



Market Commentary  
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English Version

# Argentina: Latin America's (Potential) Shining Star

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## Argentina: Latin America's (Potential) Shining Star

- Argentina's macroeconomic indicators are improving, with signs of disinflation and economic activity picking up, though challenges remain.
- A new IMF deal has boosted reserves and market confidence, supporting fiscal consolidation and reform efforts under the Milei administration.
- Energy and consumer sectors are leading Argentina's recovery, with companies like YPF, Vista Energy, and Mercado Libre positioned to benefit.
- If stabilization policies continue, Argentina could regain capital market access and emerge as a regional success story.

Argentina is no stranger to financial headlines. Lately, the country has been making news as the macroeconomic situation defies the odds and keeps handing positive surprises to both investors and locals alike. After the latest developments, we deemed it fit to revisit the country and reassess whether our con-

structive stance still holds true.

The macroeconomic picture keeps providing a sanguine outlook, albeit with a couple of caveats: even if the disinflationary trend persists in the yearly data, March's monthly print surprised the market to the upside, underpinned by higher education costs and higher food prices. According to market forecasts, inflation is expected to increase further in April and May, returning to the disinflationary trend later this year as local prices account for the effects of the new currency regime.

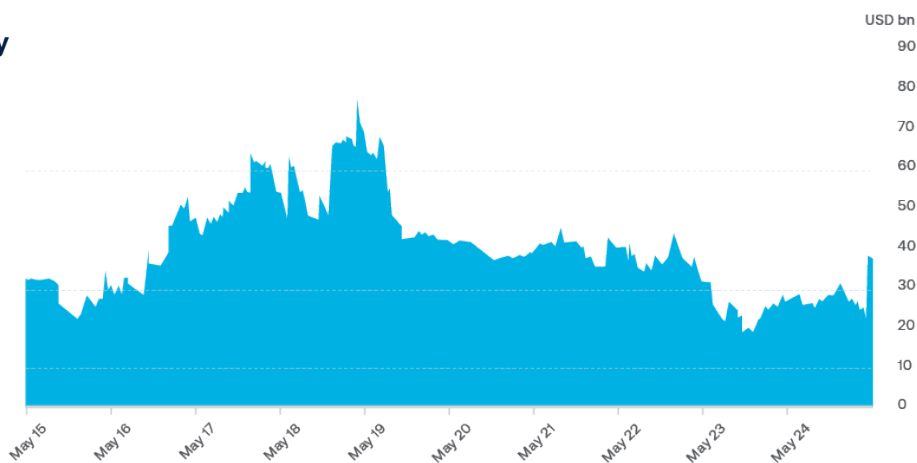
On the activity front, the Argentinian economy posted a second month of solid expansion per its economic activity index, with 11 of 15 sectors growing when compared to last year's print. However, it is worth noting that for most of 2024, economic activity printed negative figures, hence a base effect needs to be accounted for. Additionally, the indicator's three-month average, often used as a proxy for GDP, also grew in February.

Still, one of the main developments that needs to be discussed is the recently reached Extended Fund Facility – EFF – with the IMF, through which the

country received USD 20bn in fresh funds that allowed for a partial lift of the currency and capital controls. Moreover, the currency regime shifted from the previously observed crawling peg to one where the peso – ARS – fluctuates within an exchange-rate band that will see intervention from the Central Bank in case the ARS breaches any of the bands. With the initial IMF disbursement of USD 12bn, Argentina was

able to pay down part of the Central Bank’s debt, thus strengthening the Central Bank’s balance sheet while showing signs of confidence in the commitment from the Milei administration to implement a more market-friendly business environment. Furthermore, and even if the current balance is still far from the highs observed in 2019, Argentina’s international reserves exhibited a bump once the deal was finalized.

**After the IMF deal, international reserves recovered substantially**



Source: Source: Bloomberg, BCRA- Data as of May 7, 2025

Aside from supporting the more market-friendly business environment we previously mentioned, the new IMF program is expected to facilitate the much-awaited fiscal consolidation that Argentina so urgently needs. To ensure the consolidation takes place, the Fund put 12 structural benchmarks in place, together with set deadlines, that are expected to be completed before the new Congress is sworn in on December 2026. Among those benchmarks, it will be worth monitoring the submission of the 2026 budget – which is expected to include a medium-term fiscal framework – and the advancement of the deregulation of the electricity sector.

The next big challenge for the Milei administration will be the legislative elections in October, in which Milei’s popularity will be tested, as well as the administration’s capacity to implement additional re-

forms for the remainder of its tenure. This is important, considering that Milei’s party does not currently hold majorities in Congress, and that has made the approval of key reforms challenging.

Most market analysts seem to agree that, if successful, the macroeconomic stabilization Argentina has embarked on should bring the country closer to regaining access to capital markets, which should improve its debt servicing.

On the fixed income front, Argentinian sovereign bonds have had a positive reaction to the latest slew of data, including the news on the IMF agreement. The USD-denominated curve has exhibited a generalized yield tightening in the last month, with yields decreasing an average of ~200bps. Zooming in on the sovereign curve, because of their higher

coupon and where their option adjusted spread currently trades, the ARGENT 2035 and ARGENT 2038 are attractive vehicles to gain exposure to the sovereign fixed income market. Furthermore, as we have mentioned on different occasions, **corporate issuers that are aligned with President Milei's idea of ramping up oil production, like Vista Energy and YPF, are a few of the most attractive ways to have exposure to the Argentinian market.**

**A continued revival of Argentina's economy could prove to be a tailwind for many of the country's industries. Two general themes that stand out that will likely benefit many local enterprises are the continued development of the Vaca Muerta oil and gas basin, as well as increased consumer confidence, which should lead to increased consumption.**

On both the equity and fixed income fronts, **Energy is one of our favored sectors in the country.** Argentina has been blessed by the presence of the prolific Vaca Muerta oil and gas formation within its borders. However, onerous regulations resulted in limited investment of development capital, which had hampered growth in previous years. However, this dynamic is experiencing a meaningful turnaround with the Milei administration, as the government has implemented several measures to liberalize the country's energy industry. In the past, less-efficient conventional oil production practices dominated drilling in the region. Now, more efficient shale oil production accounts for close to 60% of Vaca Muerta's total production, a level not seen in previous years.

Several companies in the region are benefiting from this new approach in Vaca Muerta, but the largest beneficiary is YPF. The company's management team appears focused on growing production to increase earnings, a feat that is proving to be more easily attainable under the Milei administration. To do so, management has been divesting assets focused

on conventional oil drilling and redirecting capital to maximize shale oil production. At the same time, the company is likely to benefit from the continued development of transportation infrastructure in the region, such as the Oldelval and Vaca Muerta Sur pipelines, as well as several deep-water ports that would allow access to the export markets.

Although YPF will likely be the biggest beneficiary of the Milei administration's renewed stance on this industry, other companies will also benefit from increased production potential from Vaca Muerta, including Vista Energy and Pampa Energia. Vista is a Mexican oil & gas exploration and production company. However, most of its production growth potential stems from Vaca Muerta. Led by a proven management team, the company is intent on shifting from the conventional practice of vertical drilling to unconventional methods of horizontal shale drilling, which should reduce production costs, leading to potentially larger profit margins over time. Management's focus on the region is clearly exemplified by its recent acquisition of 100% of Petronas' exploration and production assets in Argentina. Another local player, Pampa Energia, will also likely continue to benefit from the country's energy boom, as it shifts its focus from being mainly an energy distributor to becoming a meaningful producer. Pampa's differentiated approach consists of exploring a different portion of Vaca Muerta, concentrating on the Rincon de Aranda area. At the same time, the company could also benefit from changing regulations in the energy distribution sector, which could unlock further gains down the road.

**Another one of our favored themes in Argentina is the consumer.** The Argentinian consumer faced headwinds last year as new policies were implemented; however, some of these policies may be starting to bear fruit. At the beginning of the year, the country's consumer confidence index found itself at

over 50 points, the highest level in nearly ten years. Although it has pulled back since, consumer confidence still appears healthy. At the same time, consumer spending appears to be increasing. FitchSolutions expects that, if inflation continues to trend lower throughout the year, household spending could increase by as much as 5% on a year-over-year basis. Increased consumer confidence and spending appears to be leading to increased business and consumer credit.

Financial companies like Banco Macro and Grupo Financiero Galicia 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 new administration continues to stabilize the economy and increase business confidence.

Another beneficiary from a potential increase in demand from the Argentinian consumer is Mercado

Libre. Accounting for approximately 25% of its revenues, Argentina comprises its second largest market. High revenue growth rates, coupled with prudent expense management, have led to increased profitability for Mercado Libre, which could continue to be propelled higher by the potential of increased expansion in the Argentinian market. In fact, Argentina was the biggest contributor to the strong revenue growth reported by the company last Wednesday. Management indicated that it saw both commercial and credit growth in Argentina during the quarter, where unit sales growth rose over 50% on a year-over-year basis.

**Argentina could be turning the corner in both economic and financial market terms. Although the country is not out of the woods just yet, if the Milei administration is able to continue to implement its policies as expected, Argentina could prove to be a shining star in Latin America for years to come.**

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