

International Commentary — July 9, 2025

Argentina Travel Takeaways

Summary

The International Economic research team recently traveled to Argentina to meet with a range of market participants. During our trip, we discussed the outlook for, and importance of, local midterm elections as well as the 2027 presidential election for the sustainability of Argentina's economic transition. We also discussed whether financial markets are overly optimistic on Argentina given the country's mixed track record of policy implementation and structural reforms. In this report, we summarize key takeaways of those conversations.

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Argentina Travel Takeaways

Congressional elections may not be a landslide for Milei and La Libertad Avanza (LLA). For good reason, local market participants are overwhelmingly satisfied with the [economic turnaround orchestrated by President Milei](#) and his LLA party. But while policy has turned more market friendly and consistent with economic stability under Milei, we were left puzzled by how many of our counterparts did not express more optimism around LLA's prospects in upcoming midterm elections. While every private sector counterpart we spoke with acknowledged the successes of Milei's reform agenda to date, most expressed varying degrees of displeasure with at least the perception of Milei's contentious rhetoric, acceptance of the IMF, disregard for the state, and broader Libertarian/anarcho-capitalist mindset. Despite Milei backing off some of his more unorthodox and anarcho-capitalist proposals—abolishing the central bank, in particular—we interpreted the sentiments shared with us as voters may not being fully supportive of Milei going forward. In addition, we heard from many private sector counterparts that Milei's win in 2023 was more a vote in favor of anti-establishment candidates, and specifically anti-Cristina Kirchner, rather than a vote for Milei. With Kirchner unable to participate in Argentine politics and no establishment candidate as the new face of Kirchnerism/Peronism, voter turnout for the midterms may be low. Subdued election participation, despite mandatory participation laws, may pose a challenge for Milei and LLA. To be clear, we expect Milei's economic success to result in LLA candidates winning a sizable amount of seats in both the Senate and Chamber; however, we have become more willing to accept the idea that LLA may underperform, relative to our expectations. As far as those expectations, winning at least 40% of the vote in each house is our benchmark for success, which we shared in conversations, and peers believe to be fair. 40% is the threshold Mauricio Macri surpassed in Argentina's 2017 midterms, which markets determined was a win for Macri and a victory against the far-left Peronist platform. Prior to our visit, we assigned an 80% probability that LLA would win 40% of votes in both houses of Congress. Post visit, we are reducing our probability of LLA success to 65%.

Local politics are top of mind from 2025 midterms to the 2027 presidential election. Even if LLA wins 40% of the vote in the Senate and Chamber, local market participants are concerned with the fact Milei and LLA will still need alliances to implement further reforms. Up until now, Milei has been able to implement policy via a coalition with select opposition parties and, most importantly, the ideologically aligned Propuesta Republicana (PRO) party led by Mauricio Macri. The local concern stems from the idea that Macri's PRO will split from LLA after the midterms in an effort to derail the reform agenda and attempt to set up a PRO candidate to win the presidency in 2027. Divorce between the LLA and PRO presents a risk to further medium-term fiscal adjustment and raises the possibility that market-friendly policies are unwound in the lead up to the 2027 election. Fractured relations between the PRO and LLA could also give Peronist parties an opportunity to capitalize on a fragmented right-side of the political spectrum, especially if a charismatic Peronist candidate is identified in the near-term. Private sector market participants and public sector officials all believe a LLA-PRO split is more of a tail-risk rather than the post-midterm base case, but nevertheless a risk that is being considered. Private sector peers we spoke with were split as to whether Peronism ended with Milei's election, will end after the midterms, or is still a popular political force. With that said, all mentioned that the presidential election in 2027 would offer the clearest signal on the future of Peronism. Another Milei/LLA victory, or even a PRO victory in 2027, would likely mark the inflection point for a structural turn away from Peronism. While we would be careful in declaring the end of Peronism even if a LLA or PRO candidate indeed wins the 2027 presidential election, three consecutive votes away from the left-leaning and state-interventionist platform would be a rather significant shift in political/policy support across Argentina. 2025 midterms are absolutely relevant and will be an indication of Peronist momentum or lack thereof; however, local investors and economists believe the 2027 election will be more important for the longer-term sustainability of Argentina's economic transition and stability of local financial markets. For now, no one we spoke with has a strong view on the outcome of the 2027 presidential election, noting a need to get through midterms and post-midterms unscathed first.

Is Argentina priced to perfection? This is the question we posed to local institutional investors. By "priced to perfection" we mean: are financial markets already fully pricing the combination of LLA performing well in midterms, further fiscal adjustment, disinflation to continue, foreign capital into Argentina post-midterms, and Milei's adaptation of policy to persist for the foreseeable future? Prior to our trip, we felt local financial markets were indeed priced to perfection, and in order for sovereign spreads and risk premium to narrow from current levels everything mentioned above would have to continue without the slightest disruption. If any part of the reform agenda went slightly off compass, Argentina could revert to volatile financial markets and sovereign distress conditions. However, just

about all local peers felt Argentina was in fact **not** priced to perfection and sovereign risk premium can continue to fall. Despite some frustration with the current administration, these investors felt the midterms would be the catalyst for further spread compression. Midterms would give Milei a mandate for further policy reform (labor, tax, and lifting remaining capital controls), while also providing Treasury with an incentive to re-access hard currency debt markets, and rating agencies to upgrade, as a degree of political risk is alleviated. These investors also cited similarly rated sovereigns (El Salvador & Egypt) having narrower spreads than Argentina as evidence local markets may not be priced for perfection. We take some of that rationale onboard, although we pushed back by highlighting significantly more challenges associated with Argentina and a shorter political cycle relative to El Salvador and Egypt. Only one investor was aligned with our pre-trip view, and felt valuations were not attractive at these levels nor reflective of Argentina's poor track record of implementing long-term reforms. This time may prove to be different, but that investor believes more time is needed before re-engaging with Argentina. He cited Macri's "win" at the 2017 midterms that, shortly after, resulted in a sluggish effort to advance additional structural reforms and ultimately culminated in sharp peso depreciation, capital controls, and another sovereign default. We are taking a more "neutral" approach on sovereign risk for the time being, which is not the most exciting view, but is most prudent for now.

Additional notes from Buenos Aires. Despite a "neutral" view on risk premium and sovereign spreads, we maintain an outlook for a weaker Argentine peso over our entire forecast horizon. Disinflation is in motion, but with inflation likely to end 2026 ~25% and remaining capital controls to be lifted in the coming months/quarters, we believe the peso can continue to weaken in nominal terms. Also, after the election Argentina's central bank is likely to ease monetary policy and start purchasing FX reserves to comply with terms of the IMF program. A growing monetary base, lower policy rates, elevated inflation, and more peso selling activity should, in our view, push the USD/ARS exchange rate toward ARS1450 by the middle of 2026. Milei's dollarization proposal was mentioned at times, with local market participants highlighting that dollarization is not a policy Milei is interested in actively pursuing. Select Latin American countries have had success operating a dollarized economy (i.e., Panama); however, if "this time is different" for Argentina, maintaining monetary independence and flexibility would be the most likely path forward. Rather than active dollarization, locals shared the view that Milei is more interested in "endogenous dollarization", the idea that Argentines will choose to dollarize naturally, rather than the administration implementing policies that eliminate local currency from circulation. Perhaps endogenous dollarization does materialize, especially in the case of another currency crisis. After all, officials did indicate in conversation that the central bank could, theoretically, run out of local currency. And lastly, all felt the administration was committed to the IMF program. Argentina has already missed certain targets, specifically the FX reserve accumulation target, but everyone we spoke with felt progress toward completing the program would be made over the coming years. Political stability is key, but under the baseline assumption that Milei performs well in the midterms, IMF targets can be pursued more intentionally.

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