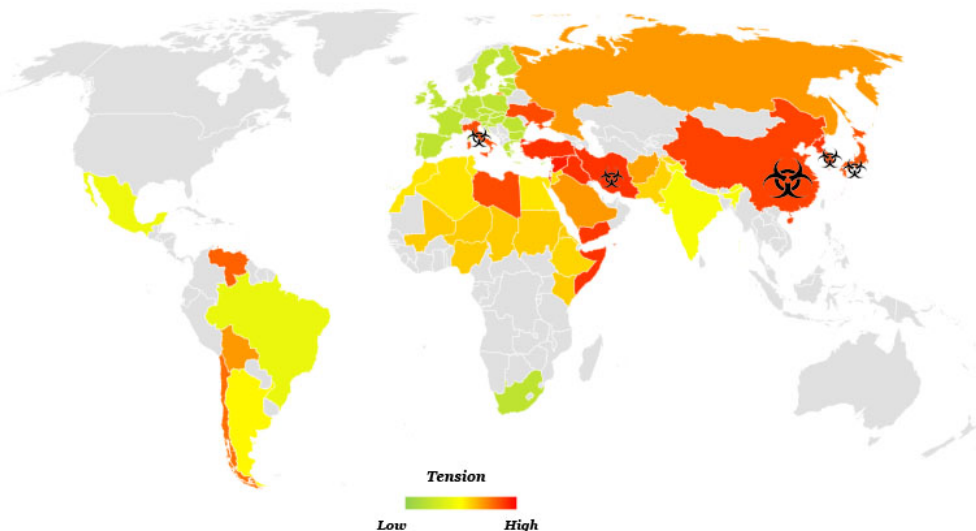


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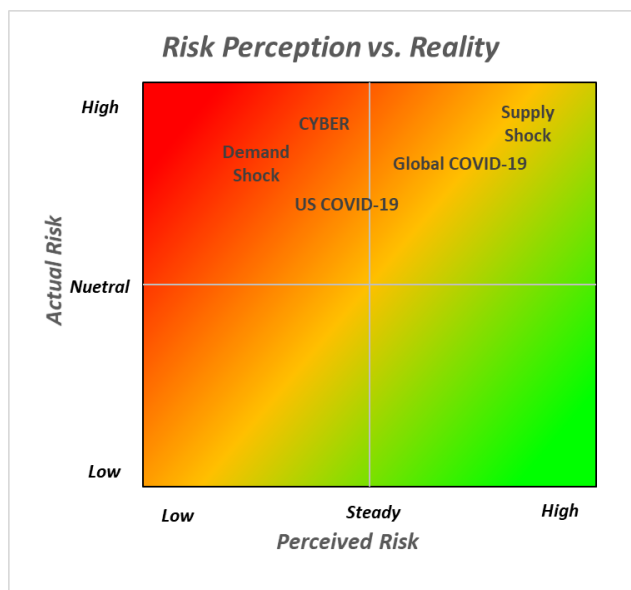
In the [prior edition](#) of Around the World, we challenged the consensus view that China would get a V-shaped recovery and that the market was appropriately pricing in the coronavirus risk. Since then, the S&P 500 has dropped 12.6%, with 11.5% of the drop occurring last week – an incredibly fast decline. That loss would have been worse had the S&P 500 not rallied 2.5% in the last 15 minutes of trading on Friday. Peter Tchir, Academy’s Macro Strategist, remains bearish on the market as he thinks the process has shifted from de-risking (reducing risk, adding hedges) to de-grossing (reducing all position sizes). Friday’s trading was particularly unhealthy as the market swung violently all day – hardly a sign, in his view, that the market is normalizing. Expect more volatility as managers are forced to navigate this increase in volatility and **shifting correlations**. Peter was able to discuss some of these views on [CNBC on Thursday](#). Markets will continue to move in response to coronavirus headlines,

Geopolitical Tension and COVID-19



Super Tuesday results, the potential for central bank intervention and global economic data (the Chinese Composite PMI, which has been between 55 and 52 since it was created in 2014, plummeted to 28.9). The biggest concern is that the ‘response’ of choice to outbreaks is quarantine and isolation, which is bad for the economy as it

adds demand shock to the supply side shock businesses and consumers are already facing. Please see [Macro Strategy Insights](#) for regular updates on markets, or ask your Academy representative to be on the Macro distribution list.



Before jumping to the Geopolitical Intelligence Group for their latest coronavirus updates, we spend a quick minute on the **Risk Perception vs Reality™** map. In this map, we try to highlight where we think the market is pricing in one thing (perception) versus what we see as the reality. It is these differences that create opportunities to be buying and selling. The biggest risks, using this methodology, are that the U.S. isn’t yet concerned enough about coronavirus and that a demand shock isn’t being priced in at all – yet.

The GIG Weighs in on Coronavirus

“After returning from Asia, bottom line is I think we will find the incubation period is longer than the 14 days projected and everything we have done to this point with quarantine has not had the effect we expected.

Interesting how a small thing like this can have a global impact on the world economy. From a CBRN (chemical,

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biological, radiological, nuclear) perspective - what is happening now is the most dangerous weapon an enemy can use - slow but very effective fear and hysteria. There is a lot to be learned from how social media information spreads globally and what is shared on the coronavirus. The media is playing their role in raising concern and as Peter mentions, it is still unclear how bad the virus really is in China, given the underreporting and reclassification of cases.

USINDOPACOM just issued a force protection directive that restricts travel to the Republic of Korea to mission essential personnel. All soldiers are restricted to the installation and only mission essential personnel are allowed onto the base. Japan is working overtime on image and perception concerns over the coronavirus with the Summer Olympics starting 24 July. Brazil did a good job messaging with the Zika virus for the last Olympics and very few athletes elected not to participate.

*It is interesting that the international pressure concerning Hong Kong and the protests has stopped being a news item – this solves a significant challenge to China’s “one country, two systems”. I don’t believe that China did this intentionally, but it did scare off the protesters, and limits the global media continuing to show China in a negative light as an emerging power on the world stage. The virus timing also helped the Communist party internally divert the conversation from Hong Kong tensions, losing the trade war, and a stagnating economy.” **General K.K. Chinn***

*“Given the planned pilgrimages to holy sites in Iran, I think its gasoline on a fire. I understand the reluctance by the Iranians to not cancel or bar travel due to religious reasons, but it is a very dangerous decision for the participants and fosters the opportunity for greater spread within Iran, the Middle East, and SE Asia. Healthcare systems in these areas are not prepared to handle the impending crisis. It is a recipe for rapid growth of the virus internationally.” **General Frank Kearney***

Front and Center – A “Peace” Deal with the Taliban

On Friday February 21st, a temporary truce with the Taliban took effect as a first stage to a larger agreement that could bring an end to the 18-year war in Afghanistan. The truce held up and a peace deal was signed in Doha, Qatar on February 29th which includes plans to commence a drawdown of U.S. and coalition troops in the country. Following this deal, intra-Afghan talks will begin shortly that will (hopefully) result in a more permanent peace and a “political roadmap”, according to Secretary of State Pompeo.



However, the government fracture in Kabul may be a cause for concern. Historically, the divided Taliban has been one of the factors standing in the way of peace discussions – the Taliban attack that killed two Americans by a faction that did not want anything to do with peace talks was the reason the process in September 2019 fell apart. However, the one issue that unites the Taliban in these discussions is the fact that they broadly agree that they will not negotiate with the government in Kabul and the ongoing disagreement regarding who won the election last fall is not helping matters. The election last September was one of the main events driving up the timetable for peace discussions as it was widely believed the results would be contested. The winner (incumbent President Ashraf Ghani) was finally announced this week and almost immediately, the challenger, Abdullah Abdullah, who served as the Chief Executive of the Unity Government since 2014, publicly denounced the results. Abdullah said he would form a parallel government and barred election officials from leaving the country.

These developments further complicate the upcoming intra-Afghan talks scheduled to commence by March 10th. However, tension between Ghani and Abdullah is nothing new - after the 2014 election, which was also disputed, the U.S. brokered a deal where Ghani and Abdullah would both have a hand in running the government - the former

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as President and the latter as Chief Executive of the Unity Government. However, the two never really agreed on anything and set the stage for another showdown in September 2019 (and subsequent questioning of the election results by Abdullah).

A divided Afghan government will immediately be at a disadvantage in talks with the Taliban, which does not even recognize the government in the first place. However, the U.S. has made it clear that the important take away here is the fact that the phased withdrawal of U.S. troops (as well as other coalition forces) is completely contingent upon the Taliban meeting its requirements, including severing any ties to terrorist organizations. The U.S. (and NATO) withdrawal will happen over time (targeting 14 months) starting with a total force reduction to 8,600, down from the current ~14,000.

“The U.S. will stay embedded in Afghanistan’s political life and governmental development. An entire generation of Afghan leaders has grown into maturity inside a U.S. partnership. We might be decreasing our number of troops but we’re not going away.” **General Spider Marks**

“The Taliban will remain a powerful and violent political force in Afghanistan. I don’t believe the Taliban controls all its affiliated groups nor do I believe they are unified in their approach, so any peace deal will have breakdowns. The Taliban will likely achieve all they can with a U.S. deal to support U.S. troop reductions or withdrawal. I suspect they will wait before coordinating an effort to again take over the political leadership though political or violent means.”
General Frank Kearney

Turkey and Syria: Update on the Conflict in the Idlib Region

As we reported in our previous [Around the World](#) issue, Turkey is engaged with its neighbor, Syria over the Idlib region. The civil war has resulted in a significant humanitarian crisis with Turkey taking in millions of Syrian refugees. However, the Idlib region, which was part of the Sochi Agreement that created a demilitarized zone, has been under siege by Syrian and Russian forces in recent months. Now there are a million new refugees and if Idlib falls, Assad will have taken the last remaining bastion of rebel held territory, with the help of Russia.

Turkey does not want this to occur for several reasons. But what makes this situation more interesting is the new dynamic between President Putin of Russia and President Erdogan of Turkey. While Putin has previously spoken directly with Erdogan about resolving the conflict, Russian air power has continued to pound rebel targets using the excuse of continued counter terrorism operations (there are Al Qaeda affiliates operating in the area).

Complicating matters further, late on February 27th, an airstrike (targeting terrorists and rebels) carried out by Syrian government forces killed 33 Turkish soldiers in the Idlib region. Turkish President Erdogan called President Putin to discuss the incident and Russia has denied any involvement in the strike. While both Turkey and Russia have been careful not to escalate the conflict, the risk of an accidental move by Russia that could result in a call for a NATO level response is growing. Meanwhile, President Erdogan is starting to apply pressure to the EU by opening its border for 72 hours to allow for fleeing refugees to enter Turkey – and Europe. The influx of Syrians into Europe would not be stopped by Turkey, which is clearly a move to push the EU (and NATO) to provide their support for Turkey in the conflict. With Russian frigates heading toward the Syrian coast armed with cruise missiles, it does not look like this situation will de-escalate anytime soon.

With Turkey not backing down from its demands, Turkey has reached out to the U.S. for help. Erdogan has requested U.S. Patriot missiles and the U.S. has voiced its support for Turkey. This may be the opening the U.S. needs to reengage with Turkey and prevent a key NATO ally from moving closer to Russia.

“Turkey’s request makes a political and military statement to Russian leadership. Obviously, Russian overt military support to Syrian government forces is a threat to Turkey both militarily and for accidental escalation. Patriot missile request may improve U.S./Turkish relations if the U.S. supports, which I suspect we will.” **General Frank Kearney**

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President Trump's Visit to India

This week, President Trump concluded his two-day trip to India visiting Prime Minister Modi. While a broader trade deal was not expected to be completed (the door is open for a more comprehensive deal), **India did agree to a \$3 billion arms deal. Both nations also agreed to increase trade in oil and LNG and ramp up technology transfer partnerships.**

This trip is very much in line with Academy's long-term view that as this administration treats China as a [Strategic Competitor](#) it will attempt to align with India. [See DIME Framework for China.](#)

A larger trade deal, that would grant the U.S. greater access to India's markets, could be possible by the end of the year. Recently, the U.S. became India's largest trading partner and as India continues to be an alternative to offset China, we expect the relationship between the two nations to grow even stronger.

*"This administration is doing the right thing by embracing India and focusing on India's promise as a reliable regional partner with as many riches as challenges. The U.S. is wise to encourage the former...technological innovation, military partnership, enormous trade, global leadership, while minimizing the latter...religious intolerance, vast economic disparity, and a fragile relationship with Pakistan, a nuclear antagonist." **General Spider Marks***

*"POTUS seemed well received and the U.S. is a counterbalance to Chinese economic power, which benefits India. A good relationship with India and Pakistan keeps the U.S. in the mediator role to buffer the routine challenges between the two nations. I suspect oil issues will be discussed in India as it concerns Venezuela." **General Frank Kearney***

New Sanctions on Venezuela

In an effort to continue to pressure President Maduro, on February 18th, the U.S. imposed new sanctions against Rosneft Trading, which is a subsidiary of the Russian Rosneft Oil Company. With Venezuela exporting ~70% of its oil through Rosneft, this action is designed to cut off the major source of funding that is keeping Maduro in power. Rosneft supplies oil largely to India and China and has met some of the demand from those nations as the sanctions on Iran have driven oil exports there to zero. In addition, on February 25th, the U.S. hinted at plans for additional sanctions targeting firms that buy oil from Rosneft.

This appears to be pointed more towards Indian (and Chinese) companies, as Reliance Industries and Nayara Energy are two Indian firms that are purchasing oil from Venezuela. The U.S. would clearly like to see India purchase more oil (as well as other items) from the U.S. and could use these sanctions as a tool to make that happen. Rosneft is also taking some oil to paydown the billions of dollars in loans owed by Venezuela to Russia and will have to decide to what extent it wants to keep supporting Maduro.

*"We won't intervene unless U.S. citizens are harmed/killed. As I was told by two neighboring South American Army Commanders in the region - no country can act in Venezuela as they will be blamed for all the challenges Venezuela is facing. If the U.S. does anything it plays right into the propaganda that Maduro and Chavez have been telling their people - that the USA is trying to overthrow the government. For a peaceful transition of power to occur, we need China or Russia to openly support Guaido as the legitimate President, forcing the Venezuelan military to reconsider supporting Maduro" **General K.K. Chinn***

*"The U.S. will continue to isolate Venezuela economically and diplomatically. Unless and until a popular movement in Venezuela that encourages senior military defections occurs, there are zero good military options. The key is to sequester Venezuela and cause real economic pain." **General Spider Marks***

*"Russia benefits from other oil provider sanctions both in Venezuela and Iran so Russia, while supportive of both Iran and Venezuela, benefits either way." **General Frank Kearney***

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Markets at a Glance – Extreme Volatility with Some Outliers

Country	Currency*	1 Week	1 Month	10 Yr Yield*	1 Week	1 Month	Stock Index	1 Week	1 Month
United States	98.13	-1.15%	0.12%	1.15	-0.32	-0.51	2,954	-11.49%	-9.83%
Asia Pacific									
China	7.0	0.81%	-0.20%	2.73	-0.12	-0.26	3,940	-5.05%	-1.59%
Korea	1,215	-0.44%	-3.23%	1.33	-0.14	-0.27	1,987	-8.13%	-8.72%
India	72.2	-0.75%	-1.17%	6.37	-0.05	-0.20	11,202	-7.28%	-7.08%
Indonesia	14,318	-4.06%	-4.94%	2.72	0.17	-0.05	5,453	-7.30%	-10.77%
Philippines	50.9	0.09%	-0.29%	2.30	0.08	-0.10	6,788	-7.90%	-9.12%
EMEA									
Russia	66.9	-4.42%	-7.40%	2.97	0.32	0.04	2,785	-10.33%	-10.54%
Saudi	3.8	-0.01%	0.01%	2.62	0.15	-0.08	7,628	-4.73%	-6.59%
South Africa	15.7	-4.37%	-7.63%	4.77	0.32	0.04	51,038	-10.98%	-8.45%
Turkey	6.2	-2.49%	-5.15%	6.61	0.83	1.12	105,994	-9.27%	-11.53%
Ukraine	24.6	-0.68%	0.46%	6.64	0.88	0.52	533	1.01%	5.56%
Americas									
Argentina	62.2	-0.60%	-3.37%	21.62	0.83	0.43			
Brazil	4.5	-1.90%	-6.72%	3.36	0.25	-0.19	104,172	-8.37%	-10.57%
Colombia	3,529	-4.36%	-4.24%	3.68	0.13	-0.19	1,550	-5.02%	-4.62%
Mexico	19.6	-3.96%	-4.92%	2.87	0.07	-0.22	41,324	-7.76%	-7.59%
Venezuela	73,511	0.21%	1.85%				1,550	-5.02%	-4.62%

Commodities								
Oil	1 Week	1 Month	Gold	1 Week	1 Month	Bitcoin	1 Week	1 Month
44.76	-16.15%	-16.31%	1,586	-3.51%	1.18%	8,671	-10.37%	-4.11%

It was an extremely volatile week, one where a flight to safety was obvious, with a few noticeable exceptions.

U.S. Dollar Weakness. One broadly based dollar index (DXY) rose 3.6% from the start of the year until it peaked on February 20th. It has decline 1.75% since then. We have seen similar movement versus the Euro and the Yen (the Yen has had some extreme intraday moves). **Benchmark currencies should not be moving 1% a day**, on a regular basis, yet it is starting to happen.

China has outperformed. The promise of stimulus and official data showing the spread has been contained and recoveries are on the rise helped Chinese stocks and their currency. It is interesting, to say the least.

Russia and Turkey have been hit hard. Certainly, they were caught up in the global carnage on the equity side, and the continued decline in oil hurt Russia, but **the performance of Turkish bonds was noteworthy.** From a macro standpoint, based on the geopolitical view we have, **Turkey remains not only an area to avoid investing in, but is also a potential risk to the European economy** as they (and their banks) have issued so much debt, much of which has found its way into weaker European banks. **Turkish bonds were the worst performing bonds** on our radar screen over the past week and month. That is an issue.

Oil. Nothing positive about the state of the global economy is coming from the oil market.

Gold and Bitcoin were weak. Gold’s inability to act as a hedge last week attracted a lot of attention. Were people just taking profits? **Could this be an indicator that China is truly under control?** Academy’s macro strategist often looks to Bitcoin as a potential leading indicator of what is happening in China as it is heavily traded there. If so,

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that might indicate that Chinese no longer feel threatened and are selling bitcoin, but he cautions, that in this case, it could be that the economy was hit so hard, that they **need to convert their bitcoin into goods and services, which would be a negative.** Or it could just be simply the usual shenanigans associated with bitcoin trading, but it is such an outlier and gold had such a similar pattern that it is at least worth thinking about what it could mean.

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ⁱ All data from Bloomberg. Prices as of Saturday February 29th, or as close as possible due to holidays or data availability. All bonds are as close to 10 year as possible. All bonds in USD except for India and South Korea which are local currency bonds.