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'Buy,' we said

On Aug. 11, Argentine voters dealt the pro-market government of Mauricio Macri a familiar, yet unscripted, knock-out blow. In a preliminary election meant only to foreshadow the main event on Oct. 27, Cristina Kirchner and her stalking-horse running mate, Alberto Fernández, shocked pollsters, not to mention the smart money, with a 16 percentage-point shellacking of the incumbent.

From which followed a collapse in Argentine stocks and bonds and the currency in which they're denominated. Recent days have brought a "selective default," as Standard & Poor's styles it, on \$7 billion of short-dated government notes and—the coup de grâce—capital controls ordered by President Macri himself, the politician who won election in 2015 on a platform of extinguishing them. In short, business as usual for the "long-running inflation-devaluation-corruption-default-recession-statism champion of the Western Hemisphere."

Those quoted words were perhaps the best-considered ones in the hopeful *Grant's* analysis of the opportunities on offer in Argentine debt and equities last spring (see "[Long-shot nation](#)," in the [June 14 edition](#)). We write to acknowledge an error of judgment, gather appropriate lessons and glare into the future.

Here's the post-publication box score: Shares of cement-producer Loma Negra Compañía Industrial Argentina S.A. and state-controlled oil company YPF S.A. (LOMA and YPF, both on the Big Board) have fallen by 59% and 52%, res-

spectively. The dollar-pay Argentine 8¾s of 2024 are down 56% to 31 cents; New York law Argentine bonds change hands in the 38–40 cents range. The peso-denominated, inflation-linked 5.83s of 2033 have dropped by 35% to 514 pesos to yield 23% after inflation, which registered 54.3% in July.

A publicity-shy local Argentinean investor says that Macri's evident successor is, so to speak, kitchen-sinking his own country. "What's killing Argentina," says our informant, "is the fact that Fernández continues to campaign aggressively, making heterodox claims. I still find stocks too expensive for a country that may go into default. Companies may be unable to roll over debt . . . and there are still more than four years left for this guy who hasn't even started his mandate. Argentine equities will probably leave the MSCI indices, there will be more selling pressure, everybody will lose interest in it. This isn't going to be easy. Honestly, I think that stocks have a lot of downside from here."

To be sure, our bearish friend adds, a shift in rhetoric could change the mood. Argentine sovereign bonds ought to be worth more than 50 cents on the dollar, he contends, but there are still 51 days till the election and Fernández needs to win at least 45% of the votes to forestall the additional uncertainty that another round of vitriolic electioneering would entail. A decision from the International Monetary Fund to grant or withhold a promised \$5.4 billion disbursement on its

Argentine credit line could likewise play havoc; the Fund is expected to announce its verdict by the end of the month.

Just how much of Argentina's financial fate would the prospective new Peronist government hold in its hands? There are encouraging precedents. For instance, an investor who bought YPF shares in New York for \$23 apiece on June 29, 2001—exactly five months before Argentina's default and nearly one year before the stock bottomed at \$8.68—and held them to the end of 2006 would still have made a 267% return, including dividends, compared with 27% for the S&P 500 during the same period. So enterprise can survive statism, if not outright government confiscation.

The No. 1 lesson we take away from our bad call is not that we should suspend the search for investment value in strange or inhospitable places (although perhaps we should draw the line at Argentina, which has made rather a habit of not paying its bills).

What we instead conclude from this unprofitable experience is the truth that voters seem just as keen to confound the pollsters as investors are to show up the forecasters. Political risk is all around us, even in the United States, where the Democratic Party's declared capitalist for president, Elizabeth Warren, promises a wealth tax and "big structural change." It couldn't happen here? Oh, yes it could.

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