Stock market confidence indices
July 2024
Bulletin No. 45

FEDESARROLLO
Centro de Investigación Económica y Social

bvc nuam

At the end of July, the **MSCI COLCAP** stood at 1.381, 8 units under analysts' forecast (1,389). The index is expected to reach 1,375 by the end of July.

In July, the **One-Year Confidence Index** stood at 92.6%, down 0.5 percentage points from the previous month (93.1%) and up 5.5 percentage points from the same month in 2023 (87.1%). This indicates that the proportion of analysts who expect COLCAP to appreciate in a year's time decreased compared to a month ago and increased compared to a year ago.

The **Buy-on-Dips Confidence Index** stood at 47.4%, down 17.6 percentage points versus the previous month (65%) and 5 percentage points versus the same month in 2023 (52.4%). The above implies that analysts consider a rise in the MSCI COLCAP less likely the day after a potential drop in the index compared to June 2024 and July 2023.

The **Crash Confidence Index** stood at 38.1%, down 2.8 percentage points versus the previous month (40.9%) and 18.4 percentage points versus the same month in 2023 (56.5%). This indicates that analysts consider the market more vulnerable to downturns in international markets compared to the previous month and to a year ago.

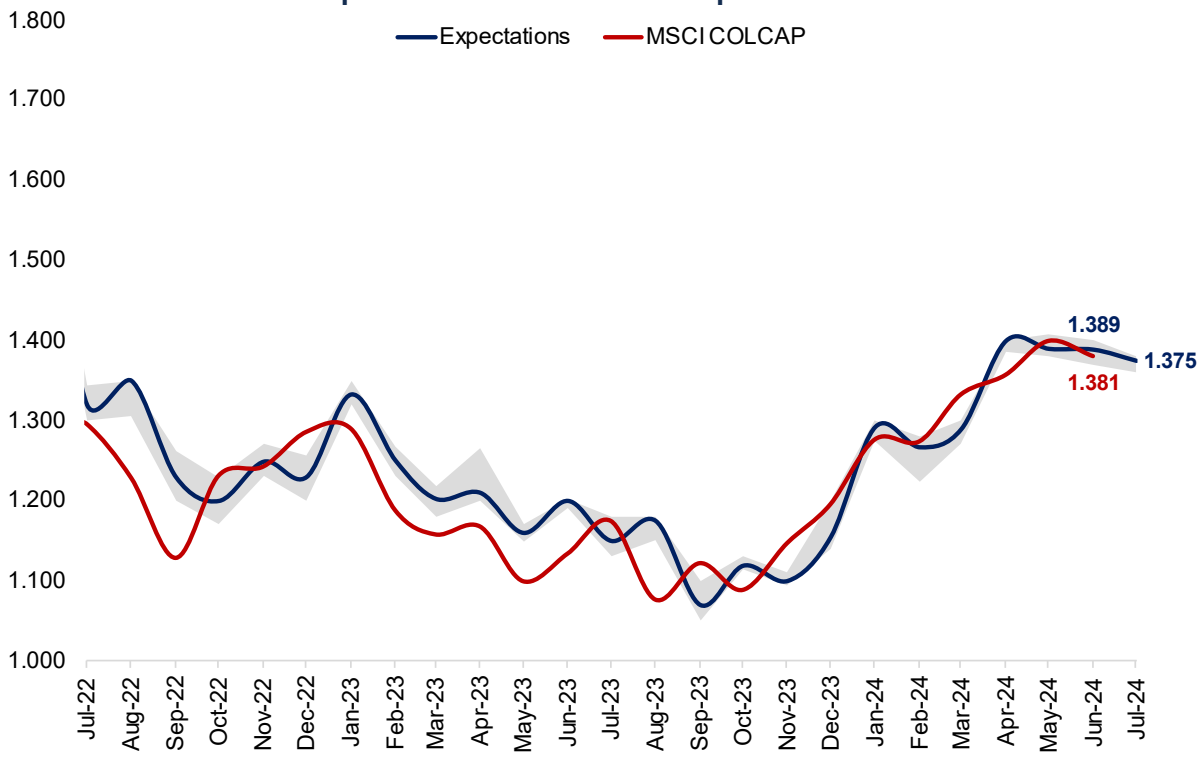
Finally, the **Valuation Confidence Index** stood at 92.9%, down 0.3 percentage points versus the previous month's level (93.2%) and 0.6 percentage points versus the same month in 2023 (93.5%). This implies that a higher proportion of analysts believe that stock values underestimate the value of their fundamentals versus June 2024 and July 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 July 2024 (up to July 18) is at 1,376, which represents a 0.65% decrease with respect to the average for June 2024 (1,385) and a 19.03% increase with respect to the average for July 2023 (1,156).

At the end of May, the MSCI COLCAP stood at 1,381, which corresponds to 8 units under analysts' forecast (1,389). By the end of July, the index is expected to be in a range between 1,360 and 1,380, with a median response of 1,370 (Graph 1).

Graph 1. MSCI COLCAP Index price forecast



Source: Financial Opinion Survey, Fedesarrollo – bvc.

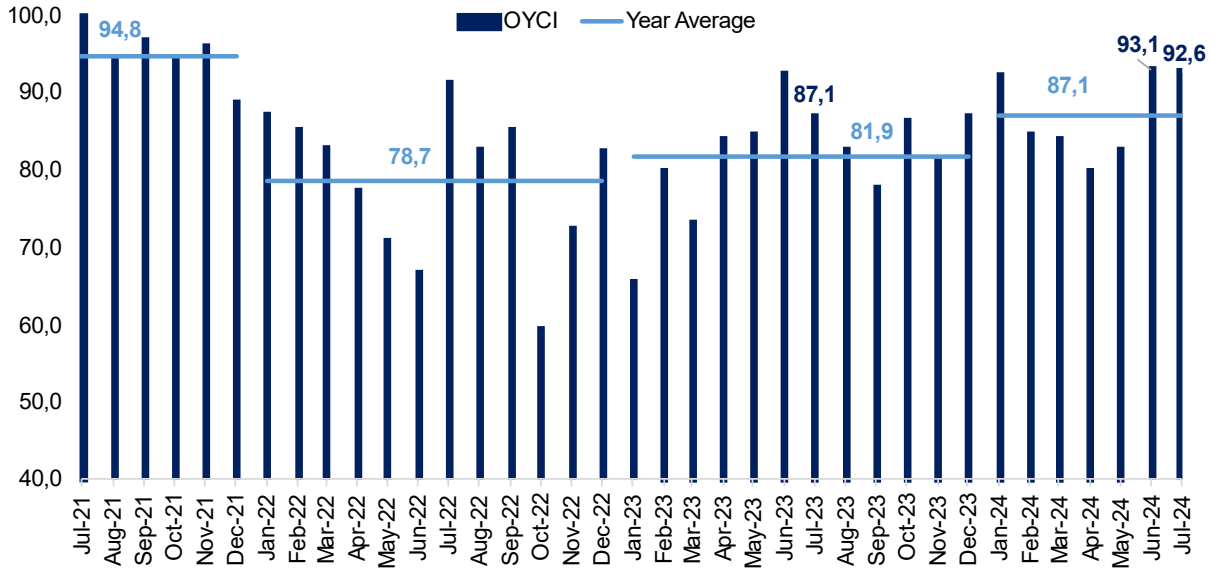
The four confidence indices for the Colombian stock market are presented down below. These indices are calculated based on the Shiller (2000)[1] methodology and using the analysts' expectations collected in the Financial Opinion Survey.

[1] Shiller, Robert J. (2000). Irrational Exhuberance. Princeton University Press. Princeton, N. J

One-Year Confidence Index[2]

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 92.6%, indicating that this percentage of respondents expects an increase in the index in July 2024 compared to the level prior to the survey (1,373)[3] (Graph 2). The index experienced a 0.3 percentage points decrease versus the previous month (93.1%) and a 5,5 percentage points increase versus the same month of the previous year (87.1%), reflecting a monthly decrease and annual increase in stock market confidence.

Graph 2. One-Year Confidence Index
(%)



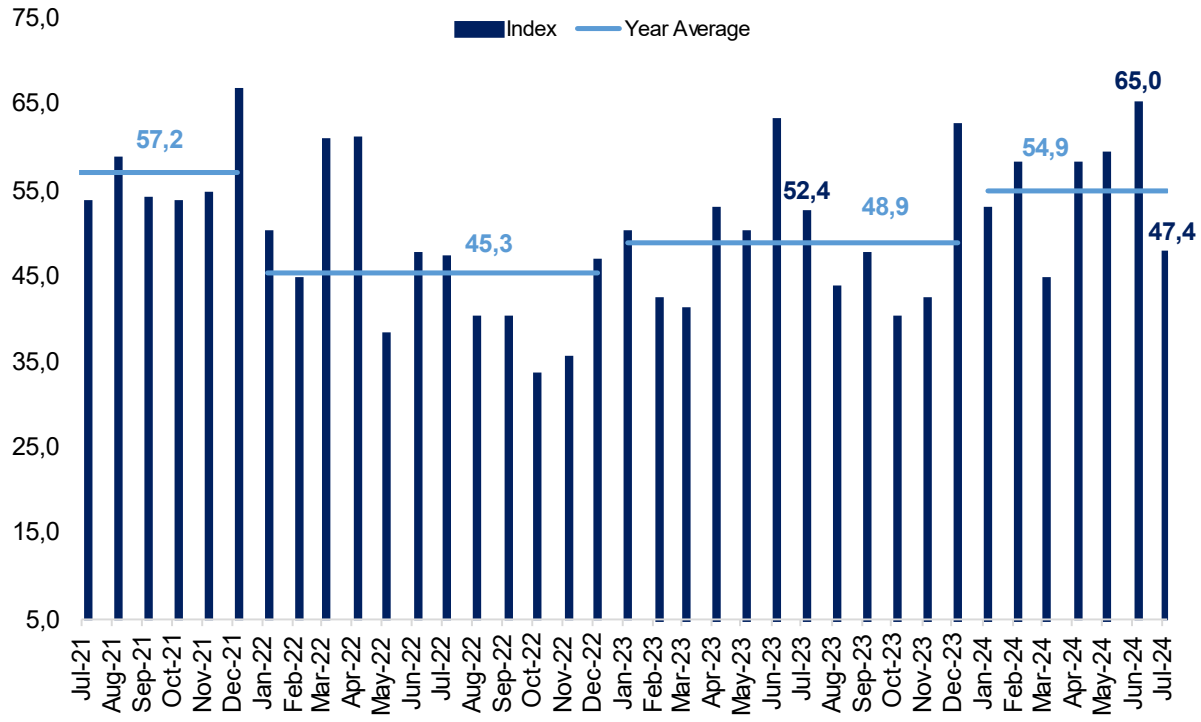
Source: Financial Opinion Survey, Fedesarrollo – bvc.

[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 July 9th.

Buy-on-Dips Confidence Index[4]

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 decreased 17.6 percentage points in July 2024 compared to June (65%), standing at 47.4% (Graph 3). Likewise, analysts consider an immediate recovery of COLCAP more likely compared to the same month of 2023 (52.4%), which represents an increase of 5 percentage points.

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



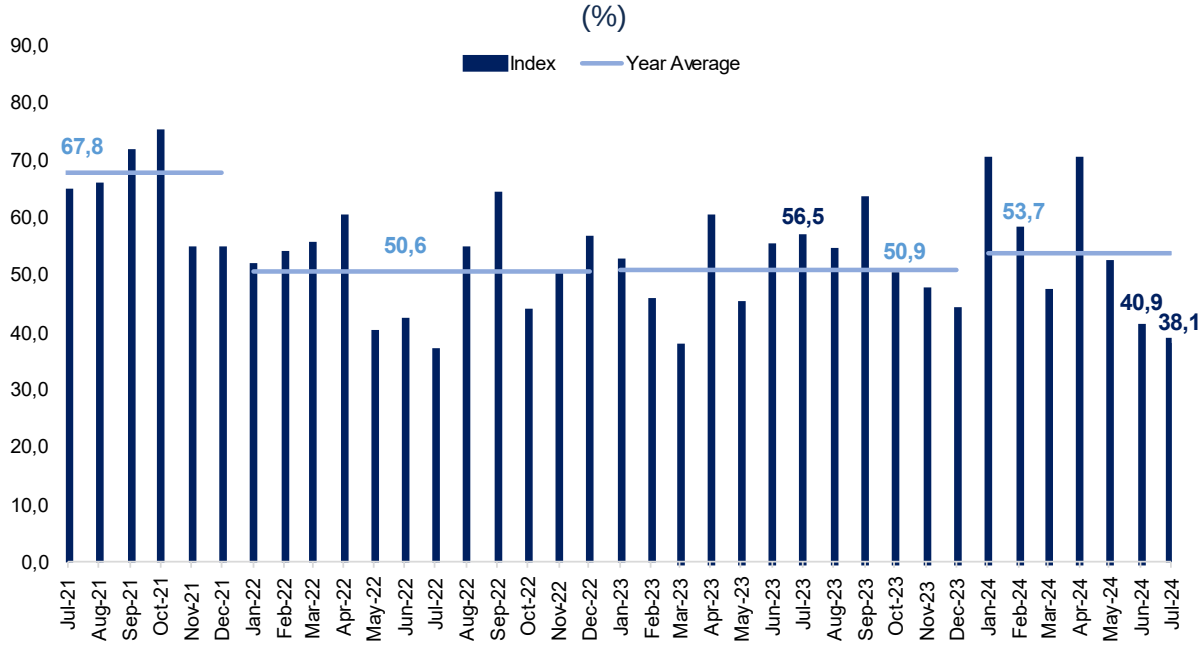
Source: Financial Opinion Survey, Fedesarrollo – bvc.

[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 Index[5]

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 July, the index decreased 2.8 percentage points with respect to the previous month's result (40.9%), reaching 38.1%, 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 increased compared to June (Graph 4). In turn, the index was 18.4 percentage points under the figure recorded in the same month of the previous year (56.5%), reflecting lesser confidence in the immunity of the stock market to external shocks versus de previous year.

Graph 4. Crash Confidence Index



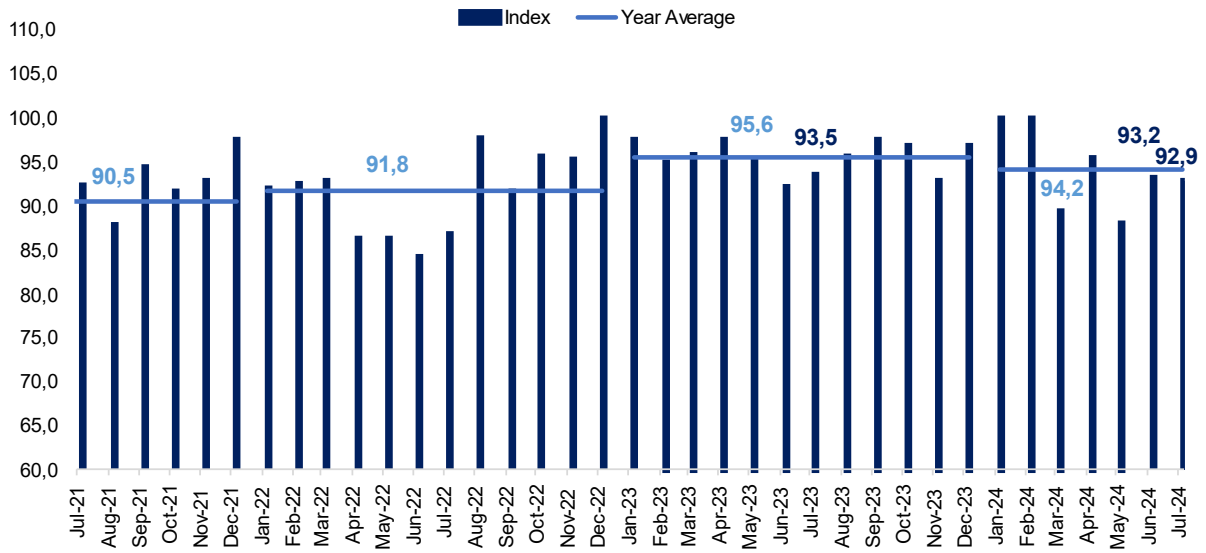
Source: Financial Opinion Survey, Fedesarrollo – bvc.

[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 Index[6]

The Valuation Confidence Index is the proportion of analysts who think that the market is not too highly valuated compared with measures of true fundamental value. In July, the index stood at 92.9%, 0.3 percentage points below the June level (93.2%) and 0.6 percentage points below the July 2023 level (93.5%). This indicates that a slightly lower 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.

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 July 22nd, 2024
Comments to **José Julián Parra**: jparra@fedesarrollo.org.co

[6] The Valuation Confidence Index is calculated as:
$Valuation\ Confidence\ Index = \left(1 * (\%\ too\ low)\right) + \left(0.5 * (\%\ about\ right)\right)$, 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".