



Argentina: is this time different?

Notes from the road

For Professional Investors Only | Marketing Communication

Laurence Bensafi
Deputy Head of
Emerging Markets Equities

Published December 2024

“The Argentine stock market has jumped 100% to become the best performing EM country so far in 2024.”

Despite being one of the most interesting countries in emerging markets (“EM”), Argentina is not currently part of our universe as defined by the index provider, MSCI. Given political and economic instability, the country’s stock market has been included and excluded several times over the past 15 years, and since 2021, Argentina is a standalone country with capital controls still in place today.

However, since President Javier Milei was elected almost a year ago and his subsequent progress in fixing the country, the Argentine stock market has jumped 100% to become the best performing EM country so far in 2024¹. It is no wonder then that investors have shown renewed interest. We therefore decided to visit the country to form our own opinion on the sustainability of the rally and look for potential opportunities for our portfolios.

When Milei, labelled as an ultraliberal, ultraconservative, far-right populist, shocked the world by winning the presidential elections in October 2023, he took over a country with no international reserves, an overvalued FX with a 100% gap between the official rate and informal rate, inflation of close to 200%, a fiscal deficit of more than 4%, and no access to international debt markets². Argentina has defaulted nine times on its sovereign debt in the past, and the 10th time was around the corner. In other words, the country was bankrupt, and it was difficult to forecast a turnaround.

¹ MSCI Argentina Index in USD.

² Bloomberg.

Argentina is quite different from other Latin America countries. The population of 47 million is predominantly (97%) of Spanish and Italian descent, created by strong European immigration from the end of the 19th century. Indeed, the elegant tree-lined streets of Buenos Aires have a European feel. Around 1900, Argentina was one of the richest countries in the world, its GDP per capita was high, comparable to countries such as Germany, France, and Canada. In 1913, Argentina's GDP per capita was approximately 70% of the UK's and higher than Italy's or Japan's³. The country's wealth came from exports of beef, grain, and wool, thanks to its fertile lands (the Pampas) and advanced agricultural techniques. Argentina took on an increasingly significant role in the global economy during this period, moving from 0.1% of global GDP in 1870 to 2.4% by 1913⁴. By the end of the Second World War, Argentina had one of the largest rail networks in the world, exceeding 47,000 kilometers. However, Argentina declined throughout the 20th century due to factors such as political instability, protectionist policies, economic mismanagement, and global shifts in trade and industry.

Milei won elections as the population became frustrated with the situation and were ready to try something different. Expectations were low and scepticism high due to Milei's unusual appearance, attitude, and methods of communicating (for instance, the hair, the chainsaw, and the rock concerts).

“When Milei was given the mandate to turn around the country, his commitment was to bring the deficit and money printing down to zero. Less than a year later, he has already delivered the first phase of his stabilisation plan.”

However, there is a possibility that he has been underestimated; he is a sharp economist, surrounded by an excellent economic team, which have so far proven to be very pragmatic and focused on the most pressing matters. The most provocative election campaign promises, such as shutting down the central bank or dollarising the economy haven't happened (yet).

“No hay plata”, translated as “there is no money”, is the phrase many locals repeated to us when we enquired about how President Milei has managed to remain so popular, despite slashing government expenses and bringing the percentage of population in poverty to 50%.



Tree-lined streets of Buenos Aires.

When Milei was given the mandate to turn around the country, his commitment was to bring the deficit and money printing down to zero. Less than a year later, he has already delivered the first phase of his stabilisation plan through devaluation and dilution.

Firstly, the Argentine peso devalued by 100% in one day in December 2023, causing inflation to shoot up to 25.5% that month⁵. Then in the first quarter of 2024, government expenditures were cut by 35%, most notably retirement benefits, capital expenditures, and subsidies, as well as operating expenses. Dilution helped to almost immediately bring the primary fiscal deficit to surplus for the first time in 15 years⁶.

Through several mechanisms to restructure government debt, money printing stopped, and the sharp economic contraction saw monthly inflation fall quite rapidly to 2.7% in October 2024, the lowest level in three years. The central bank has started to lower interest rates, while economic activity seems to have troughed, with the potential for 2025 GDP to grow more than 5% from a low base in 2024. Finally, external accounts have improved, with a current account surplus forecasted in 2024 and further improvement expected in the next two years due to strong growth in the production of oil and gas⁷.

³ [What Happened to Argentina? - The New York Times.](#)

⁴ [Migration and trade during the belle époque in Argentina \(1870-1913\).](#)

⁵ [Argentina devalues peso, cuts spending to treat fiscal deficit 'addiction' | Reuters.](#)

⁶ Banco Galicia, based on Ministry of Economy and INDEC, September 2024.

⁷ [Phase 2 of Argentina's Stabilisation Plan: still time in a race against time.](#)

So far, Milei remains quite popular as the population has welcomed the drop in inflation and recovery in economic growth, but the biggest short-term risk flagged during our meetings are the mid-term legislative elections next year. These will be key for Milei to increase his party's representation, as currently he doesn't have a majority in the lower house to pass reforms. The previous pro-business reformist, President Macri, failed to convince the population that his project would eventually improve the standard of life for Argentinians, causing him to lose power in 2019, two years after being elected.

The coming months will be crucial for the country. The economic situation is still very fragile, with negative foreign exchange reserves and a high level of debt that needs to be repaid in 2025. Capital controls are still in place; their removal is key to attracting significant investment and flows into the country but there is no clarity on timing. One positive comes from the RIGI law, passed in July 2024, which stimulates foreign private investment in the country. Already several have been approved this year primarily focusing on two key sectors: energy and mining. Combined with recent investments in oil and gas, exports could double by 2030, a game changer for the country.

“One positive comes from the RIGI law, passed in July 2024, which stimulates foreign private investment in the country.”

Even if Milei remains in power after October 2025, he will face many challenges over the next few years. For example, within infrastructure, education and health care, the government will need to resume spending at some point in order to support the structural reforms needed to develop the manufacturing industry, attract foreign investment, and lower the country's dependence on soft and hard commodities. If the economic growth expected over the coming years is insufficient to lift a large portion of the population out of poverty, we could see Argentina revert to old patterns. Finally, the country remains very dependent on external factors, such as commodity prices.

Investment opportunities

During our three days in Argentina, we met with the management teams of large listed corporates, held discussions with economists, and spoke informally with taxi drivers and other locals. From these conversations, we felt growing hope that maybe this time will be different. The CFO of one of the largest companies in the country told us that he didn't vote for Milei a year ago but, considering the changes Milei has made so far, he will happily vote for him next year.

Compared to other EM countries, we could feel the European influence when speaking with management and we were impressed with the quality of management we met.



Visit to an agricultural company's headquarters.

Indeed, we spoke to two of the largest private banks in the country and, despite operating in a very volatile and difficult environment, they have remained profitable over the past few years. We were reminded that Argentina remains one of the countries with the lowest banking penetration levels in the world. According to Bank Galicia, the ratio of loans to GDP is only 9% in Argentina, compared to 37% in Mexico and 99% in Chile. Therefore, the potential for growth is large and the bank has considerable liquidity that it is ready to deploy.

Driving around the beautiful city of Buenos Aires and speaking to impressive management teams, it is easy to get carried away. However, many investors have been burned in the past and we remain cautious, as uncertainties and risks are high. The next twelve months will be crucial for the country. However, we also acknowledge that progress has been made and this has only partly been reflected in the stock market as valuations remain below long-term and regional averages.

One potential way to gain more prudent exposure is through Latin American companies with operations in Argentina. For instance, many food and clothing retailers based in Chile and Brazil have stores in Argentina; meanwhile the market tends to assign zero value to these operations partly due to capital controls, meaning it is very difficult to take profits out of Argentina.

As we leave Buenos Aires, we share the optimism of the population and hope that indeed this time will be different for Argentina.

Author

Laurence Bensafi CFA

Portfolio Manager and Deputy Head of Emerging Markets Equities



Laurence is managing director, and a portfolio manager and deputy head on the Emerging Markets Equities team at RBC Global Asset Management (UK) Limited. Prior to joining the firm in 2013, she headed the Emerging Markets team of a leading U.K. asset manager. In this role, Laurence was responsible for managing Asian and global emerging market income strategies, and developing quantitative stock selection and environmental analysis models. She began her career in the investment industry 1998 as a quantitative analyst at a major financial services company, where she supported European and global equity portfolio management by developing quantitative models to assist in the portfolio construction and security selection process.

This document is a marketing communication and it may be produced and issued by the following entities: in the European Economic Area (EEA), by BlueBay Funds Management Company S.A. (BBFM S.A.), which is regulated by the Commission de Surveillance du Secteur Financier (CSSF). In Germany, Italy, Spain and Netherlands the BBFM S.A is operating under a branch passport pursuant to the Undertakings for Collective Investment in Transferable Securities Directive (2009/65/EC) and the Alternative Investment Fund Managers Directive (2011/61/EU). In the United Kingdom (UK) by RBC Global Asset Management (UK) Limited (RBC GAM UK), which is authorised and regulated by the UK Financial Conduct Authority (FCA), registered with the US Securities and Exchange Commission (SEC) and a member of the National Futures Association (NFA) as authorised by the US Commodity Futures Trading Commission (CFTC). In Switzerland, by BlueBay Asset Management AG where the Representative and Paying Agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich, Switzerland. The place of performance is at the registered office of the Representative. The courts at the registered office of the Swiss representative or at the registered office or place of residence of the investor shall have jurisdiction pertaining to claims in connection with the offering and/or advertising of shares in Switzerland. The Prospectus, the Key Investor Information Documents (KIIDs), the Packaged Retail and Insurance-based Investment Products - Key Information Documents (PRIIPs KID), where applicable, the Articles of Incorporation and any other document required, such as the Annual and Semi-Annual Reports, may be obtained free of charge from the Representative in Switzerland. In Japan, by BlueBay Asset Management International Limited which is registered with the Kanto Local Finance Bureau of Ministry of Finance, Japan. In Asia, by RBC Global Asset Management (Asia) Limited, which is registered with the Securities and Futures Commission (SFC) in Hong Kong. In Australia, RBC GAM UK is exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of financial services as it is regulated by the FCA under the laws of the UK which differ from Australian laws. In Canada, by RBC Global Asset Management Inc. (including PH&N Institutional) which is regulated by each provincial and territorial securities commission with which it is registered. RBC GAM UK is not registered under securities laws and is relying on the international dealer exemption under applicable provincial securities legislation, which permits RBC GAM UK to carry out certain specified dealer activities for those Canadian residents that qualify as “a Canadian permitted client”, as such term is defined under applicable securities legislation. In the United States, by RBC Global Asset Management (U.S.) Inc. (“RBC GAM-US”), an SEC registered investment adviser. The entities noted above are collectively referred to as “RBC BlueBay” within this document. The registrations and memberships noted should not be interpreted as an endorsement or approval of RBC BlueBay by the respective licensing or registering authorities. Not all products, services or investments described herein are available in all jurisdictions and some are available on a limited basis only, due to local regulatory and legal requirements.

This document is intended only for “Professional Clients” and “Eligible Counterparties” (as defined by the Markets in Financial Instruments Directive (“MiFID”) or the FCA); or in Switzerland for “Qualified Investors”, as defined in Article 10 of the Swiss Collective Investment Schemes Act and its implementing ordinance, or in the US by “Accredited Investors” (as defined in the Securities Act of 1933) or “Qualified Purchasers” (as defined in the Investment Company Act of 1940) as applicable and should not be relied upon by any other category of customer.

Unless otherwise stated, all data has been sourced by RBC BlueBay. To the best of RBC BlueBay’s knowledge and belief this document is true and accurate at the date hereof. RBC BlueBay makes no express or implied warranties or representations with respect to the information contained in this document and hereby expressly disclaim all warranties of accuracy, completeness or fitness for a particular purpose. Opinions and estimates constitute our judgment and are subject to change without notice. RBC BlueBay does not provide investment or other advice and nothing in this document constitutes any advice, nor should be interpreted as such. This document does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product in any jurisdiction and is for information purposes only.

No part of this document may be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, in whole or in part, for any purpose in any manner without the prior written permission of RBC BlueBay. Copyright 2024 © RBC BlueBay. RBC Global Asset Management (RBC GAM) is the asset management division of Royal Bank of Canada (RBC) which includes RBC Global Asset Management (U.S.) Inc. (RBC GAMUS), RBC Global Asset Management Inc., RBC Global Asset Management (UK) Limited and RBC Global Asset Management (Asia) Limited, which are separate, but affiliated corporate entities. ® / Registered trademark(s) of Royal Bank of Canada and BlueBay Asset Management (Services) Ltd. Used under licence. BlueBay Funds Management Company S.A., registered office 4, Boulevard Royal L-2449 Luxembourg, company registered in Luxembourg number B88445. RBC Global Asset Management (UK) Limited, registered office 100 Bishopsgate, London EC2N 4AA, registered in England and Wales number 03647343. All rights reserved.

Published December 2024

RE/0174/12/24



RBC BlueBay
Asset Management