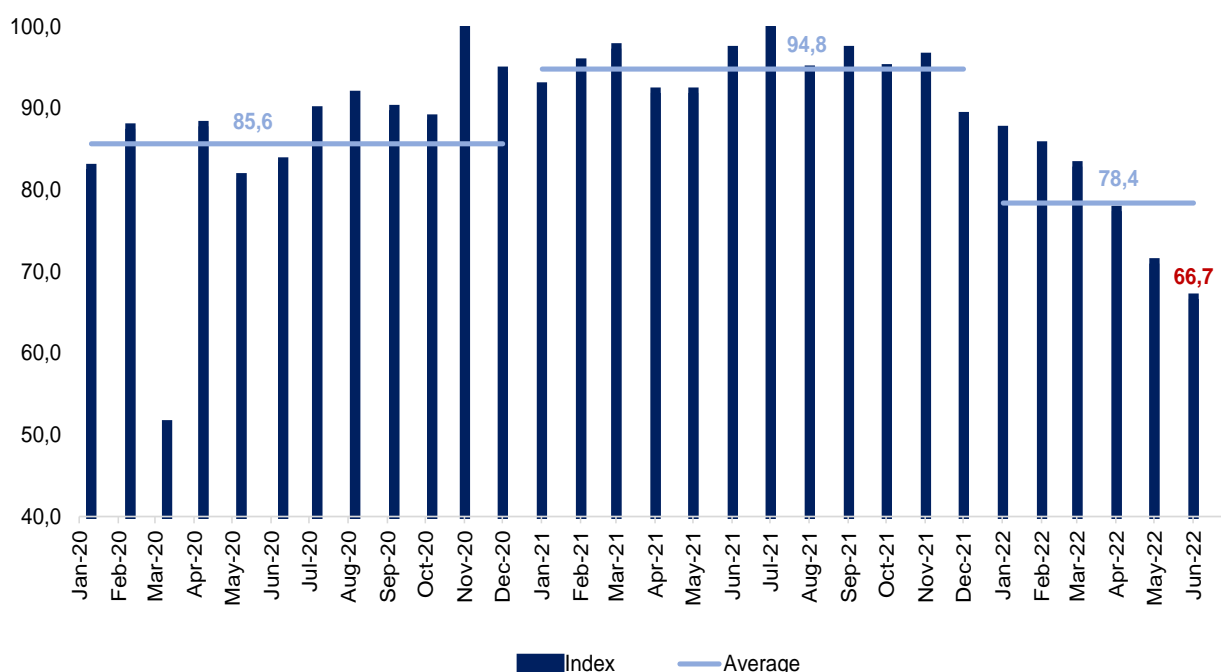
Source: Financial Opinion Survey, Fedesarrollo – BVC

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 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 fell to 66,7%, which indicates that 66,7% of the respondents expect an increase of the index in June 2023 from its current level (Graph 2). The index experienced a reduction of 4,3 pp compared to the previous month (71,0%) and a reduction of 30,3 pp compared to the same month of the previous year (97,0%), which reflects a drop in confidence in the stock market. In fact, it registers the second lowest value with respect to the two past years, so that it is below the average of 2020 and 2021.

Graph 2. One-Year Confidence Index
(%)



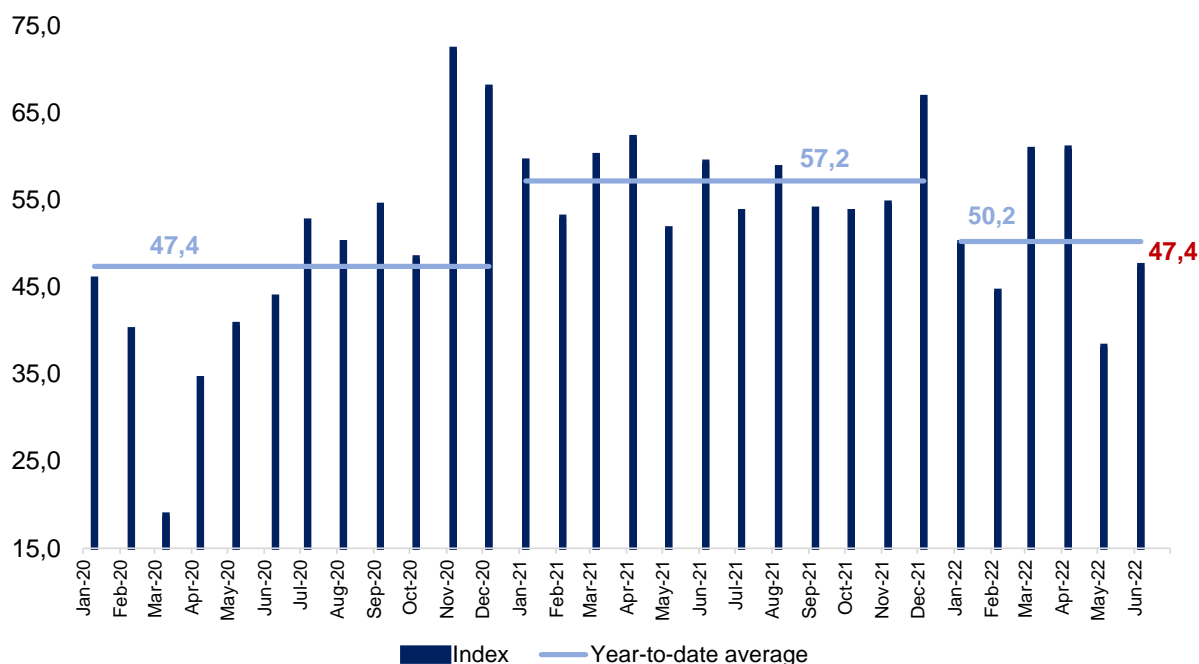
Source: Financial Opinion Survey, Fedesarrollo – BVC

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 percent of the analysts expecting a rebound the next day that the market hypothetically dropped 3%. The index experienced an increase in June, standing at 47,4%. This represented an increase of 9,3 pp compared to last month (38,1%) and a reduction of 11,9 pp compared to June 2021 (59,3%) (Graph 3). Thus, analysts consider an immediate recovery of COLCAP less likely compared to the average of 2021.

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



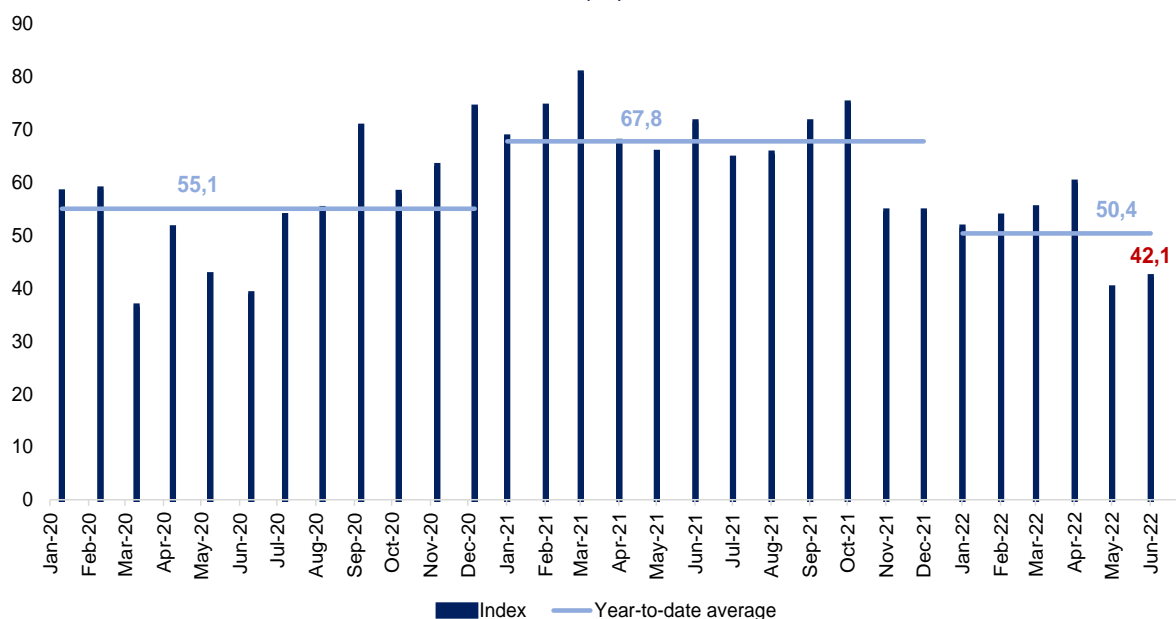
Source: Financial Opinion Survey, Fedesarrollo – BVC

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 June, the index increased 2,1 pp with respect to the previous month's result (40,0%), standing at 42,1%, 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 decreased compared to May (Graph 4). In addition, it is 29,3 pp below the index for the same month of the previous year (71,4%).

Graph 4. Crash Confidence Index
(%)



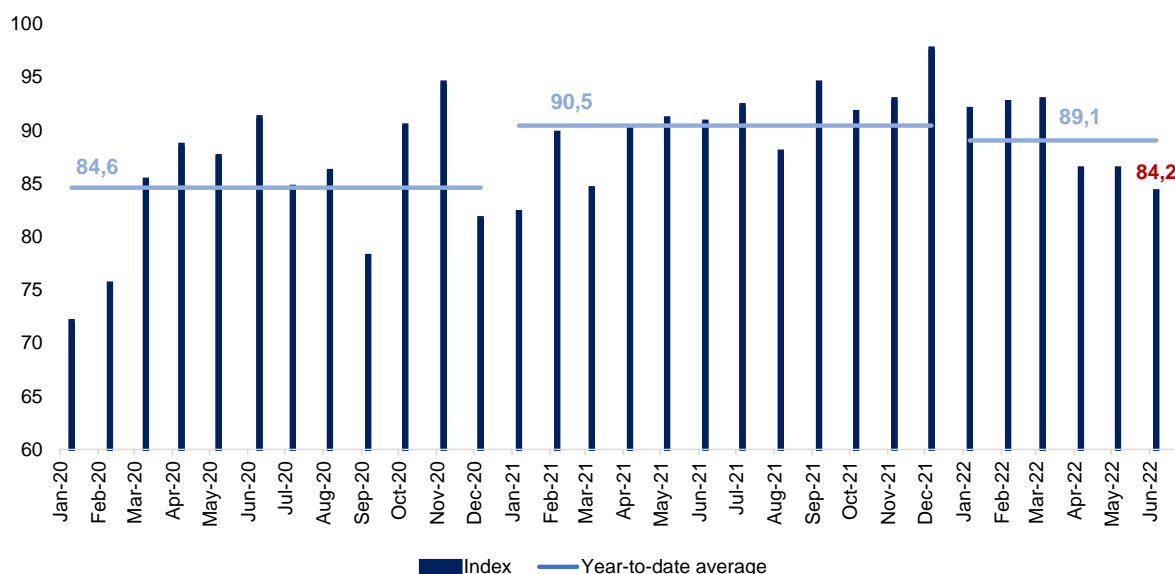
Source: Financial Opinion Survey, Fedesarrollo – BVC

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. For June, the index stood at 84,2%, which is 2,2 pp below the level of May (86,4%) and 6,5 pp below that of June 2021 (90,7%). This indicates that, compared to the same month last year, a higher proportion of analysts believe that stock values fairly reflect the value of their fundamentals. However, there is still a widespread perception that equity values are too low (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".