



# Argentina Update: Walking the Walk

Trevor Yates  
tyates@globalxetfs.com

Date: June 14, 2024  
Topic: Emerging Markets

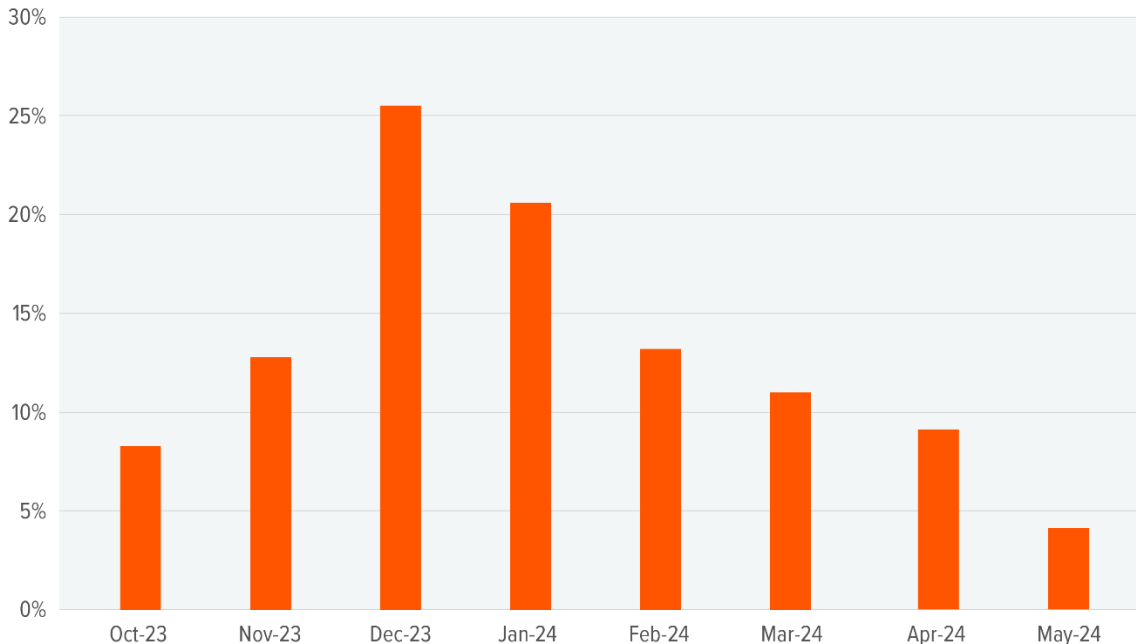
After eight decades of Perronism/Kirchnerism-dominated politics marked by high inflation, low growth, and five defaults since 1982<sup>1</sup>, Argentina is working through a potential turning point – led by President Javier Milei and his “chainsaw” policies. Since taking office on December 10, 2023, President Milei has made significant progress on his plan to return the Argentine economy to orthodoxy. He has surprised many with his ability to successfully negotiate with other parties, quickly resulting in significant legislative milestones.

## Legislative Milestones Under President Javier Milei

- **Market Friendly Appointments:**
  - Luis Caputo as Economy Minister
  - Santiago Bausili as Central Bank Governor
- **Devaluation:** In an effort to return to a free market system, Milei allowed the peso to devalue by over 50% on December 13, 2023 and has let it devalue at a pace of roughly 2% each month since then, a policy that is likely to remain in place moving forward. A free-floating currency is crucial to bringing back confidence in the market, and the devaluation boosted exports, leading to an improved trade balance.
- **Monetary Policy:** The initial devaluation expectedly translated into an inflation spike, but Milei’s central bank has acted in an orthodox manner by initially raising rates to contain it.
- **Inflation:** Since the initial devaluation caused a spike in inflation, we have seen the month-over-month (MoM) increases decelerate sharply.<sup>2</sup>

## CONSUMER PRICE INDEX (MOM) HAS DECELERATED SHARPLY SINCE THE DECEMBER PESO DEVALUATION SPIKE

Sources: Global X ETFs with information derived from: Bloomberg LP. Data as of June 13, 2024.





- **Fiscal Adjustments:** Milei slashed irresponsible fiscal spending, leading to Argentina’s first quarterly budget surplus since 2008.<sup>3</sup>
- **International Monetary Fund (IMF):** President Milei successfully restored an agreement with the IMF, unlocking \$3.3bn in funds.<sup>4</sup>
- **Omnibus Bill:** On June 12th, the Senate passed this key piece of legislation that includes core economic policies and reforms.

### Highlighting the Omnibus Bill

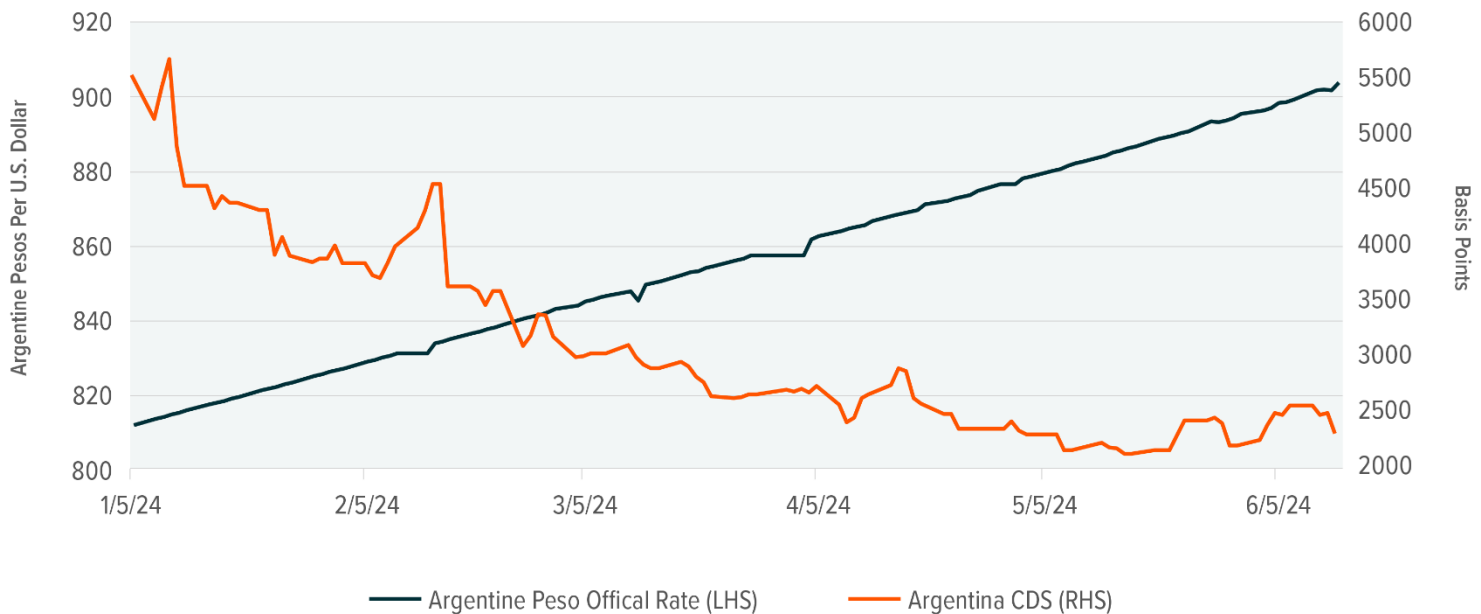
On June 12, 2024, Argentina’s Senate successfully passed the Omnibus Bill, a wide-ranging and key piece of legislation focused on cost cuts, reduced bureaucracy, and a smaller government – policies core to his administration’s economic goals. Despite the bill being “watered down,” we were encouraged by Milei’s ability to successfully negotiate with congress in order to promptly pass this meaningful piece of legislation. Furthermore, even in its current state, the bill is extremely comprehensive, with measures addressing core issues such as fiscal and labor reform, privatizations, and establishing a new fiscal framework for large investments. We also see the timing of the bill’s passage as key, with the reforms likely to bear fruit and sure up public support ahead of the looming midterm elections. The bill will now be sent back to the Lower House, where full approval is expected over the coming weeks.

### Markets Are Rewarding the Progress

Milei’s first months in office have been impressive and, in turn, have been rewarded by markets, with equities and sovereign bonds seeing strong gains in the first five months of 2024. The price action of the parallel exchange rate (also known as the Blue-Chip Swap) in Argentina has also been positive, with its premium remaining roughly with the official exchange rate. Moving forward, we expect markets to remain focused on seeing continued progress on reforms, inflation deceleration, and Milei’s public support increasing.

## ARGENTINA CREDIT DEFAULT SWAPS FALLING POST DEVALUATION

Source: Global X ETFs with data derived from Bloomberg LP. Data as of June 13, 2024.



### Conclusion: Still in the Early Innings of the Turnaround

Despite the already impressive amount of progress, we believe there is more opportunity for the Milei Administration. We believe he will continue to move quickly in order to gain support ahead of the critical midterm elections. The price action in the parallel exchange rate should allow for a smoother removal of currency controls, a key step for Argentina to attract foreign direct investment. Overall, we believe Argentina’s long-term investment thesis remains very much intact, highlighting normalizing economic policy, its large natural resource base, and low credit penetration as key drivers to unlock the country’s true potential.

#### Footnotes

1. Bloomberg News. (2019, Sep 11). One Country, Nine Defaults: Argentina is Caught in a Vicious Cycle.



2. Bloomberg LP. Data as of May 6, 2024.
3. Ibid.
4. Bloomberg News. (2024, Jan 10). Argentina Reached Deal with IMF Staff to Unlock \$3.3bn.

---

Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns.

Information provided by Global X Management Company LLC.

Investing involves risk, including the possible loss of principal. Diversification does not ensure a profit nor guarantee against a loss.

The risks of foreign investments are typically greater in less developed countries, which are sometimes referred to as emerging markets. For example, legal, political, and economic structures in these countries may be changing rapidly, which can cause instability and greater risk of loss. These countries are also more likely to experience higher levels of inflation, deflation, or currency devaluation, which could hurt their economies and securities markets. For these and other reasons, investments in emerging markets are often considered speculative. Similarly, investors are also subject to foreign securities risks including, but not limited to, the fact that foreign investments may be subject to different and in some circumstances less stringent regulatory and disclosure standards than U.S. investments.

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information is not intended to be individual or personalized investment or tax advice and should not be used for trading purposes. Please consult a financial advisor or tax professional for more information regarding your investment and/or tax situation.