



La Libertad Avanza?



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- Argentina exhibits a turnaround story in macro-economic terms that has been achieved by way of implementing strong fiscal measures. Going forward, analysts expect the macro picture to continue improving.
- The Milei administration faces different challenges in 2025, an electoral year in which keeping its popularity level high is paramount.
- The Argentinian economy is transitioning into a bi-monetary economy, amid the existence of capital controls. The manner and pace of easing these controls will be crucial, with the potential to either accelerate economic growth or trigger a sharp currency depreciation.
- Argentinian fixed income has had a stellar performance in 2024, propelled by the observed fiscal consolidation that has attracted renewed interest in

the market. Going forward, the market will be focused on the country's capacity to honor its debt payments in 1H25.

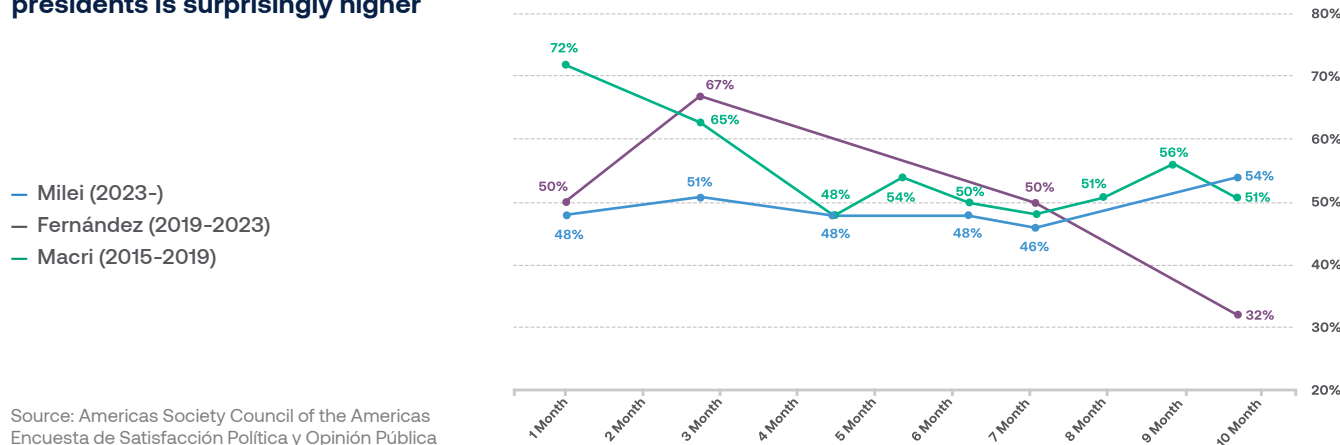
- Argentina's equity market could continue to move higher over time. The Energy sector is poised to flourish as the Vaca Muerta basin continues to develop, while companies in financial and consumer-oriented sectors could benefit from increased economic growth.

When the Milei administration took office almost a year ago, it was handed an economy in poor shape, with rampant inflation and almost non-existent growth. A year into the Milei administration, we deemed it fit to review how things have changed, if the policies implemented by the administration have had the desired effect, and what to expect in the upcoming months.

Macroeconomic update

Argentina's economic growth, when measured through its economic activity index, has remained negative

1. Milei's approval compared to other presidents is surprisingly higher



Source: Americas Society Council of the Americas Encuesta de Satisfacción Política y Opinión Pública

for most of the year. According to the latest September print, growth was -3.3% YoY, underpinned by under-performance in construction, manufacturing, and retail sectors. In contrast, the three-month average of said indicator, which is often used as a proxy for GDP, reflects a quarterly trend that, if sustained, would lead to positive economic growth for the first time since 2Q23. This means that Argentina could be exiting its almost two-year recession that saw GDP contract by approximately 8%, driven by sharp fiscal adjustments. Initial estimates point to a 3.5% real GDP recovery in 2025, underpinned by favorable drivers such as improved inflation control, reduced tax burdens, better local currency credit conditions, a more favorable investment environment, easing of capital controls, and decreased financial repression. Indeed, Argentina may be the fastest growing economy in Latin America in 2025.

On the inflation front, Argentina's price levels have been in a downward trend since peaking close to 300% YoY in March. Food inflation has also been falling and core inflation is now decelerating to its lowest level since September 2020. Furthermore, this trend has also been influenced by government-imposed exchange

rate controls that have helped control the depreciation of the Argentinian peso – ARS. Still, such controls are only a temporary solution, and the government is due to lift them, which could eventually spark a renewed, rapid depreciation of the currency.

According to estimates from Bloomberg Intelligence, if the Argentinian government can maintain fiscal discipline, inflation could run below 2% per month by the 2025 midterm elections, and under 1% under the assumption that capital controls are lifted by early 2025. This is crucial as Argentina must replenish its net reserves if it wants to lift capital controls, and one of the potential avenues to do so would be through a new injection from the IMF.

On the political front, Argentina will face midterm legislative elections in October 2025. The government aims to expand its limited congressional representation, which currently accounts for just 15% of the Lower House and 10% of the Senate. Despite the short, yet impactful recession that affected the country in early 2024, President Milei's approval rating remains solid at 54%, according to recent surveys. Moreover, Milei's approval rating has trended higher since he became

President, a sharp contrast to recent administrations. Given the limited influence of Milei's party, "La Libertad Avanza", in Congress, the administration is expected to prioritize economic policies that bolster the president's positive public image in the build-up to the elections. Key measures, such as stabilizing the ARS's valuation and managing inflation, are likely to be tailored to maintain public trust and confidence in the government. The stakes are high, as gaining additional seats in Congress would significantly ease the approval of future government initiatives. This has made safeguarding Milis a key approval a key objective of the administration.

FX – Currency Control Expectations

Notably, Argentina appears to be transitioning toward a bi-monetary economy rather than the dollarized model widely discussed during Milei's campaign. The demand for the ARS, as measured by local credit, has reached levels not seen in 15 years, while private USD deposits are also on the rise. This dual-currency dynamic positions Argentina to gradually loosen foreign exchange controls in 2025, aiming to shift toward a managed float regime instead of an entirely free-floating market. Currency controls will remain a central issue throughout 2025, as the administration must navigate a delicate balance. The pace and manner of easing these controls will be crucial, with the potential either to accelerate economic growth or to trigger a sharp currency depreciation. While the government has been increasing its reserves for debt servicing, there are still significant risks regarding 2026 payments that will dissipate once we have more clarity regarding the path of said controls. Liquid reserves, which exclude gold and other credit lines, are expected to close 2024 around USD 9bn. While Argentina's current account has reported four consecutive months of deficit, expectations are that the country will manage to increase its liquid reserves by an additional USD 3.5bn in 2026.

Milei's government has announced plans to reduce Argentina's crawling peg—the gradual devaluation of the official exchange rate—from 2% to 1% per month if inflation continues its downward trend. This follows October's inflation rate of 2.7%, the lowest in three years. The adjustment signals a shift in the crawling peg's function, as Vice President of the Central Bank Vladimir Werning noted. Previously seen as a stabilizing anchor, it has now become a driver of inflationary inertia, perpetuating price increases rather than containing them. The proposed reduction aims to disrupt this cycle and bolster the ongoing disinflation process, though it carries risks of exchange rate misalignments and potential speculative pressures.

Equities

Argentinian equities have been the uncontested leaders in Latin American equity markets so far in 2024, with the Global X MSCI Argentina (ARGT) rising over 60% for the year as of the end of November. To be fair, this ETF is not an exact representation of the country's equity market, as limited market breadth and volume constrain the amount of investable equity securities in the country. As a result, some individual holdings comprise outsized weights in the ETF, with the largest five holdings comprising close to 50% of the ETF.

If the Milei Administration can maintain policy continuity, some Argentinian assets could present lucrative long-term investment opportunities for investors with the appropriate tolerance for risk. This optimism has been reflected in this year's strong performance of the country's most liquid equities. Argentina's potential is two-fold, stemming from both the potential offered by the country's meaningful natural resource reserves as well as the economic growth that should arise as the country exits years of stagflation.

On the one hand, we have companies in the country's Energy and Mining sectors, which will not only benefit

from the administration's friendly policies towards these industries, but also from the size and quality of the resources found within the country. The most prominent of these resources are the large amounts of oil and gas found in the country's Vaca Muerta basin. This basin, currently underutilized due to a lack of investment in exploration and infrastructure in the past, is being compared to the famous Permian Basin in the United States due to its high-quality reserves. Additionally, unlike resource basins in other parts of the world, Vaca Muerta enjoys a favorable strategic advantage, as it is found in a region that could greatly benefit from its resources but has little to no competition from other basins. There are a few companies that are poised to benefit from the inherent potential in Vaca Muerta. The leader in the group is YPF (YPF), which we favor, along with Vista Energy (VIST), as two of the best ways to get exposure to this play due to their attractive acreage positions and proven management teams. Pampa Energia (PAMP) and Transportadora de Gas del Sur (TGS) could also offer attractive ways to get exposure to the basin, while we await to see if Geopark (GPRK) can effectively integrate its recent acreage acquisition in the region.

On the other hand, we have Financial and consumer-oriented sectors that could also stand to benefit from Milei's policies. Although the Argentinian consumer may be faced with headwinds in the short term as new policies are implemented, it is likely to benefit over the long run from a more business friendly environment. Financial companies like Banco Macro (BMA) and Grupo Financiero Galicia (GGAL) could reap the benefits of a potential increase in consumer spending. As one of the largest financial institutions in Argentina, Banco Macro offers credit card and consumer loans, which could experience an increase in demand in a more stable economic environment. Grupo Financiero Galicia's Banco Galicia is one of the country's largest private banking institutions, which could benefit from a potential influx of capital back into the country if the administration is able to stabilize the economy and

increase business confidence.

Another, beneficiary from a potential increase in demand from the Argentinian consumer would be Mercadolibre (MELI). Most of the company's revenues currently stem from Brazil; however, Argentina comprises its second largest market, accounting for approximately 25% of its revenues.

Although we have favorable opinions on many of the companies and stocks mentioned above, they tend to exhibit high degrees of volatility and are best suited for investors with the appropriate investment horizon and risk tolerance. As such, we encourage investors to consult with their financial advisors to determine suitability for their particular scenarios.

Fixed Income

In terms of fixed income, Argentina has had a stellar year so far, driven by the improving macroeconomic picture and a growing interest by investors to lock in higher yields. The outperformance of USD-denominated Argentinian sovereign bonds is also driven by the country's rapid fiscal consolidation that has translated into a headline balance surplus of 0.5% of GDP YTD as of October. This surplus was driven by growth in real primary revenues, together with a contraction of primary spending. Against this healthier fiscal picture, USD-denominated sovereign debt spreads have tightened across the curve, particularly the shorter end coming in 260bps over the last month.

Moreover, the more benign macroeconomic environment has also set the stage for Argentinian companies to tap the debt markets with successful debt issuances over the year, such as the latest offerings by Vista Energy and Pampa. Both companies are well-known participants in the Argentinian energy sector that could profit from the increasing interest the Milei administration has exhibited in developing

Vaca Muerta, together with the attractive yields these companies offer.

Looking ahead, Argentina faces significant challenges in the coming year, with the main one being the maturity of USD 3.4bn in sovereign debt, approximately USD 2.6bn of which are due in July 2025. Focusing specifically on 2025, financing needs will become even more relevant since most of the ARS-denominated debt is zero coupon. Meanwhile, Moody's has highlighted the high risk of default on these obligations, citing the country's low reserves and the likelihood of accelerated depreciation once exchange controls are lifted. Under this scenario, Moody's foresees a potential "distressed debt exchange," implying a favorable restructuring of obligations that would result in moderate losses for current bondholders. However, some Wall Street analysts suggest that the short-term liquidity risk is already reflected in the current yields of sovereign bonds, with markets expecting Argentina to meet its 2025 obligations. This benign view of the country is reflected in its risk premium as its 5-year CDS has tightened close to 4,000bps YTD.

Going forward, the main concerns for markets now are focused on post-election obligations from 2026 onwards, when the government will likely have to decide between bolstering reserves or lifting exchange controls. Any additional clarity that can be provided regarding Argentina's debt profile will bode well for the performance of fixed income securities.

As mentioned earlier, Argentina's economy is showing signs of recovery under Milei's administration, with GDP growth and inflation control fostering cautious optimism. Opportunities in energy, financial, and consumer sectors are emerging, though high asset volatility merits prudence. Fiscal consolidation has strengthened the fixed income market, but upcoming debt obligations and exchange rate risks remain key challenges. Continued policy execution and reserve replenishment will be critical for sustaining growth and navigating uncertainties. Maintaining public trust and stability will be pivotal as the country approaches midterm elections in 2025. ■

House Views Matrix

	TACTICAL (UP TO 3 MONTHS)	CYCLICAL (UP TO 12 MONTHS)
Global Asset Allocation		
Equities	NEUTRAL	NEUTRAL
Fixed Income	NEUTRAL	OVERWEIGHT
Cash	NEUTRAL	NEUTRAL
Regional Breakdown		
US Equities¹	OVERWEIGHT	OVERWEIGHT
European Equities	NEUTRAL	NEUTRAL
Japanese Equities	OVERWEIGHT	OVERWEIGHT
Emerging Market Equities	UNDERWEIGHT	NEUTRAL
Chinese Equities	NEUTRAL	NEUTRAL
US Treasuries²	NEUTRAL	OVERWEIGHT
Investment Grade Fixed Income	NEUTRAL	NEUTRAL
High Yield Fixed Income	NEUTRAL	NEUTRAL
Emerging Market Sovereign	NEUTRAL	NEUTRAL
US Dollar	NEUTRAL	OVERWEIGHT
Energy³	NEUTRAL	UNDERWEIGHT
Precious Metals	OVERWEIGHT	OVERWEIGHT

¹Relative to global equities in USD

²Relative to aggregate fixed income markets in USD

³Relative to an overall commodity allocation

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