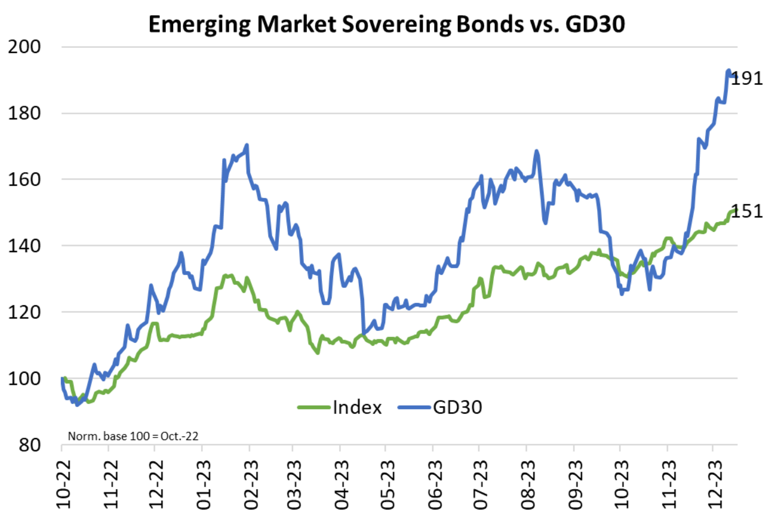
26th December 2023

Argentine Sovereign Bonds

As we usually mention in our *Reports*, for a sovereign bonds analysis we need to stop navel-gazing. Financial flows are globalized, and the dynamic of argentine bonds correlates to the performance of fixed income on a global level. Argentine bonds had an excellent performance during the last weeks, but this has two explanations. In the first place, the greater pragmatism coming from the government in the economic and political agenda in relation to campaign promises has been a breath of fresh air. However, over the past few weeks, we have also witnessed a significant compression of the US Treasuries yield curve. As seen in the following chart, if we compare Argentine sovereign bonds against an index we created with comparable bonds the strong recovery of Argentine bonds has both domestic and imported components.



Source: Sekoia Research based on Bloomberg data. Index Composition: ECUA 6 07/31/30; EGYPT 5 ⅞ 02/16/31; ELSALV 8 ⅝ 02/28/29; PKSTAN 7 ⅜ 04/08/31; SRILAN 7.55 03/28/30

With this in mind, let's now focus on the main variables to monitor. These bonds fundamentally need three conditions to emerge from the slump: fiscal discipline, a higher real exchange rate, and political governance. We believe that, in the first two cases, the expectation of change is clear. The major uncertainty lies in governance. Assuming an optimistic scenario for Argentina's economic future, the next question that arises is which bond is best to position in. Let's consider some important factors when choosing among dollar-denominated sovereign bonds.

Performance and parities

In the latest debt exchange, Argentina issued 11 hard-dollar bonds, 6 of which have NY law and 5 local law. Since the variety of bonds issued was less than the number of eligible bonds for exchange, most bonds have a significant outstanding and liquidity, except for the GD29 and AL29 bonds (issued to pay accrued interest), and GD46 bonds.

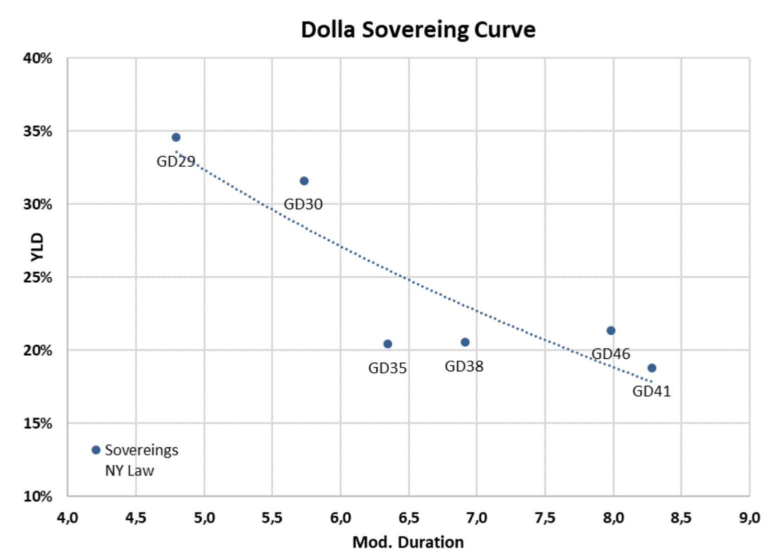
The indentures remained unchanged compared to the bonds delivered in the exchange. Argentine bonds have two types of contracts: those issued under the 2005 indenture and those issued under the 2016 indenture. The main difference between them arises in the event of a legal dispute, where bonds with the 2005 indenture provide greater legal protection to the investor by requiring more relevant majorities.

Ticker	ISIN	Issue Date	Maturity	Law	Indenture	Principal	Outstanding (USD MM)
GD29	US040114HX11	9/4/2020	7/9/2029	NY	2016	10 from 2025	2.635
GD30	US040114HS26	9/4/2020	7/9/2030	NY	2016	13 from 2024	16.091
GD35	US040114HT09	9/4/2020	7/9/2035	NY	2016	10 from 2031	20.502
GD38	US040114HU71	9/4/2020	1/9/2038	NY	2005	22 from 2027	11.405
GD41	US040114HV54	9/4/2020	7/9/2041	NY	2005	28 from 2028	10.482
GD46	US040114HW38	9/4/2020	7/9/2046	NY	2016	44 from 2025	2.092
AL29	ARARGE3209Y4	9/4/2020	7/9/2029	ARG	-	10 from 2025	2.195
AL30	ARARGE3209S6	9/4/2020	7/9/2030	ARG	-	13 from 2024	13.531
AL35	ARARGE3209T4	9/4/2020	7/9/2035	ARG	-	10 from 2031	19.072
AE38	ARARGE3209U2	9/4/2020	1/9/2038	ARG	-	22 from 2027	7.219
AL41	ARARGE3209V0	9/4/2020	7/9/2041	ARG	-	28 from 2028	1.513

Source: Sekoia Research based on Bloomberg data.

Performance and parities

The charts below are the first ones we see in any bond report. In the case of Argentine sovereign bonds, this curve has a particular interpretation. Argentine bonds are currently trading with a very high probability of default within a 3-year horizon. The market is discounting that the cash flows promised in the prospectus have a very low probability of fulfillment and it makes even less sense to assume that someone will reinvest the coupons at the same yield. As such, the yield does not tell much. Regarding duration, it is considerably shorter than maturity in all cases. Because the bonds are trading at a deep discount, the initial investment is recovered more quickly. Clearly, the interpretation of duration in sovereign bonds is somewhat ambiguous.



Source: Sekoia Research based on Bloomberg data. Prices of 12/20/23

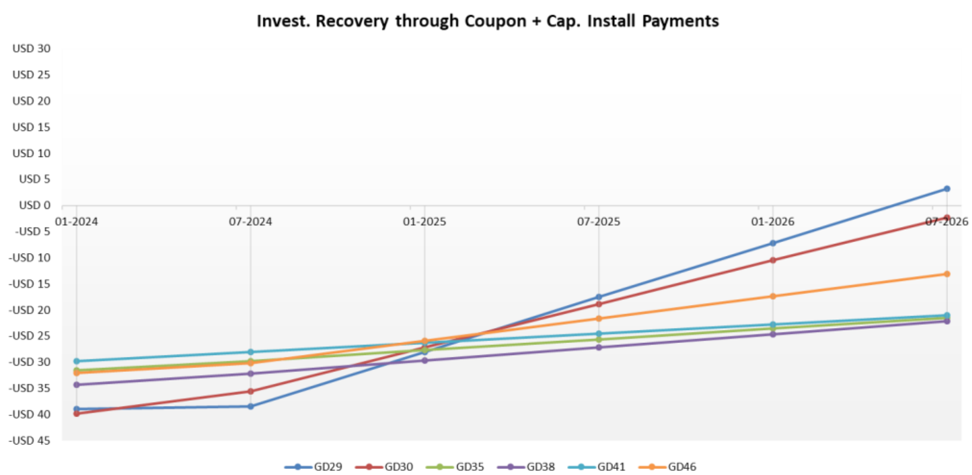
So, what should we do? We need to complement the analysis with more information. A very useful measure is to simply look at the price or parity. Given that the bonds have a high implicit probability of default, the lower the parity that is paid, the greater the protection in the event of a potential restructuring. Under this investment assumption, the 2035 and 2041 bonds seem to be the best bet.

Another piece of information to consider is the current yield. Since these bonds have a step-up structure, the current yield increases over time. According to the table below, the 2035 and 2038 bonds have the highest current yields, making them the most attractive bonds by this metric.

Bond	Current Yields %											
	01-24	07-24	01-25	07-25	01-26	07-26	01-27	07-27	01-28	07-28	01-29	07-29
GD29	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%
GD30	1,8%	1,8%	1,8%	1,8%	1,8%	1,8%	1,8%	1,8%	4,3%	4,3%	4,3%	4,3%
GD35	10,2%	10,2%	11,6%	11,6%	11,6%	11,6%	11,6%	11,6%	13,3%	13,3%	14,0%	14,0%
GD38	10,1%	10,1%	11,9%	11,9%	11,9%	11,9%	11,9%	11,9%	11,9%	11,9%	11,9%	11,9%
GD41	9,8%	9,8%	9,8%	9,8%	9,8%	9,8%	9,8%	9,8%	9,8%	9,8%	9,8%	9,8%
GD46	10,1%	10,1%	10,1%	10,1%	10,1%	10,1%	10,1%	10,1%	12,2%	12,2%	13,9%	13,9%
AL29	2,6%	2,6%	2,6%	2,6%	2,6%	2,6%	2,6%	2,6%	2,6%	2,6%	2,6%	2,6%
AL30	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	4,6%	4,6%	4,6%	4,6%
AL35	10,7%	10,7%	12,2%	12,2%	12,2%	12,2%	12,2%	12,2%	14,0%	14,0%	14,8%	14,8%
AE38	11,2%	11,2%	13,2%	13,2%	13,2%	13,2%	13,2%	13,2%	13,2%	13,2%	13,2%	13,2%
AL41	10,2%	10,2%	10,2%	10,2%	10,2%	10,2%	10,2%	10,2%	10,2%	10,2%	10,2%	10,2%

Source: Sekoia Research based on Bloomberg data. Prices of 12/20/23

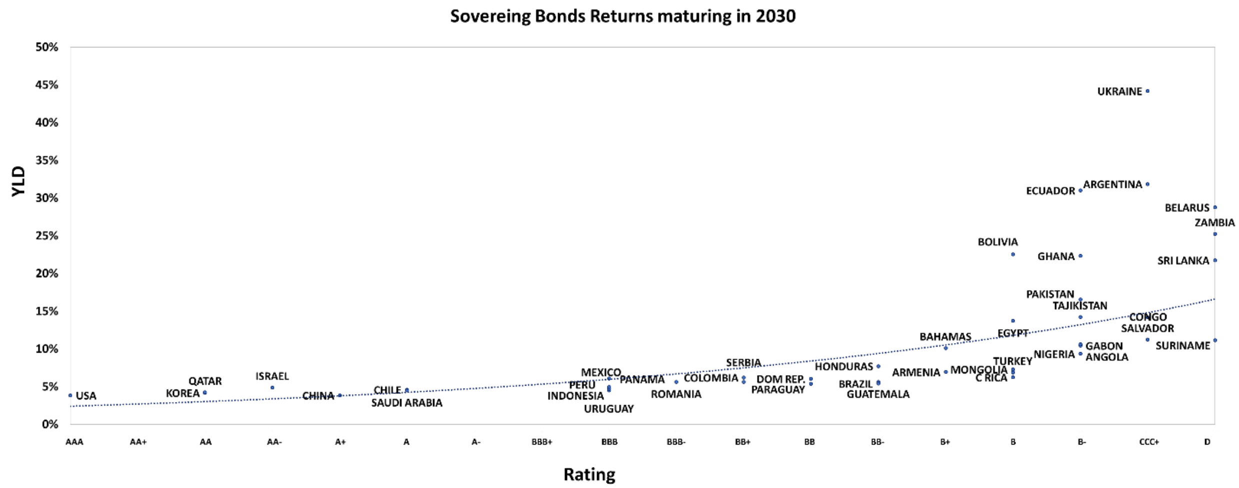
Another useful tool would be capital recovery. In the following chart, we observe how with each bond the initial investment is recovered over time through the collection of interest and capital payments. In this case, in a scenario of no default standing in January 2025, the current price of the bond minus the cash flows until that date would leave the AL30 holder with a net purchase value of 25 USD and a residue of collections of 95 USD. As long as Argentina pays every semester, the 2030 bonds are a great option.



Source: Sekoia Research based on Bloomberg data. Prices of 12/20/23.

Outsider of the curve

What would happen if Argentina, in the medium term, begins to normalize its economy? We are not dreaming of becoming a first-world country, not even reaching the level of Chile or Uruguay, but rather achieving some degree of macroeconomic normalization. As seen in the chart below, most economies, even those with very low credit ratings, have yields much lower than Argentina. Our country has the worst credit rating before default (CCC+), placing it far away from the curve. Approaching it would imply achieving yields similar to countries with a similar rating; at 10 years, Argentina should yield around 15%.



Source: Sekoia Research based on Bloomberg data. Prices of 12/20/23.

Not all bonds respond in the same way to a drop in market-required yields. In the table below, we detail what would happen to bond prices with changes in market-perceived risk. In the event that our country tends towards normalization, and yields approach those of countries with a similar rating, the bonds suitable to hold in a portfolio are primarily the shorter ones. As the probability of default decreases, the yield curve should start to normalize (currently being completely inverted). This explains the excellent relative performance of the 2030 bonds in recent weeks.

Prices simulations after yield change

		Argentine Law					NY Law					
		AL29	**AL30**	**AL35**	**AE38**	**AL41**	**GD29**	**GD30**	**GD35**	**GD38**	**GD41**	**GD46**
Actual Price		**39,40**	**38,40**	**35,50**	**39,80**	**35,85**	**40,51**	**40,92**	**37,25**	**44,00**	**37,20**	**37,50**
Actual YLD		**39,81%**	**37,72%**	**22,06%**	**23,05%**	**20,14%**	**38,31%**	**34,47%**	**21,09%**	**20,65%**	**19,41%**	**22,18%**
YLD	**28%**	49,50	46,70	27,00	32,90	25,20	49,50	46,70	27,00	32,90	25,20	30,50
	24%	54,10	51,20	32,30	38,20	29,80	54,10	51,20	32,30	38,20	29,80	34,90
	20%	59,40	56,50	39,20	45,10	36,00	59,40	56,50	39,20	45,10	36,00	40,80
	16%	65,50	62,80	48,60	54,20	44,70	65,50	62,80	48,60	54,20	44,70	48,90

**Dirty Prices*

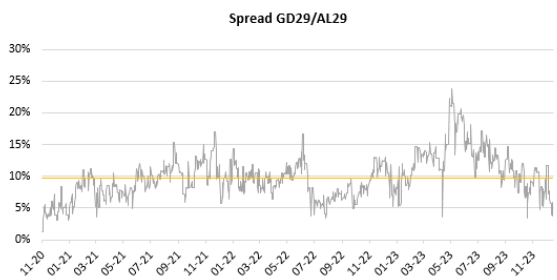
Returns simulations after yield change

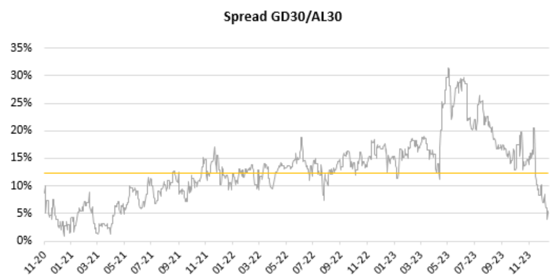
		AL29	**AL30**	**AL35**	**AE38**	**AL41**	**GD29**	**GD30**	**GD35**	**GD38**	**GD41**	**GD46**
YLD	**28%**	26%	22%	-24%	-17%	-30%	22%	14%	-28%	-25%	-32%	-19%
	24%	37%	33%	-9%	-4%	-17%	34%	25%	-13%	-13%	-20%	-7%
	20%	51%	47%	10%	13%	0%	47%	38%	5%	3%	-3%	9%
	16%	66%	64%	37%	36%	25%	62%	53%	30%	23%	20%	30%

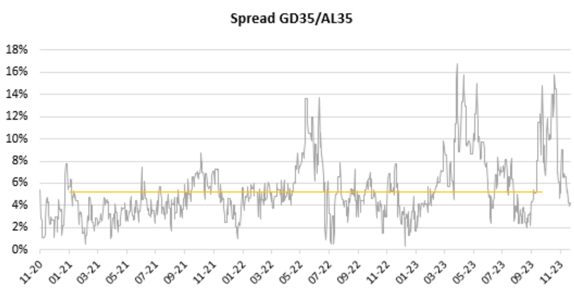
Source: Sekoia Research based on Bloomberg data. Prices of 12/20/23.

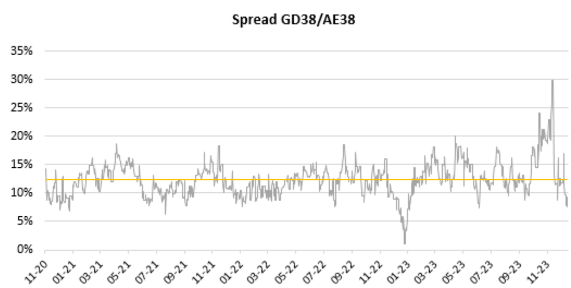
Legislation Spreads

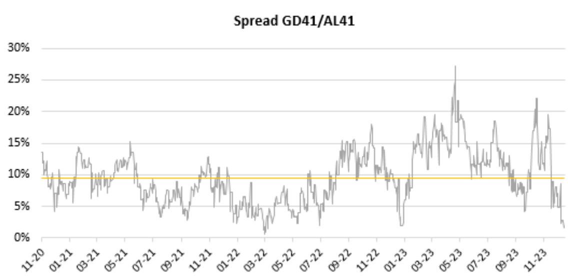
The spread can be simplified by comparing the parities of two exactly identical cash flows but with different legislation. The market often compares current spreads against historical ones and the greater the deviation from the historical average, the greater the incentive for arbitrage. After Milei's victory, legislation spreads have collapsed; NY law bonds have a very low premium compared to the historical average. Another interesting way to analyze spreads is to look at the ratios between bonds of the same legislation, as can be seen in the recent charts. Examining the ratios within NY law, the GD41 gained strong attractiveness in recent weeks.



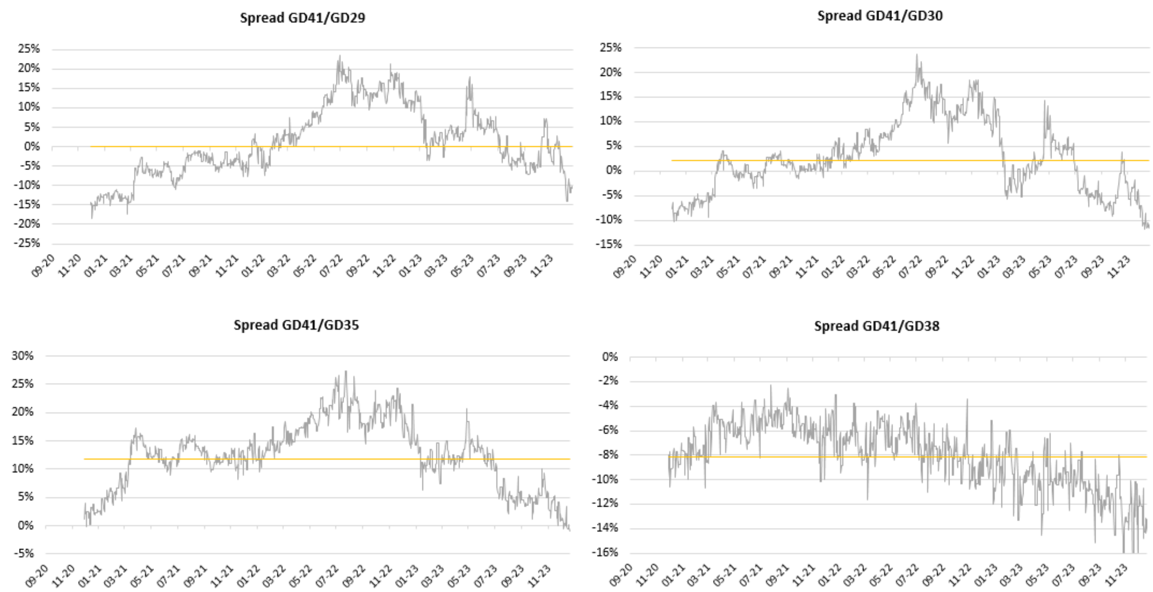








Source: Sekoia Research based on Bloomberg data. Prices of 12/20/23.



Source: Sekoia Research based on Bloomberg data. Prices of 12/20/23.

Summary

The selection between bonds depends on the objective and expectations of the investor. For more conservative ones, NY bonds with the 2005 Indenture are the best ones. For those that want the extra protection in the case of a bond restructuring buying the one with the lowest parity is the wisest option, our pick is the GD35 with its attractive coupon schedule. In an optimistic case with no bond restructuring and where the sovereign risk goes down, the shortest bonds are the way to go. Our pick then would be the AL30.

Considering every variable, outstanding, and the recent behavior of spreads, our preferred bonds are the GD35 and GD41.

Kind regards,

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