

Around the World With Academy Securities

In this edition, we focus primarily on two things: China Trade and Global Trade because getting these correct is going to be the biggest factor determining whether you navigate the market successfully or not in the coming weeks. As we demonstrated in the last [Around the World](#) and updated in [A December to Remember?](#), U.S. stocks and bonds are moving in lock-step with the Chinese Yuan and virtually every move can be traced to trade related headlines.

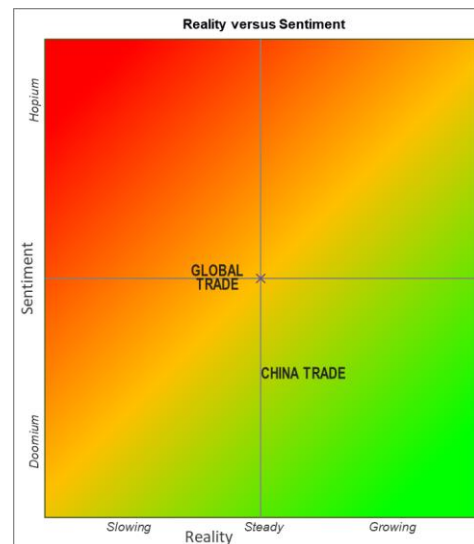
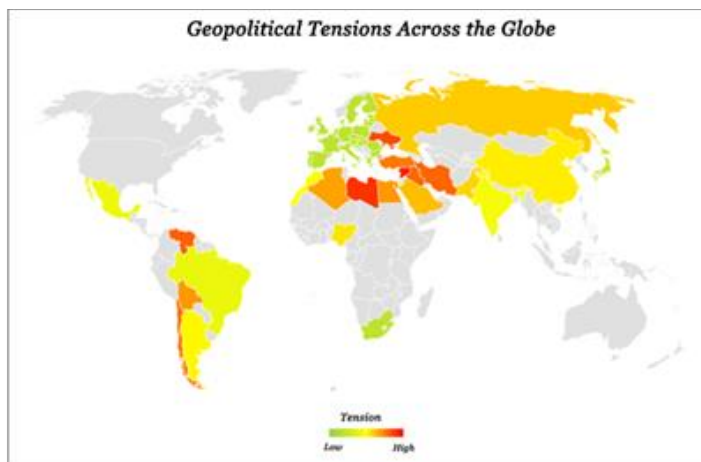
We continue to see a “Trade Truce” as the likely outcome. The U.S. will not impose new tariffs, which is good, however, a groundbreaking comprehensive deal will not be reached either. At the moment (though that shifts on a daily basis), the market seems more pessimistic than we are.

General (ret.) Walsh and Macro Strategist Peter Tchir have been on the road seeing clients this week and China / Trade are the main topics of conversation. The basic framework that is being used to analyze the potential ebbs and flows of trade talks can be distilled to a few key bullet points:

- We are treating China as a “Strategic Competitor.” This is a subject that we addressed in March and again in May 2019 ([here](#) and [here](#)). The Trump administration takes this view seriously and it is highly likely that all future administrations will too. The national security issues we face need to be addressed in any deal - this makes it harder to reach.
- We are now engaged with China on an economic front. As General (ret.) Walsh elaborates on the **DIME policy** – Diplomacy, Information, Military, and Economic, President Trump has shifted the battlefield to the economic front. That is risky – for both sides. While China is known for long-term planning, the evolution of a middle class has made them more susceptible to unrest on any economic slowdown. Chinese debt is growing far faster than its GDP, yet another reason that China wants to come to a deal. It isn’t just with China that we are shifting our strategy to the economic front. There are clear signs that we are shifting away from Pakistan in favor of India. Pakistan, while helpful in the war on terror, is far less interesting than India as we engage China economically. This should prod both sides towards a truce, if not a deal.
- China has IP now that it too wants to protect, so we may not be as far apart on that issue as is commonly believed (whether any IP protection will be truly enforceable is another issue for another day).

On **Global Trade**, the President has mentioned tariffs once again. Mexico. France. Europe. He does like tariffs and believes that they are a useful tool. They might be, but they are also disruptive to markets. The risk of launching new tariffs against other countries is low, but still possible. It is more concerning because the U.S. has not yet passed the USMCA into law.

This should all become clear by December 15th, when new tariffs could be implemented (we expect they won’t be), but that will greatly determine how markets do. If we proceed with new tariffs the downside to equities could easily be 10%, given the time of the year. Our base case is truce, but we are watching vigilantly for any signs of escalation.



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Front and Center – Turkey, France and NATO

The Academy Securities Geopolitical Intelligence Group has been focused on the importance of Turkey's membership in NATO for some time. As we reported in our podcast entitled [A Strategic Partnership with Turkey](#), Turkey is a key ally and an important NATO partner and its coziness with Russia (i.e. purchase of the S-400 surface-to-air missile system) is cause for concern. However, what has transpired in the past eight weeks since the announcement to withdraw U.S. forces from northern Syria, has led many to believe that President Trump has made it a priority to win Turkey back. The reasoning is clear – Turkey is viewed as a potential counterweight against Iranian influence in the region and the strategic U.S. Air Base at Incirlik, which houses a number of U.S. nuclear weapons, is too important.

Defence spending by Nato countries in Europe as % of GDP



French President Macron has been openly critical of the Turkish incursion into northern Syria (which President Trump allowed Turkey to proceed with, on a limited basis) and went so far as to declare the “brain death of NATO.” He went on to say that “the U.S. had no coordination whatsoever of strategic decision making between the U.S. and its NATO allies – none.” This building animosity between the U.S. and France came to a head at the 70th anniversary of NATO conference in London this week, with a testy exchange between President Macron and President Trump. With President Trump now positioning himself as a champion of NATO, the renewed push to make NATO members dedicate 2% of GDP to defense spending by 2024 is back in focus. Some of the largest nations in Europe (France, Germany, etc.) are below this threshold. What this all means for the future of the alliance is yet to be seen, but what is clear now is that the strategy of winning Turkey back (despite its flaws) may be working.

“The 70th anniversary of NATO did much to strengthen its status quo and little to fundamentally alter a much-needed course change. NATO must take bold steps. Turkey is placing its allies at risk by buying Russian air defense missiles, conducting illegal cross border military operations against Kurds in Syria with a clear disregard for the laws of land warfare, and is pursuing an increasingly alarming alignment with Iran.

*Many members of NATO ignore their financial obligations to the alliance and fail to police themselves...a clear act of cowardice. Russia continues to push the alliance at every opportunity...Crimea, Donbas, Baltics. NATO must acknowledge that Russia must be its focus, to confront or find ways to engage with Russia that furthers NATO's security imperatives, not the routine dismissal of its agreed to and 70 year “pressure tested” charter. NATO works, but it's suffering from a thousand cuts, all self-inflicted.” **General Marks***

General Walsh went on to say that “President Trump moved NATO much further on the path to member countries paying their agreed-to burden sharing funding commitments. This week's summit was far different than his early meetings when he threatened to pull the U.S. out of NATO or when he first raised the issue of NATO members not paying their fair share of the agreed-to costs. This summit had the NATO Secretary, Jens Stoltenberg, explaining the progress made by member nations in increasing funding. President Trump kept the funding pressure up by having a private lunch with those leaders whose countries met the agreed to spending plan of at least 2% of their GDP by 2024. Increasing funding to NATO came across in a positive light throughout the summit.

China, for the first time, was a key agenda topic for NATO as the alliance reviews its future direction. This again shows that the U.S. is leading NATO's refocus into areas that the U.S. sees as priorities.

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Turkey's attempt to tie a proposed NATO agreement focused on support to Baltic countries and the deterrence of Russian aggression in Eastern Europe to Turkey's demand to name the Kurdish Peoples Protection Units (YPG) a terrorist organization was a surprise move by President Erdogan that failed. This attempt, along with Turkey's decision to purchase the Russian S-400 surface-to-air missile system, is causing friction between NATO and Turkey that we can expect Putin to exploit." **General Walsh**

Iraq, Chile, and Hong Kong

In general, we believe certain areas are not getting the attention that they deserve and there is a risk that the protests will either spill over to surrounding nations or, at the very least, continue to stifle economic growth and lead to further uncertainty. For example, the Iraqi Prime Minister Adel Abdul Mahdi resigned this week as a result of the unrest over the level of corruption and Iranian influence in Iraq. With over 400 people killed since the protests began on October 1, it had come time for Mahdi to step down. However, this step alone will not be enough to satisfy the protestors as they have demanded the removal of the entire political and parliamentary class.

"The resignation of Adil Abdul-Mahdi is a politically smart move absent of hubris. His resignation acknowledges that he was not "getting it done" as Prime Minister. Iraq has been suffering from growing violence and riots. Demands of the people were not being addressed. At least Mahdi knew he had to step aside. That act will show the strength and resilience of Iraq's burgeoning and challenged democracy." **General Marks**

"Iraqi Prime Minister Abdel Abdul-Mahdi's announcement to resign comes after Iran again attempted to support him to remain Prime Minister. Iran's influence with Abel-Mahdi and his government has continuously grown since the U.S. reduced its presence in Iraq in 2011. Only two weeks ago, Iran's Major General Suleimani was able to convince Abdul-Mahdi to stay on. Abdul-Mahdi's decision to resign was mainly influenced by a lack of confidence from Iraq's senior Shiite cleric, Grand Ayatollah Ali al-Sistani. The anti-government protests had gone on too long for al-Sistani to ignore if he was to maintain his true leadership role in Iraq. This "Arab Spring" like moment is another example of young people and social media affecting a change in government in the Middle East. This time the reasons were corruption, lack of jobs, and outside Iranian influence." **General Walsh**

In Chile, the government recently announced a \$5.5 billion economic recovery plan to try to reverse the contraction that has occurred as a result of the protests that began in October. With economic expansion estimates shrinking for 2020 to 1-1.5% from 2% and the peso falling to an all-time low, this recovery measure is meant to act as a lifeline to small businesses. The government will also sell \$3.5 billion in foreign currency bonds next year. However, the protests continue and with the recent rallying around the student blinded by rubber bullets and the fact that 26 people have been killed since mid-October, these new economic measures have not had the calming effect intended.

Finally, we are keeping our eye on Hong Kong. With the sweeping victory by the pro-democracy candidates in district elections two weeks ago, some believe that these results will encourage the protestors to continue to push for the other four demands that have not been met (including the removal of Carrie Lam and the exoneration of thousands of protestors). Protest activity has picked up again after the election and the promise by Lam to set up a committee to investigate the crisis has not addressed any of the demands. This crisis is far from over and the world awaits any decisive action from Beijing.

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Markets at A Glance

Country	Currency*	1 Week	1 Month	10 Yr Yield*	1 Week	1 Month	Stock Index	1 Week	1 Month
United States	97.65	-0.74%	0.42%	1.78	0.01	0.06	3,093	-1.92%	0.86%
Asia Pacific									
China	7.1	-0.52%	-0.15%	3.19	0.01	-0.08	3,850	-0.67%	-2.60%
Korea	1,195	-1.45%	-2.49%	1.68	-0.01	-0.09	2,069	-2.77%	-1.49%
India	71.5	-0.25%	-1.02%	6.47	0.00	0.03	12,043	-0.48%	1.28%
Indonesia	14,105	-0.07%	-0.47%	2.97	0.02	0.04	6,113	1.49%	-1.52%
Philippines	51.0	-0.43%	-0.50%	2.76	0.00	0.11	7,816	-0.27%	-2.02%
EMEA									
Russia	63.9	0.05%	-0.66%	3.10	-0.07	-0.24	2,901	-0.97%	-1.01%
Saudi	3.7	-0.01%	0.01%	2.93	0.02	-0.05	7,871	0.23%	1.64%
South Africa	14.6	1.14%	2.95%	5.02	0.04	0.08	55,023	-2.05%	-2.87%
Turkey	5.7	0.44%	-0.64%	6.39	-0.03	-0.17	107,701	1.75%	9.38%
Ukraine	23.9	0.57%	3.71%	7.45	0.23	0.57	511	-1.13%	-2.18%
Americas									
Argentina	59.9	-0.15%	-0.72%	23.47	0.75	0.70	28,366	-4.09%	-0.26%
Brazil	4.2	1.23%	-5.40%	3.86	0.02	0.11	110,301	2.41%	1.95%
Colombia	3,471	1.08%	-4.37%	3.21	-0.03	0.15	1,612	1.56%	-1.30%
Mexico	19.4	0.47%	-1.62%	3.34	0.02	0.07	42,295	-1.72%	-3.47%
Venezuela	37,559	-6.02%	-60.69%				1,612	1.56%	-1.30%

Commodities								
Oil	1 Week	1 Month	Gold	1 Week	1 Month	Bitcoin	1 Week	1 Month
58.43	-0.55%	-3.97%	1,475	-1.39%	3.96%	7,187	-4.80%	-21.98%

US Currency is DXY. China, Korea and India are local currency bonds, the remainder are US denominated bonds. Data as of 12/5/2019.

The yuan weakened and U.S. stocks declined. As we wrote earlier – the markets are at an inflection point waiting on a clear direction on U.S. and Chinese trade.

Turkey, which seems to continue to carve out its own identity, especially as it relates to NATO, has had a strong month in its stock market. Not a region we are comfortable with longer term, but clearly markets are not bothered.

The Venezuelan currency continues to plummet. Increasingly, people are watching this and Argentina and trying to decipher if there is more risk in other countries than is being priced in? How quickly can another country fall into disarray? So far, we aren't seeing risks elsewhere, but we are digging deeper trying to identify potential trouble spots.

Finally, Bitcoin continues to fall. The rally that started when China's Xi made a commitment to blockchain has entirely fizzled – as it should. China may be committed to blockchain, but that is not the same as buying Bitcoin. From a geopolitical standpoint, it is interesting that oil, gold, and bitcoin all fell on the week. Our macro strategist would prefer to see gold fall (on fewer geopolitical concerns) and oil rise (on the potential for global growth) but we aren't getting a clear signal like that at the moment.

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