Bi-Weekly Geopolitical Report

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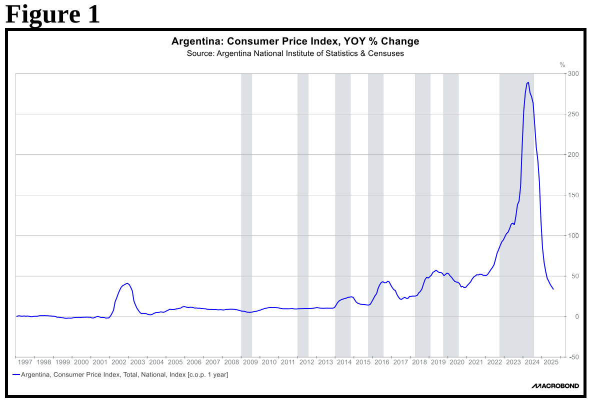
Why the US Is Offering to Bail Out Argentina

Argentina currently finds itself at a critical juncture. After a multi-decade period marked by economic instability, hyperinflation, and political dysfunction, the country is undergoing a radical transformation under President Javier Milei. His libertarian administration has implemented sweeping reforms aimed at stabilizing the economy, slashing government spending, and embracing cryptocurrency and dollarization. Yet, the path has been anything but smooth. Amid rising poverty, political backlash, and a collapsing Argentine peso, the United States under President Donald Trump has stepped in to offer a $20 billion bailout. The proposed bailout has sparked intense debate over its motivations, implications, and effectiveness. In this report, we review the current situation in Argentina and show that the US bailout of the country likely reflects a new prioritization of regional relations and political affinity. As always, we will also discuss the investment implications.

Milei's Rise and Radical Agenda
Milei, an economist and outspoken libertarian, won the Argentine presidency in late 2023 on a platform of radical free-market reforms. His campaign promised to dismantle Argentina's bloated public sector, eliminate the central bank, and replace the peso with the US dollar. Upon taking office, Milei slashed government spending, fired thousands of public employees, and implemented a "chainsaw" approach to fiscal austerity.

Milei's measures initially yielded results. Consumer price inflation, which had peaked at over 200% annually in 2023, dropped sharply to an annualized rate of about 35% by mid-2025 (see Figure 1). The budget posted a primary surplus, and investor confidence began to return. In July 2025, Moody's upgraded Argentina's foreign debt rating from Caa3 to Caa1, citing economic reforms, improved fiscal discipline, and a return to growth.

Figure 1



Despite these gains, however, the economic reality for many Argentines remains grim. Poverty has surged, unemployment is rising, and social unrest is growing (see Figure 2, next page). The removal of subsidies on essentials like transportation and food has especially affected the poor. Pensioners and teachers report being unable to make ends meet, and protests have recently erupted across major cities.

After more than a decade of start-stop economic growth in Argentina, the

International Monetary Fund currently forecasts that the country's gross domestic product will grow 5.5% in 2025 and 4.5% in 2026, driven by agriculture, energy, and mining output (see Figure 3). However, consumer spending and urban regions are lagging. At the same time, the IMF forecasts that Argentine inflation will remain elevated, coming in at 35.9% at year-end 2025 and 14.5% at the end of 2026. Finally, the peso remains under pressure, and the central bank has burned through over $1 billion in foreign reserves defending its value.

Figure 2

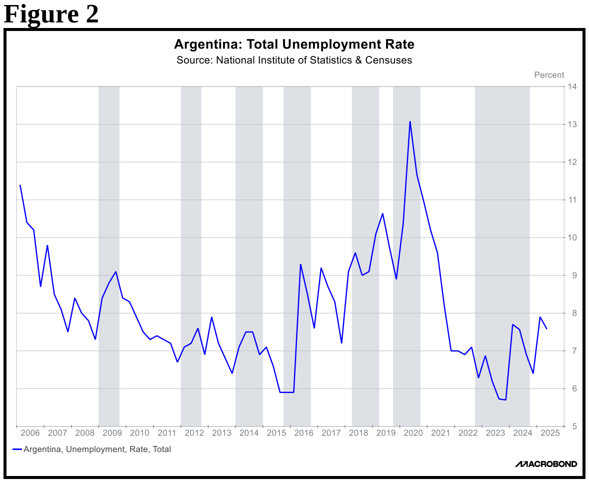


Figure 3

One of Milei's most controversial moves has been his embrace of cryptocurrency. In 2024, Milei's government legalized contracts in Bitcoin and began promoting free currency circulation, allowing transactions in any currency, including crypto. Milei's vision mirrors El Salvador's Bitcoin experiment but is tailored to Argentina's unique challenges.

In response to Milei's policies, crypto adoption has surged. Over 30% of Argentines now own digital assets, primarily stablecoins used to hedge against inflation and currency devaluation. Platforms like Lemon report record volumes of stablecoin purchases during periods of political uncertainty. Bitcoin has even surpassed crypto dollars in popularity among users. However, Milei's crypto enthusiasm has not been without controversy. His promotion of the LIBRA token, later revealed to be a pump-and-dump scheme, triggered a federal investigation. Critics argue that the regulatory framework favors large firms and imposes burdens on smaller operators, potentially stifling innovation.

Political Turmoil and Electoral Risks

Against this backdrop of continued economic pain and pushback against some of his more controversial policies, Milei's political capital is waning. In September, Milei's party unexpectedly suffered a major defeat during the Buenos Aires provincial elections that were widely seen as a referendum on his austerity agenda. On top of that, corruption scandals involving close family members have further eroded public trust in the president. With midterm congressional elections looming on October 26, it now appears that the opposition could gain enough seats to block Milei's further reform efforts.

As might be expected, this political uncertainty has rattled financial markets. Investors have sold off Argentine sovereign bonds, driving yields higher, while the peso/dollar exchange rate has moved toward the top of its exchange-rate band. Business investment has stalled. The central bank's interventions have failed to restore confidence, prompting Milei to seek external support.

The US Bailout: Ideology or Strategy?
Enter the Trump administration. On September 22, Treasury Secretary Bessent announced that Washington and Buenos Aires were in negotiations for the US to provide a $20 billion support package to Argentina, including a currency swap line, bond purchases, and standby credit via the Exchange Stabilization Fund. According to Bessent, the goal of the bailout would be to stabilize Argentina's economy and support Milei's reform agenda ahead of the midterm elections. Notably, Bessent in his announcement described Argentina as a "systemically important ally" and emphasized the need to defeat speculators seeking to destabilize markets for political reasons. President Trump echoed this sentiment, praising Milei's leadership and pledging to "do what is needed" to help. At the same time, the Argentine government paused agricultural export taxes to draw in crop dollars, boosting reserves and easing pressure on the currency.

The bailout announcement quickly had a positive impact on the peso, pushing its value up almost 11% against the dollar. However, the impact proved short-lived, and as of this writing, the peso has again depreciated to almost the same weak level it had reached prior to the announcement. Similar fluctuations occurred for Argentine bond prices and in investor sentiment toward the country.

Despite some hope that the US bailout could successfully help to stabilize Argentina, it has drawn sharp criticism, especially from the left side of the political spectrum. For example, Nobel laureate Paul Krugman has argued that the intervention is driven by ideology, not strategic interest. He notes that Argentina is not a major trading partner and questions the wisdom of risking billions in taxpayer dollars to prop up a politically aligned government. In Krugman's view, "This is about ideology and Trumpian fealty, not America's interests." He compares the move to Trump's antagonism toward Brazil, a larger economy, suggesting that the bailout is more about saving Milei's reputation than stabilizing Latin America. Similarly, Senator Elizabeth Warren has called the bailout "deeply troubling" and has accused the administration of using emergency funds to manipulate foreign markets.

More broadly, a range of observers and economists have argued that the funds spent on the bailout could have been better spent domestically, either to fund domestic programs or to help reduce the size of the federal budget deficit. Of course, another question is whether the bailout will be effective. Given that Argentine asset values have already retraced some of their rebound at the time of the announcement, it appears that investors are starting to question whether the funding will really stabilize the situation, even if it is fully implemented.

Geopolitical Implications
On one level, the US bailout can be seen as a relatively traditional intervention to support the post-World War II order and burnish the US's decades-long role as the global hegemon. After all, Argentina is the IMF's largest debtor, owing approximately $40 billion to the institution, so the US action could strengthen the IMF program and prevent a default. That outcome would help preserve the IMF's ability to respond to economic crises that might arise in other countries. The lifeline also helps position the US as a counterweight to China, which has increased its influence in Latin America in

recent years through trade and investment. In this sense, the bailout can be seen as part of the evolving US-China rivalry.

On the other hand, the bailout can also be seen as the latest sign of a fundamental reorientation in US geopolitical strategy. Importantly, the action is consistent with the US's new priority on security and prosperity in the Americas. Other signs of this reorientation toward the Americas include the recent deployment of US military forces to the Mexican frontier and the waters of the Caribbean Sea. Reports indicate that the administration's updated defense strategy will also shift away from Great Power competition with China toward a narrower defense of the homeland and the Americas.

The bailout also seems consistent with the administration's heightened focus on supporting foreign leaders who share a more right-wing, populist stance. For instance, the US has recently put punitive tariffs on the center-left government of Brazil to punish its continuing prosecution of the former right-wing populist President Bolsonaro on charges of trying to launch a coup. Nevertheless, we would note that the US has long sought to support other governments that share its political philosophy, especially Western liberal democracies during and after the Cold War.

Investment Implications

As the October elections approach in Argentina, the fate of President Milei's administration and the success of the US intervention hang in the balance. Whether this gamble pays off or becomes another chapter in Argentina's long history of economic mismanagement remains to be seen. What is clear, however, is that there will be implications for investors.

Even though Argentine stock values have stabilized in recent weeks, the lack of a continued rebound in response to the US bailout is telling. The MSCI Argentina stock price index remains down about 42% from its most recent peak in January 2025, marking its lowest level in more than a year. If opposition parties take control of the National Congress in the October 26 elections, as increasingly seems likely, there could be little chance of further free-market reforms and we would expect prolonged headwinds for Argentine stocks. Similarly, if the elections result in a decidedly left-wing Congress, increased fiscal spending would likely undermine the value of Argentine bonds and the peso, which in turn could boost the country's interest rates and further weigh on economic growth while pushing down the value of the peso. Even if Milei is able to keep the opposition from winning control of Congress, the president's weakened political position will likely limit his capacity to push through further market-boosting reforms.

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