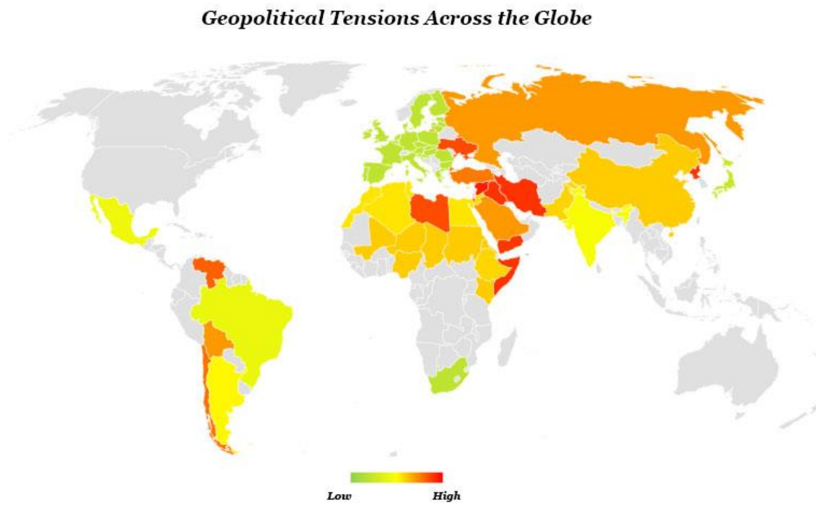
January 31, 2020

Around the World with Academy Securities

Coronavirus has become a driver of market volatility since the last Around the World edition. On Thursday, the W.H.O. declared the coronavirus a global health emergency. Markets took that in stride, with stocks rising in the U.S. and the bond market selling off. That reversed course on Friday as stocks hit their lows on the week and bonds rallied back to 1.50%. The situation is evolving, and we will update the coronavirus T-Report from last weekend to incorporate all of the new information we've received. While almost everyone doubts the veracity of the numbers coming out of China, the reported numbers remain relatively very small for now (over 8,000 people have been killed by the flu in the U.S. this flu season). What will be important over the coming days is:



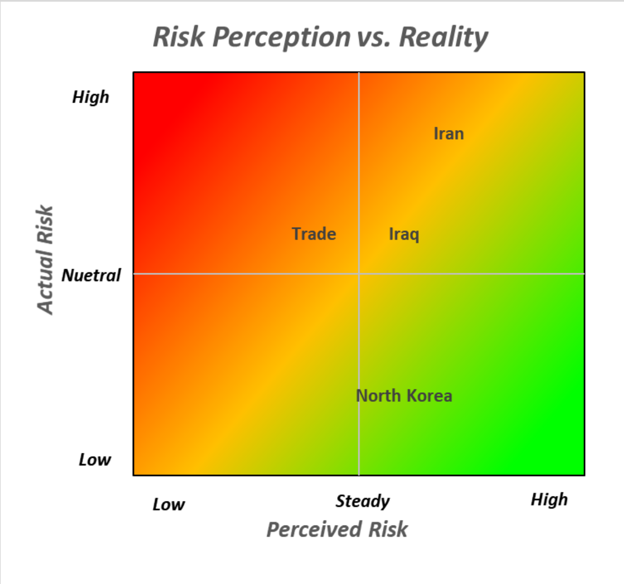
- Do we start seeing the number of recoveries increase?
- How quickly and aggressively will the virus spread away from the epicenter?
- How do people with access to good medical care respond?
- Does the long incubation period mean we are due for a surge in reported cases?

Hedging makes sense, given the binary nature of the risk, but so far, there is no reason to panic.

Oil has been hit hard and is an issue we deal with in this edition.

We are also expanding our coverage of Africa, as you can see on the map.

The "**Perception vs. Reality**" chart attempts to identify outliers – where the market seems to be pricing a very different outcome than we, at Academy, expect. The outliers are where we could see surprising market moves if we are right, as the market is pricing in the wrong likely outcomes.



Iran has not been front page news but should not be forgotten. We expect that Iran will want to retaliate further for the loss of Soleimani and they are likely to launch a **cyber-attack** in the coming months, as described in Redrawing the Lines in the Sand. We think Iran could be a negative surprise for markets. We are hearing that Iraq is questioning our commitment to the region, which may cause them to align with Iran.

We continue to expect trade to take a negative turn as the President may decide it is time to remind China that a full deal isn't done yet, or to provoke Europe into a potentially better deal (it is his style and methodology).

Finally, the potential for North Korea to deliver a positive surprise is getting some traction, and while not our base case, it is moving in that direction.

Front and Center – Russian Influence in the Middle East and North Africa

As we reported in our Around the World issues before and after the holidays, and in our most recent SITREP concerning the situation in Libya, Russia continues its campaign to extend its influence in the Middle East and Africa. President Putin's relationship with the Assad regime has resulted in a significant investment in the Port of Tartus, and a permanent foothold with access to the Mediterranean Sea. In Egypt, Russia agreed to build the nation's first nuclear power plant and has entered into a deal for the largest sale of Russian military equipment since the end of the Cold War. Finally, the opening of the TurkStream Pipeline, which will carry Russian natural gas to Southern Europe through Turkey (and bypass Ukraine) is a further preview of Putin's long-term plans for the region. With Putin's recent announcement of constitutional reforms, the foundation has been laid for Putin to "pull the strings behind the curtain" long after his term ends. We believe these initiatives are part of a coordinated strategy to reassert Soviet-era regional influence and diversify the cash flows of Russia. These actions are being undertaken to adapt to an environment where $55-$60/barrel oil (driven lower as a result of cooling tensions in the Middle East and coronavirus fears) and Western economic sanctions related to Russian involvement in the Ukraine, are starting to have a lasting impact on the Russian economy.

Egypt and Libya

In addition to the construction of the El Dabaa nuclear facility (financed by a loan from Russia), Russia has announced plans to open a Russian Industrial Zone in Egypt in 2020/2021. With the Egyptian GDP projected to be over $8 trillion by 2030, it is the fastest growing economy in the region. These investments will provide returns for decades to come and further solidify Russia's position. This alignment with Russia will come at the expense of the U.S. relationship with Egypt and will have longer term implications on counter terrorism intelligence sharing and relations with Israel.

In Libya, the arrival of Russian mercenaries was designed to help General Haftar's militia win the civil war. While Turkey is supporting the UN backed Government of National Accord in return for permission to look for oil and gas off the Libyan coast, what is becoming clear is that Russia and Turkey will likely have the main seats at the table to help end the conflict and reap the economic rewards. With Libya's coastline being used as the primary launch point for refugee flow, this potential alliance will have the attention of Europe.

Algeria, Morocco, and Tunisia

Russia has spent years cultivating the military relationship with Algeria and has even forgiven Cold War era debt owed to Russia. Cooperation on counter terrorism operations and further critical arms sales have solidified the relationship. Even historical U.S. allies, Tunisia and Morocco, have been leaning towards Russia of late as Russia has continued to support Tunisian tourism following the 2015 terrorist attack and Moscow has shown support for the Moroccan nuclear energy program.

The fact that the U.S. is weighing the potential withdrawal of hundreds of troops from the region further complicates matters. AFRICOM's counter terrorism mission would clearly be affected and the limited force in place serves as a "check" against rival nations moving into the region. While the desire is to have other nations, including France, continue to contribute to counter terrorism operations in the Sahel region, U.S. intelligence support will continue to be crucial to those efforts. Any power vacuum will be filled quickly by Russia (and China, who is also looking to build permanent bases on the continent). As the U.S. reevaluates its strategy in Africa, it must keep the focus on Russia and China.

> *"Putin wants increasing Russian influence in the Mid-East to further its anti-access area denial (A2AD) strategy in the Mediterranean. Putin is applying his personal energy to the bookends of this strategy, Egypt and Alegria. In Egypt, Putin is taking advantage of Egypt's desire to diversify its military aid and assist Egypt's President Sisi, to consolidate his power and eliminate opponents. Far more strategically significant, Russia agreed to construct Egypt's first nuclear power plant further deepening its presence and influence while highlighting America's retreat from the region. Russia's interest in Algeria has, since the early 2000's, focused on military modernization. In 2006, Moscow forgave a $5 billion debt in exchange for a $7 billion military deal with Algiers. Putin continues "to steal a march" strategically to re-establish Russian power."* ***General Marks***

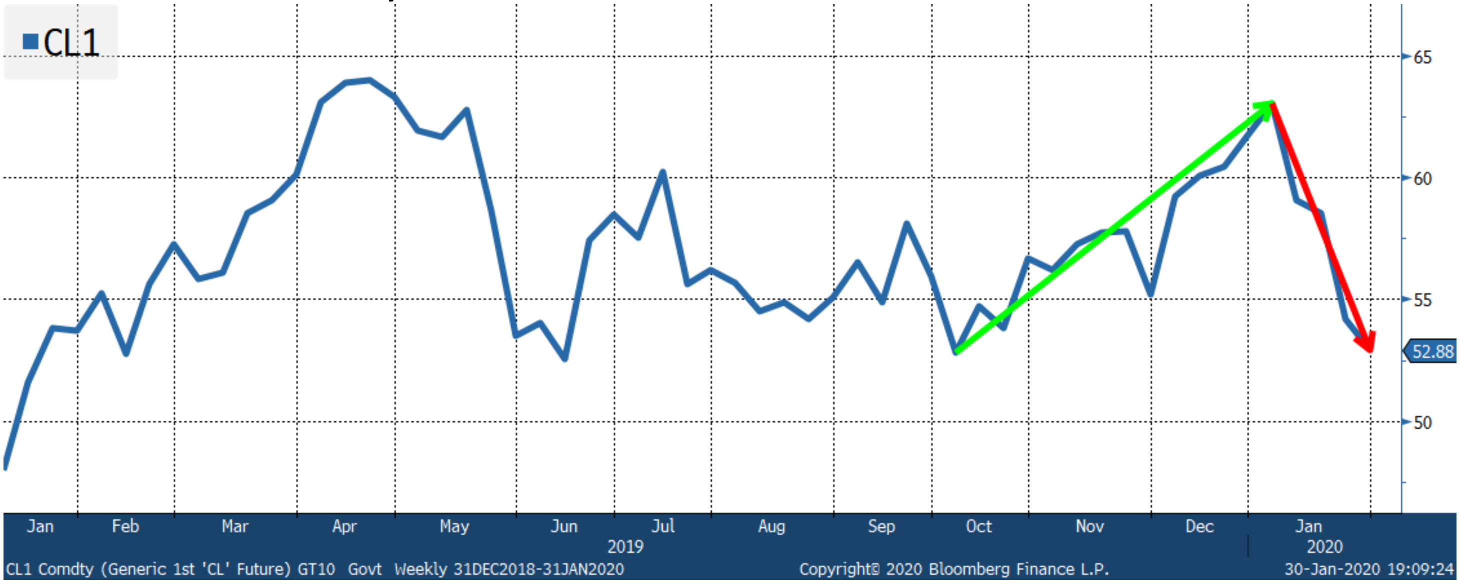
> *"Terrorists in Russia are not normally from African nations. Competition with the U.S. in Africa is occurring, but it is ultimately an influence effort to gain greater access on the continent - rather than a counterterrorism effort. Terrorists emerging from the Middle East worry Russia and the population. I am unsure that Putin can argue the threat to the Russian people and justify its presence in Africa. However, efforts to compete for influence and access for arms sales, are likely to increase."* ***General Kearney***

Effect of Lower Oil Prices

Oil has taken a pounding since the first week of January. Several factors have played a major role in this steep decline:

- Fears that the **coronavirus** will hurt the **global economy** - at the very least, supply lines will be disrupted.
- The **coronavirus** is already hurting **air travel.**
- The focus on **sustainable or ESG investing** continues to gain traction. There was an immediate market reaction when the CEO of one of the world's largest asset managers discussed avoiding certain industries over time in many of their funds (the details were a bit vague).
- **Reduced tensions in the Middle East** have also helped weaken oil prices.

Crude Unwinds 3 Month Rally in 3 Weeks



Energy company stocks and bonds have been hit hard. XLE, an energy ETF, is down 9% on the year. High yield energy company bonds and leveraged loans have been hit particularly hard. We've also seen some spread widening in emerging market bonds for countries dependent on energy prices.

This rapid decline in oil, if it persists, could change the geopolitical landscape as countries dependent on oil may have to shift their tactics.

> *"Crude prices are tumbling as inventory increases and China's demand decreases in response to the coronavirus. There will be a near term and possibly sustained economic flight from China as the world reacts to how China manages both the virus' spread and information surrounding its origins. China's turn around has been fueled by oil demands that will now decrease precipitously. This is bad news for Russia that routinely experiences market volatility wherever it plants its flag and is China's prime supplier of fossil fuel. Falling prices can be an opportunity for the United States to present itself as the safe harbor energy source. Nations dependent on oil as an exclusive source of growth will plateau for the near term - exacerbated by the effects of the coronavirus outbreak."* ***General Marks***

> *"Falling oil prices are never good for patronage societies. Tribes expect their patronage and it becomes more difficult when revenues drop. Iran is particularly affected as black-market pricing is normally lower than legal sales."* ***General Kearney***

President Trump's Visit to India

In February, President Trump will visit India and potentially sign a limited trade deal with President Modi. As we have reported, we believe the U.S. will continue to gravitate closer to India as the counter terrorism driven alliance with Pakistan begins to wane. With India's 1.3 billion people, the potential to offset reliance on China will be a priority. If the U.S. and India can come to an agreement for India to purchase billions of dollars' worth of U.S. agricultural goods as well as U.S. weapon systems, India may become an alternative to China in the long term.

> *"Beyond tapping into India's huge IT sector and opening U.S. markets to all of India's goods, President Trump would be strategically prescient to champion an invitation including India as a permanent member of the United Nations Security Council. India is a nuclear power with immense economic resilience, shares western views of individual freedom, and aligns itself as a global counterweight to China and Russia."* ***General Marks***

> *"India is a historic economic competitor with China and Trump's visit can add leverage in the U.S.-China competition. Wherever we can compete, we need to. India's relationship is important for the U.S. to act as a go-between to Pakistan and India during flare ups. The U.S. has a decent relationship with India, but an improving trade relationship is in both nations best interests."* ***General Kearney***

Trump | Netanyahu Peace Plan

The plan announced this week would declare Jerusalem the capital of Israel and not require any relocation of West Bank settlements. President Trump also proposed a $50b international investment package to create the new Palestinian state. While the Palestinian leadership declared this plan a non-starter, some of the neighboring nations such as Egypt and the Arab states in the Persian Gulf were more optimistic.

> *"The Palestinians rejected the plan immediately. I see little reason for optimism in finding a compromise that softens Israeli and Palestinian extremism."* ***General Marks***

> *"I was surprised at the Arab responses to the peace plan as it is clearly not in Palestinian interests. I think it shows the strength of the President's relationship with the crown prince in Saudi Arabia. Saudi tacit support shows strength for Trump and a recognition that Israel is the enemy of my enemy, Iran."* ***General Kearney***

Markets at a Glance – Flight to Safety

Country	Currency*	1 Week	1 Month	10 Yr Yield*	1 Week	1 Month	Stock Index	1 Week	1 Month
United States	97.86	0.17%	1.14%	1.59	-0.15	-0.29	3,284	-1.26%	1.94%
Asia Pacific									
China	7.0	-0.74%	0.02%	2.99	0.00	-0.14	4,004	0.00%	-1.90%
Korea	1,185	-1.41%	-2.50%	1.71	0.00	0.03	2,148	-4.37%	-2.26%
India	71.5	-0.30%	-0.25%	6.56	-0.04	0.03	12,036	-1.19%	-1.80%
Indonesia	13,657	-0.13%	1.92%	2.75	-0.09	-0.15	6,058	-3.07%	-3.84%
Philippines	51.0	-0.01%	-0.66%	2.37	-0.13	-0.34	7,393	-2.94%	-5.41%
EMEA									
Russia	63.3	-2.21%	-2.07%	2.83	-0.12	-0.16	3,109	-1.04%	2.06%
Saudi	3.8	-0.01%	-0.01%	2.62	-0.16	-0.22	8,247	-1.67%	-1.18%
South Africa	14.8	-2.53%	-4.60%	4.70	-0.13	-0.12	56,591	-0.53%	-1.93%
Turkey	6.0	-0.59%	-0.37%	5.42	-0.12	-0.72	119,850	-2.20%	4.44%
Ukraine	24.7	-1.65%	-3.80%	6.13	0.11	-0.40	505	0.11%	-0.83%
Americas									
Argentina	60.3	-0.28%	-0.63%	20.62	-0.06	1.12			
Brazil	4.2	-1.85%	-5.58%	3.41	-0.19	-0.32	115,528	-3.35%	-0.10%
Colombia	3,415	-1.60%	-3.87%	2.88	-0.16	-0.24	1,638	-0.61%	-1.46%
Mexico	18.8	-0.07%	0.80%	3.00	-0.19	-0.28	44,863	-1.35%	2.76%
Venezuela	74,580	-0.72%	-62.78%				1,638	-0.61%	-1.46%

Commodities								
Oil	1 Week	1 Month	Gold	1 Week	1 Month	Bitcoin	1 Week	1 Month
52.14	-6.21%	-15.47%	1,574	0.73%	3.90%	9,552	13.95%	31.88%

U.S. Currency is DXY. China, Korea and India are local currency bonds, the remainder are U.S. denominated bonds. Bloomberg data as of 1/31/20.

Bonds and safe haven assets rally, while stocks fall across the globe.

This is one of the most pronounced **"flight to safety"** trades we have seen in some time. Not only did bond yields drop in almost every single country across the globe, we saw **dollar strength**, gold rallying and bitcoin continuing its recent surge. VIX also increased as investors (prudently) added hedges to their portfolios given the uncertainty surrounding the coronavirus.

Stock markets did poorly with Asia leading the way lower. Chinese markets have been closed for the week but will be down significantly when they re-open next week.

While earnings, macroeconomic data, and central bank policy continue to play a role in markets, the dominant driving factor has become the coronavirus. That is likely to continue as everyone tries to determine just how bad the damage is (or whether there is already a degree of overreaction).

Oil, as already discussed, bore the brunt of the pain this entire year. The case for energy companies can still be made, but we need to see oil stabilize.

Bitcoin's strength deserves some attention, especially since it has been acting more like a safe haven of late. Certainly, the price rise is attracting increased chatter and forcing many to revisit it as an alternative asset class. This has been a theme in the past couple of pieces and shows no sign of relenting.

Disclaimer

This document and its contents are confidential to the person(s) to whom it is delivered and should not be copied or distributed, in whole or in part, or its contents disclosed by such person(s) to any other person. Any party receiving and/or reviewing this material, in consideration therefore, agrees not to circumvent the business proposals explicitly or implicitly contained herein in any manner, directly or indirectly. Further, any recipient hereof agrees to maintain all information received in the strictest confidence and shall not disclose to any third parties any information material to the opportunity contained herein and, upon review hereof, agrees that any unauthorized disclosure by any party will result in irreparable damage for which monetary damages would be difficult or impossible to accurately determine. Recipients recognize, and hereby agree, that the proprietary information disclosed herein represents confidential and valuable proprietary information and, therefore, will not, without express prior written consent, disclose such information to any person, company, entity or other third party, unless so doing would contravene governing law or regulations.

This document is an outline of matters for discussion only. This document does not constitute and should not be interpreted as advice, including legal, tax or accounting advice. This presentation includes statements that represent opinions, estimates and forecasts, which may not be realized. We believe the information provided herein is reliable, as of the date hereof, but do not warrant accuracy or completeness. In preparing these materials, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources.

Nothing in this document contains a commitment from Academy to underwrite, subscribe or agent any securities or transaction; to invest in any way in any transaction or to advise related thereto or as described herein. Nothing herein imposes any obligation on Academy.

Academy is a member of FINRA, SIPC and MSRB. Academy is a Certified Disabled Veteran Business Enterprise and Minority Business Enterprise, and is a Service Disabled Veteran Owned Small Business as per the U.S. SBA. Investment Banking transactions may be executed through affiliates or other broker dealers, either under industry standard agreements or by the registration of certain principals.