

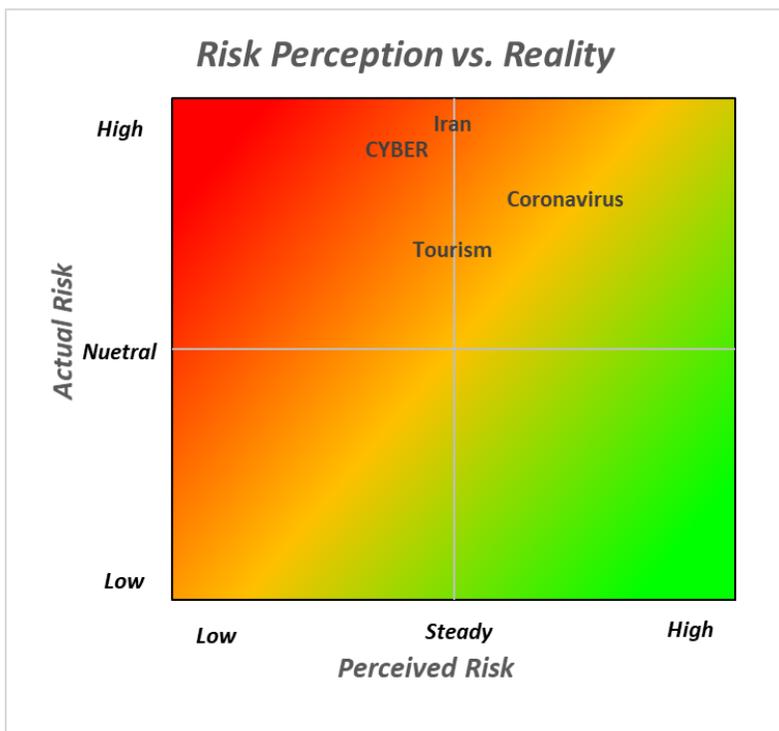
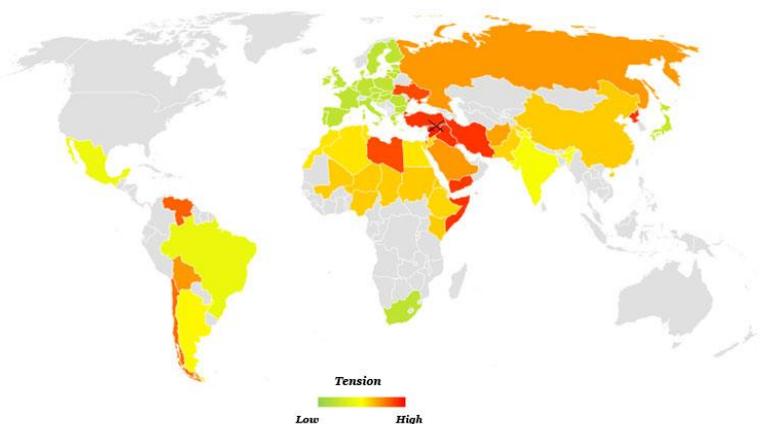
Around the World with Academy Securities

Coronavirus continues to be the biggest factor driving markets. **The current consensus is that:**

- The spread of the virus will be controlled, and that the global death toll will be much lower than the deaths attributed to the flu.
- There will be a V-shaped recovery as China ramps up production, engages in fiscal stimulus and central banks across the globe will remain supportive.

Academy’s Peter Tchir (Head of Macro) thinks it is [too early to signal the all-clear on coronavirus](#) as much of the data could be interpreted many ways and the impact to supply chains and tourism from China could be worse than is currently being priced into the markets. In our **Perception vs Reality™** chart, he highlights that the market is likely a bit too complacent on the virus itself but is really missing the risk to tourism in the U.S. as China has become a large percentage of global tourism (this chart tries to identify outliers where our view of the risk is different than what the market is pricing in). The

Geopolitical Tensions Across the Globe



commodities, which should benefit from the V-shaped recovery thesis, have not rebounded as strongly as equities, adding to our concern.

One longer term development is that we are likely to see **companies continue to reduce their exposure to China**. Companies have been looking to reduce their dependence on China as the battle over tariffs and trade highlighted the risks, and this recent potential supply chain shock forces companies to consider what the optimal supply chain should look like. This shift should benefit countries with low production costs and could bring some jobs back to the United States. This will take time but will be an interesting shift in global trade.

That brings us to this week’s focus – **the risk of Iranian retaliation and the cyber threat that it poses**. While markets have been fixated on coronavirus and digesting a steady stream of data and earnings, the risk from Iran remains. Our Geopolitical Intelligence

Group helped guide us through these markets and we suggested the headlines were overstating the risk in early January as events were unfolding. However, the GIG is now reminding us not to ignore the danger. With market participants already facing a high degree of uncertainty due to the coronavirus, it could be an ideal time for Iran to get the most bang for the buck from a cyber-attack.

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Front and Center – Cyber Threats from Iran, 30 days out

Geopolitical tensions were at extreme levels when we began 2020. With the increased violence and protests in Iraq, and the U.S. strike that killed Iranian General Qasem Soleimani, Academy provided near real-time threat analysis on the developments with Iran. Iran responded to the killing of Soleimani on January 8th with a missile attack on U.S. and Iraqi forces at Al Asad air base. The Iranian leadership announced that this retaliation would signify their complete and proportional response. Academy's Geopolitical Intelligence Group determined that, while the missile attack may be the extent of any conventional retaliation, we should expect and anticipate an asymmetric response in the coming weeks and months. Despite not being at the top of the headlines, it is important to reevaluate the continued threat posed by Iran at this time. [General Hernandez, an Academy Securities Advisory Board member](#), and former Head of U.S. Army Cyber Command, provides his thoughts on the cyber threats posed by Iran and its proxy forces.

“Last month, I said we should wait 30 days and there would be enough evidence to highlight that the Iranian cyber threat may de-escalate for a period, but we ought not fool ourselves that it's going away. The evidence is coming in.

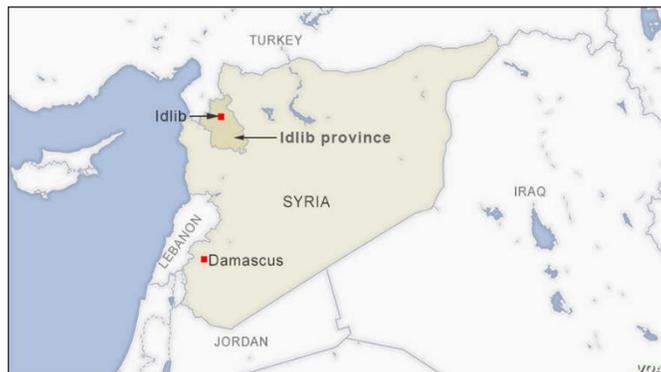
- *Misinformation campaigns are on-going and may have a goal to impact our election security. They watch and are learning from the Russians.*
- *This week an industry-wide security alert identified Iran's attempts to infect companies with destructive malware, similar to Shamoon, a data-wiping malware used in the Middle East.*
- *Alerts also highlighted a concern about supply chain software providers and the targeting of industrial control systems for the energy sector - as well as other sectors. Currently, it's not clear if it's Iran or others trying to look like them.*
- *Iran's proxies, who may not be as aligned after the killing of Soleimani, and Russia (who would never miss an opportunity) can be wild cards that could increase tension through cyber.*
- *It has been reported that Iran is targeting U.S. public figures. They continue to probe critical infrastructure, conduct espionage and pursue cybercriminal activity. Despite internal unrest, they have not lost sight of the fact that, in their view, we've been at war since 1979.*
- *Also reported this week was the downing of Iran's internet prior to their satellite launch. It is still too early to know the details but it is clear that this may create a counteraction by the Iranians.*
- *Instead of companies asking if the threats have gone away, they should be asking themselves if they're on a wartime footing and if they are prepared for the unexpected and something not yet seen. Companies and leaders should assume it's coming and be ready for the worst.*
- *10 years ago, Iran had intent and little capability. Today they have a significant capability to match their intent.” **General Rhett Hernandez***

Iran will continue its proxy activities in the region and will try to use its strengths, including cyber, to its advantage. The economic sanctions have taken a severe toll on the country and its forces will continue to act out. They will continue to support Assad in Syria as well as the Houthi rebels in Yemen, as evidenced by the seizure of the Iranian weapons by the U.S. Navy on February 13th, that were bound for Yemen.

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Turkey and Syria: A Complicated Issue for Russia

As we reported in our Around the World issues in early [December](#) and again at the end of [January](#), Turkey is an important NATO ally and their relationship with Russia (including the sale of the S-400 missile system) has caused concern. In addition, the signing of the agreement for the TurkStream pipeline has led many to believe that the relationship between President Erdogan of Turkey and President Putin of Russia is very strong. However, potential cracks may be forming which will have a dramatic impact on the current state of play in the region. Putin has made it clear that the Middle East and North Africa are key to his strategy but competing interests with Turkey in Syria complicate a very difficult situation.



Turkey vs Syria

On February 3, in retaliation for the killing of Turkish soldiers, Turkish F-16's attacked Syrian government forces in the Idlib region (Northwestern Syria) killing 35 troops. Syria responded on February 10 with heavy shelling which killed additional Turkish soldiers. Later that day, Turkey conducted a counter strike that "neutralized" over 100 Syrian targets. Turkey has mobilized hundreds of tanks and armored vehicles in response to the killing of 13 of its soldiers in the past 10 days and tensions are increasing as Turkish forces try to prevent Idlib from falling to Assad. Idlib is the last rebel stronghold in the country fighting against government forces, led by President Assad and supported by Russia and Iran. A Russian delegation left Turkey on February 10 without an agreement to stop the fighting.

Turkey has already taken in over 3 million Syrian refugees since the civil war began in 2011 and has closed the border to the 700,000 refugees fleeing the Idlib province. Turkey has vowed to continue to retaliate and demanded Assad pull his forces back to the lines established in the 2018 Sochi agreement (Astana Process) with Russia by the end of February. In that agreement, Turkey set up observation posts to monitor the Idlib province and those posts have come under attack as Syrian government forces advance on the region. Turkey has told Russia to stand down and not interfere, while Russia has been working alongside Assad's forces to eliminate the "terrorist threat" posed by the more radical Islamic elements (including Al Qaeda affiliate Hurras al-Din) of the rebel forces held up in the area.

Turkey does not seem to be backing down as they believe that they are abiding by the terms of the 2018 agreement with Russia. It is also clear Erdogan is trying to avoid a further humanitarian crisis on his boarder and certainly does not want the final bastion of rebel support fighting Assad to be over run, which would diminish Erdogan's influence in the future of Syria. One might expect Putin to give Erdogan limited leeway to strike back against Assad's forces, but with Russian assets in the area, there is a high risk that unless Putin gets personally involved here (Putin called Erdogan on February 12th to ease the tension), it could result in war between Turkey and Syria. What makes this situation even more complicated is the fact that Putin would like to see the Idlib region come under Assad's control so he can proclaim he was responsible for bringing an end to the civil war in Syria. There is no immediate end in sight here and there will likely be further escalation, which could drive a wedge between Erdogan and Putin. If this does occur, it leaves the U.S. with a possible opportunity to move closer to Turkey, a key NATO ally, that is too important for the U.S. to lose.

"I see this pushback as Erdogan's attempt to elevate his status internationally. I believe Erdogan will continue to

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strive for a balance that represents himself as an “independent leader” who will not subject himself to others (especially not on their terms). At the same time, he will do this carefully enough to not lose Russia’s support for weapons and investments.” **General Mastin Robeson**

“The concept by Carl Clausewitz, that war is an extension of politics by other means, is clearly at play here in the Syria, Turkey, and Russia relationship. The attacks by Russia and Syria into the rebel zones are pressurizing the area from Turkey’s point of view. Longer term, the migration of refugees and displaced persons into Turkey or on the border area create ripe conditions to foster extremism. Recent casualties in these violent exchanges also pressurize the Putin and Erdogan relationship. This will get worse before it gets better.” **General Frank Kearney**

Future of Al Qaeda in the Arabian Peninsula (AQAP)

Last week, the White House announced a CIA drone strike had killed Qassim al-Rimi, the leader of Al Qaeda’s affiliate in Yemen. This action dealt a significant blow to the group that for the past 10 years has tried to attack U.S. targets, including airliners (with sophisticated bombs), multiple times. U.S. drone strikes as well as infighting with other extremist groups (including ISIS) has degraded AQAP to a level where it currently does not have the capability to plan and execute overseas attacks like it once had. However, other extremist groups in the region like Al Shabab (which is linked to Al Qaeda) have carried out recent attacks in East Africa, including one in Kenya in January that killed three Americans. There is also concern that members of Al Qaeda affiliate Hurras al-Din are operating in Syria (as mentioned above), inadvertently under the cover of Russian defense systems protecting Assad’s forces. The chaos in Syria as a result of the civil war and Russian involvement has afforded Al Qaeda linked groups an opportunity to reconstitute themselves there while the U.S. has conducted targeted strikes to try to eliminate the most dangerous elements.

The strike to kill al-Rimi was the most recent in a strategy to kill the leadership and bomb making specialists of an organization that still follows Ayman al-Zawahiri, who leads Al Qaeda and is thought to be hiding somewhere along the Afghanistan/Pakistan border. In 2015, Nasser al-Wuhayshi was killed in a drone strike and was considered at the time to be a successor to al-Zawahiri. In 2017, a drone strike also killed Ibrahim Hassan al-Asiri, who was the bomb maker behind multiple foiled attempts to bring down U.S. airliners. The U.S. counter-terrorism mission in the region is very focused and while there has been some discussion of reducing the U.S. forces in West Africa, the clandestine presence will remain and continue to strike high-value targets and degrade terrorist infrastructure.

“I believe the U.S. will continue the targeted killings of terrorist leaders while Mike Pompeo is Secretary of State. It used to be that the Department of State was the push back but not so these days. AQAP as all AQ can mutate and likely will - letting off the pressure on these organizations is not likely in my view.” **General Frank Kearney**

“I agree with Frank. We will continue to be aggressive against terrorism where it is practical. As we reduce our presence abroad (Africa, Iraq, Afghanistan, Syria, etc.), we will find it harder to keep our finger on the counter terrorism pulse, thus will likely have less opportunities.” **General Mastin Robeson**

Russia Sends Military Contractors to Venezuela to Protect Maduro

In addition to the Middle East and North Africa, Venezuela has been selected by Russia as an area of strategic importance. Since the start of the Cold War, Central and South America has always been strategically important to Russia. Since 2005, Russia has invested over \$17 billion in Venezuela and the country owes Russian oil company Rosneft around \$2.3 billion (not including interest). U.S. sanctions on Venezuela eliminating oil export to the U.S. have made it difficult to repay this loan. Russia has also become the largest weapons supplier to Venezuela and

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has outfitted the entire Venezuelan army. However, the economic crisis in the country has impacted recent purchases and Venezuela now struggles to pay off the \$1 billion in arms it has already received from Russia.

With the recent arrival of Russian private security contractors from the Wagner Group, Putin is now trying to protect his investment in the country. This is no coincidence, as the U.S. has thrown its support behind opposition leader Juan Guido and he was a guest at President Trump's State of the Union Address. However, it is not only Russia that needs to be concerned about its investment in the region, as China has invested over \$60 billion and has multiple bilateral agreements with Maduro, who has come out in support of the Belt and Road Initiative. However, China may be indifferent as to the ultimate winner, as long as it has access to oil.

"Russia has historically craved a western hemisphere relationship/presence - and Maduro is their best option at present. This is more about a presence in our hemisphere than anything else." **General Mastin Robeson**

Philippines to End Long-Held U.S. Security Pact

This week, Philippine President Rodrigo Duterte formally announced that it would be ending a military agreement with the United States that has long helped provide security and stability to the Philippines.

"I see Duterte as an opportunist and he will continue to push back on the status quo in an effort to get more in return for anything he/the Philippines gives us. I see this more as an effort to create negotiation space by playing strongman. Our decision to go to Guam significantly increases his leverage. Guam is, geographically, very far from anything that is not South Asia, and there are very few training options near Guam. In the end, we will be willing to pay more to keep the Philippines as a U.S. training/staging option." **General Mastin Robeson**

"President Rodrigo Duterte's decision to scrap the Visiting Forces Agreement with the U.S. was inevitable. Duterte is a faux autocrat, a strongman "wanna-be" with absolute powers. China has more than proximate geography, encouraging a closer alignment with the Philippines. Duterte wants to be Xi...desperately. He gets buoyed by China's courting and is flattered by the favorable attention and possible trade benefits. The U.S. was not blind to Duterte's efforts and must ensure that our presence and ability to influence geopolitical outcomes in Southeast Asia do not atrophy. The U.S. cannot retreat from this vital economic region. Guam remains our anchor and Indonesia should become a friendly outpost. There is too much at risk." **General Spider Marks**

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Markets at a Glance: Rates Rally, Dollar Strengthens and Bitcoin Shines

Country	Currency*	1 Week	1 Month	10 Yr Yield*	1 Week	1 Month	Stock Index	1 Week	1 Month
United States	99.07	0.58%	1.74%	1.62	-0.03	-0.23	3,374	0.84%	2.61%
Asia Pacific									
China	7.0	-0.16%	-1.55%	2.82	-0.01	-0.27	3,960	1.54%	-5.81%
Korea	1,180	0.03%	-2.02%				2,233	0.23%	0.17%
India	71.3	-0.19%	-0.67%	6.43	-0.02	-0.17	12,175	0.30%	-1.26%
Indonesia	13,694	-0.43%	-0.15%	2.67	-0.07	-0.25	5,872	-1.92%	-6.74%
Philippines	50.5	0.51%	0.15%	2.28	-0.09	-0.38	7,403	-1.38%	-5.01%
EMEA									
Russia	63.6	-0.47%	-3.86%	2.74	-0.08	-0.26	3,110	0.43%	-1.32%
Saudi	3.8	0.02%	0.04%	2.65	-0.03	-0.30	7,874	-2.22%	-5.93%
South Africa	15.0	-0.28%	-3.82%	4.59	-0.02	-0.21	57,836	0.53%	0.46%
Turkey	6.0	-0.87%	-2.93%	5.67	0.22	-0.24	120,541	-1.43%	0.24%
Ukraine	24.4	0.44%	-1.11%	5.78	-0.11	-0.32	528	2.14%	4.15%
Americas									
Argentina	61.4	-1.15%	-2.37%	20.57	1.13	0.91			
Brazil	4.4	-1.66%	-5.10%	3.28	-0.12	-0.35	115,662	0.41%	-1.42%
Colombia	3,377	0.11%	-3.27%	2.86	-0.04	-0.20	1,663	0.55%	0.67%
Mexico	18.6	0.31%	1.06%	2.97	-0.10	-0.24	45,005	0.50%	-0.66%
Venezuela	73,081	0.23%	-8.86%				1,663	0.55%	0.67%

Commodities								
Oil	1 Week	1 Month	Gold	1 Week	1 Month	Bitcoin	1 Week	1 Month
51.42	0.92%	-11.47%	1,576	0.60%	1.82%	10,180	4.55%	25.20%

All data as of 2/13/2020 close of business from Bloomberg.

Emerging market currencies hit hard. The dollar has seen a significant flight to safety as fears of the coronavirus have hit – despite clear signs that the Fed will be accommodative if necessary. EM currencies struggled, which might be an opportunity. One longer term impact of the coronavirus is that companies will likely re-evaluate their supply chains and reduce their exposure to China, which **should benefit other emerging market countries.**

Rates rallied across the globe. The **Greek 10-year bond** yield is now below 1%. Not sure there is much else to say. Oil has bounced back almost 1% in the past week, but that is a drop in the proverbial bucket compared to how bad it has been hit.

Bitcoin outshone every other ‘hedge’ asset. Like it or hate it, it is hard to ignore as it climbs above \$10,000 and seems to be acting as a good hedge to any geopolitical risk (or is just a sign that many in China want to get their money into a vehicle that is more difficult to track – in which case, our ongoing concerns that it is too early to declare victory over the coronavirus are well-warranted).

While emerging markets saw some bounce back in many regions in the past week, **Turkey stood out as an outlier.** Both the Turkish currency and their bonds were weaker last week. Turkey remains an area of concern for us on the geopolitical front and we see significant risk that the geopolitical risk will impact their economy, their bonds, and their FX rate.

We would also be selling bonds issued by countries in the Middle East as we take the cyber threat warning seriously and that could create some selling of bonds in those countries if an attack was to occur.

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