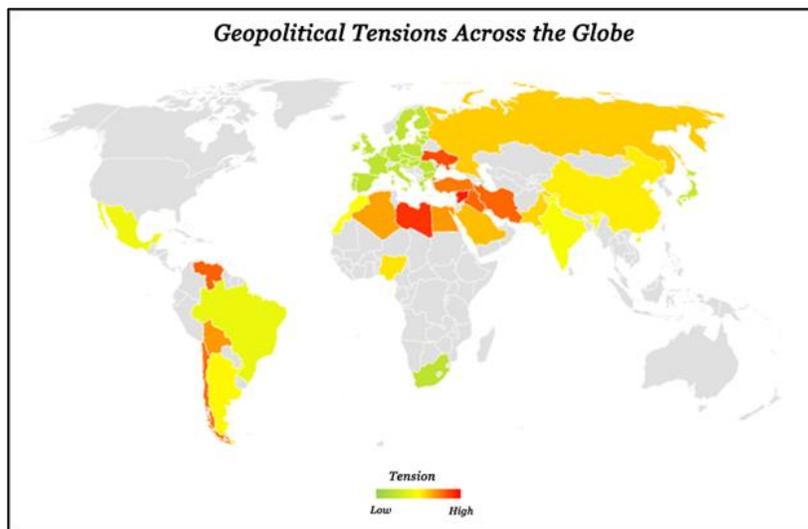


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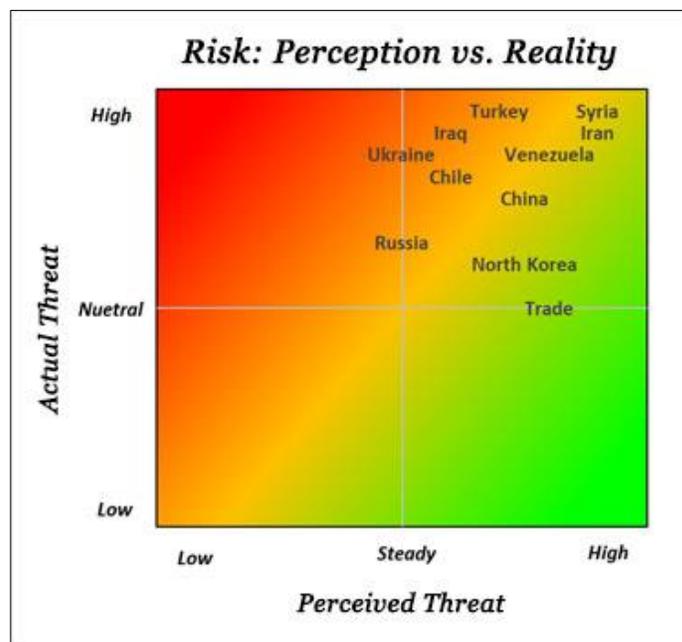
A lot has changed in the two weeks since the [inaugural Around the World](#) with Academy Securities was published.



The situation in Hong Kong has deteriorated and Academy sent out several interim updates from our Geopolitical Intelligence Group (“GIG”). From a macro strategy perspective, [we still expect global yields to head higher](#) over the coming weeks, though the shifts in the geopolitical landscape could force that view to change.

The **Middle East** continues to be a focal point for our work with much of the region showing up in red on our **Geopolitical Tensions Map**. **Hong Kong** deteriorated to the point that it is the focus of one of our **Front and Center** pieces below. In this piece, we look deeper into potential outcomes and the associated market impact.

In our **Risk: Perception vs. Reality™** chart we attempt to identify “outliers”. We think there are opportunities when markets seem to be pricing in more risk than we see. **North Korea and Trade** both show up in the ‘green’ zone because we see less risk than the market is pricing in - there is a possibility of ‘positive’ surprises if our assessment is correct. On the other hand, investors and corporations should be wary in countries where we see the risk being higher than the market is pricing in. **Ukraine, Turkey, Chile, Russia, and Iraq** all show up in the ‘red’ zone as we think the market is too complacent about potential risk. While we identify Syria and Iran as serious threats, both in the Geopolitical Tensions map and our Perception versus Reality map, they appear in the ‘yellow’ section as we believe the market is pricing the risk level appropriately. **Ukraine**, despite being high on our risk assessment and being in the headlines as the impeachment hearings began this week, saw its currency trade well.



We discussed North Korea as a potential surprise earlier this month and that has not changed. **Trade** has been the big concern for markets this week. The market continues to receive mixed messages on trade. The President spoke in New York earlier this week and in parts of his speech he seemed very positive on trade, but he did threaten larger tariffs. While markets have grown accustomed to this sort of behavior, the backdrop of more challenges in Hong Kong have put pressure on stocks and trade hopes. We address why we are more positive on trade than the market is at this point in our section on Hong Kong. **Iraq** is an example of how we think the market can lose sight of an ongoing and worsening problem, which is why we highlight Iraq in a **Front and Center** as well.

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Front and Center - Hong Kong

With the November 11th shooting of an unarmed student, protestors in Hong Kong have stepped up their demonstrations across the city. Roadblocks have been set up at major transit routes and dangerous standoffs with police have erupted near the Universities. As Academy reported in our [August 15 Geopolitical Podcast](#), the protest began in June over an extradition bill that has since been withdrawn. However, with the harsh police response to the initially peaceful protests, the situation has evolved from concern over an extradition bill to a larger movement focused on freedoms and autonomy. Protestors have called for amnesty and new elections, and a small number have resorted to violence to achieve their goals. With the situation escalating and showing no signs of abatement, it is unclear how this will be resolved. However, one thing is certain, according to Carrie Lam, Hong Kong's Chief Executive, "If there is still any wishful thinking that by escalating violence the government will yield to pressure...I am making this clear and loud here. That will not happen."

How China will ultimately respond is the real question. China will not agree to hold free elections in Hong Kong as they have said only someone loyal to the central government will run Hong Kong. It is also apparent that any independent investigation into police brutality will not appease the protestors. Beijing has supported Carrie Lam's actions to date and has held back on a Tiananmen Square like response -



which would be a terrible conclusion and would result in a mass exodus of businesses from Hong Kong. Making the U.S. response to the situation more complicated, is the current state of the trade negotiations with China. While there is rare bipartisan support for the protestors in Congress, the current focus of the President will remain on getting the Phase One trade deal signed.

"The Hong Kong protests continue to provide leverage for the U.S. in the ongoing trade negotiations with China. The government crackdown on the protestors is giving China a black eye politically across the globe. Last week's meetings between Carrie Lam, President Xi Jinping and Vice President Han Zheng, who is responsible for China's policy towards Hong Kong, signals China's continued heavy hand in Hong Kong. The shooting of a protestor by a Hong Kong police officer was seen around the world. The worldview continues to see the Chinese central government as pressuring Hong Kong leaders to crack down on the protestors. It also signals to the international community that China may not be ready to be the global leader it wants to be. The protests seen over the last few days are directly attributed to last week's meetings between Lam, Xi, and Han. They are a direct result of Vice President Han Zheng's announcement that Beijing plans to increase pressure on Hong Kong's leadership to impose new national security laws, preventing similar demonstrations. The protestors have now shifted their demonstrations away from Lam's recently rescinded extradition policy and onto calls for greater democracy and police accountability. This week's shooting will only accelerate those calls." **General Walsh**

"Having just returned from 10 days in China (Beijing and Shanghai speaking at several security forums) I would tell you that Hong Kong is a serious challenge for the PRC. Any information on what is going on is censored. Hong Kong is not really the concern...the concern is what happens if (when) the overall Chinese economy starts to deteriorate on the mainland. The average Chinese citizen is fine with PRC controls as long as the economic situation sustains their lifestyle - I saw more Teslas, Mercedes Benzes, BMWs, etc. than in the DC area (plus a couple of McLarens and Ferraris)—when that stops, there is concern that what is happening in Hong Kong will spread to the mainland, and the consequences could result in a variety of outcomes for CCP leadership—none of them positive." **General Deptula**

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The Yuan versus S&P Futures – Trading in Tandem



Our macro strategy is heavily influenced by the collective work of the GIG which continues to believe that China will act more with a ‘velvet glove’ rather than an ‘iron fist’ in Hong Kong. That is supported by the fact that China has not instigated any troop movements like they did this summer, further signaling that while the increase in tensions is real, it isn’t yet as problematic as during the summer. So, despite the awful headlines, trade talks should not get derailed by Hong Kong.

The economic data coming out of China remains weak. Yet another reason for China to accept a truce on reasonable terms. Ultimately, trade is a potential positive for the market, though we will be watching for any shift in sentiment out of D.C. In any case, **it was positive this week that the President delayed any tariff actions on EU autos** - as opening a trade war on several fronts is a horrible strategy.

Front and Center – Iraq

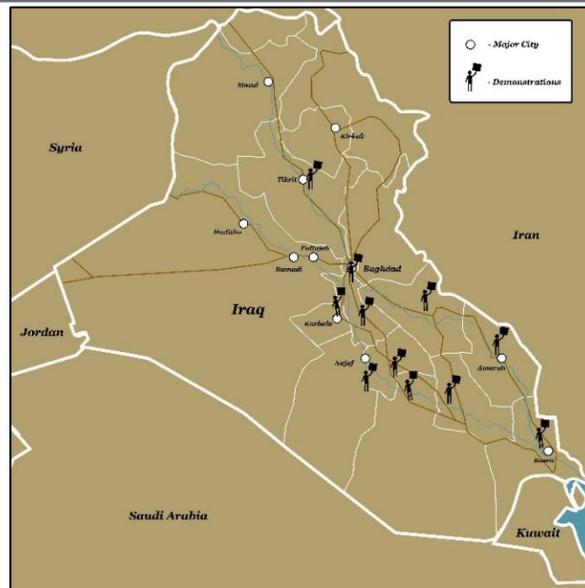
The unrest in Iraq that began six weeks ago has reached a boiling point. On October 1st, protesters took to the streets to voice concern over the lack of jobs and rampant corruption. These protests have been met with violence, killing over 300 and wounding nearly 15,000 since early October. The protesters are looking for large scale reform of a political system that was initially put in place after the 2003 U.S. led invasion of Iraq. The promise of only limited change has driven Iraqis to escalate protests, demanding the removal of the entire ruling class from power. The U.S. has tried to urge calm and recommends the holding of early elections. Prime Minister Adel Abdul Mahdi has offered to resign if a replacement can be agreed upon. At the heart of the issue is the vast amount of Iranian influence in Iraqi government. When the U.S. left Iraq in 2011, the Iranians took advantage and manipulated a new political system that divided power along religious and ethnic lines. Iran also took advantage of the rise of ISIS to further embed themselves and their ideals into the political framework of the country. These issues come as no surprise as the Head of the Iranian Islamic Revolutionary Guards Corps helped form the new government in Iraq.

“Social media savvy Iraqi youth are increasingly frustrated with Baghdad’s incompetence and corruption along with the influence of Iran’s Supreme Leader, Ali Khamenei’s, over the Iraqi government. Just last week, Iraq’s Prime Minister Adil Abdul Mahdi offered to resign - it is reported that the Commander of Iran’s Quds Force, Major General Qassem Soleimani, prevented Mr. Mahdi from resigning. Interestingly, the protestors who are largely Shia have awoken to the fact that Iran is exploiting them. Their most common chant heard has been “Iraq is free, Iran get

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out!” The biggest risk for the U.S. would be for an Iranian backed coup of the Iraqi government and a pro-Iranian, non-democratic government installed. This would put at risk the U.S. lives and money already lost in Iraq and the additional risk of Iran gaining greater influence in the Middle East.” **General Walsh**

“What we are seeing in Iraq reflects ancient animosity that is now visible on the surface. A democracy adjacent to autocratic regimes governed by radical Islamic clerics invites chaos. That’s what we’re seeing in Iraq today. Iran will extend its influence in Iraq’s elected body where it finds little resistance. It’s part of their strategy. The Sunni-Shia fault lines are hard drawn and are not easily erased or re-drawn. Both Iraq and Saudi Arabia will continue to defend their interests, but both nations remain vulnerable to external meddling, influence operations, and military attack. Tensions and the potential for conflict at multiple levels of war (tactical, operational, and strategic) are high. There is no reason to expect anything less menacing and destabilizing.” **General Marks**



While Iraq might have dropped from the day to day attention of the media, the problems are real and could erupt at any time. It’s an area we are keenly focused on as a potential negative shock to the global economy.

The spread of Iranian influence throughout the region is nothing new. Iran has been utilizing asymmetric warfare against Israel for years, but in the last 15 years, they have stepped up their regional ambitions and confronted U.S. forces in Iraq and Afghanistan (via proxy forces), expanded operations in Syria and opened up a front in Yemen against Saudi Arabia, which we discussed in our September 15th [SITREP](#) about the drone attack on Saudi Aramco’s oil installations. General Vince Stewart from our GIG, was on the ground in Saudi Arabia in mid-September:

“Saudi Arabia wants to demonstrate their resilience, get the refinery back online, and demonstrate restraint in the face of this attack – avoiding a wider, more destructive strike on the kingdom. To Saudi Arabia and Mohammed Bin Salman, their two greatest concerns are the Iranians (and their regional aspirations) and internal unrest in the kingdom that threatens the regime.” **General Vince Stewart**

With operations back up and running, Saudi Aramco is moving forward with their IPO plans. They recently said the offering period will begin on November 17th and close on December 4th. It will price its shares on December 5th, with trading on the Tadawul, the Saudi stock exchange, expected to start in mid-December. Of note in the prospectus is the discussion of risks associated with terrorism and armed conflict. “The Company’s facilities have been targeted by terrorist and other attacks. Most recently, in September 2019, the Abqaiq facility and the Khurais processing facility were subject to attack by unmanned aerial vehicles and missiles. Abqaiq is the Company’s largest oil processing facility and currently processes approximately 50% of the Company’s crude oil.”

“Iran has played just about every card in its deck to ease U.S. sanctions by attacking oil tankers and Saudi oil. This week, Iran followed through with its threat to enrich uranium at its underground nuclear site at Fordow. This is Iran’s most serious action so far to step away from the nuclear deal in hopes of driving a wedge between the U.S. and the European countries. Their objective is to pressure the Europeans into financial support thus easing the impact of the U.S. sanctions, forcing the U.S. into easing its maximum pressure campaign.

The foreign ministers of France, Britain, Germany, and the EU met in Paris and expressed deep concern with Iran’s actions. They went further in expressing their continued desire to bring Iran back into compliance with the nuclear deal. They don’t want to unduly pressure Iran into breaking free of the nuclear deal completely. President Trump has continued to say that such a move would be unacceptable.” **General Walsh**

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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	98.34	0.20%	-0.11%	1.83	-0.09	0.10	3,094	0.29%	4.31%
Asia Pacific									
China	7.0	-0.78%	0.62%	3.25	-0.02	0.09	3,906	-2.15%	-1.20%
Korea	1,170	-0.89%	1.28%	1.79	-0.04	0.30	2,139	-0.24%	3.47%
India	72.0	-1.41%	-1.04%	6.52	0.01	-0.16	11,872	-1.17%	4.68%
Indonesia	14,089	-0.65%	0.36%	2.99	0.01	0.10	6,099	-1.08%	-0.46%
Philippines	50.7	-0.37%	1.72%	2.81	0.09	0.30	7,934	-1.74%	0.63%
EMEA									
Russia	64.2	-1.02%	0.20%	3.31	-0.08	-0.19	2,916	-3.08%	8.10%
Saudi	3.8	0.00%	0.03%	3.00	-0.04	0.04	7,924	1.61%	4.28%
South Africa	14.9	-0.83%	-0.32%	4.99	0.03	0.17	56,292	-2.07%	1.94%
Turkey	5.8	-0.18%	2.77%	6.27	-0.16	-0.71	103,393	-0.15%	10.01%
Ukraine	24.2	1.13%	1.25%	7.04	0.08	-0.17	518	0.00%	-1.52%
Americas									
Argentina	59.7	-0.19%	-2.89%	24.36	0.57	4.31	28,161	-10.01%	1.88%
Brazil	4.2	-2.08%	-1.46%	3.85	-0.06	-0.05	105,890	-3.37%	1.52%
Colombia	3,454	-4.03%	-0.64%	3.15	-0.05	0.08	1,624	-1.90%	2.10%
Mexico	19.5	-1.67%	-0.94%	3.38	-0.04	-0.02	43,099	-2.31%	-0.46%
Venezuela	27,927	-18.82%	-41.70%				1,624	-1.90%	2.10%
Commodities									
Oil		1 Week	1 Month	Gold	1 Week	1 Month	Bitcoin	1 Week	1 Month
	57.56	-0.72%	-7.41%	1,468	0.06%	1.66%	8,665	-5.92%	3.85%

Source: Bloomberg. US Currency is DXY. China, Korea and India are local currency bonds, the remainder are US denominated bonds. Data as of 11/14/2019.

A Tough Week for Asian and South American Currency and Stocks

Emerging market currencies across the globe were weak, led by China and renewed trade tensions. For most countries it was a sharp reversal from recent strength, which had been driven by hopes of an imminent Phase 1 deal, or trade truce with China. Stocks were hit across Asia and South America. Ukraine was not affected at all and is the sole currency we look at that exhibited strength last week.

A Boring Week for Bonds

Bond yields were relatively flat, except for **Turkey**, which continued to see bond yields improve. They are now over 70 bps tighter on the month. The recent visit to D.C. by Erdogan may have helped and while there are signs that tensions are easing with Turkey, little has changed regarding our concerns about Turkey’s long-term direction and coziness with Russia.

Oil Declines

Oil prices continue to decline. Renewed concerns about trade put pressure on the demand side and with Turkey doing better and Iran doing nothing new, the supply side didn’t help prices either. Finally, with the Aramco IPO in the works, there is some volatility hitting the oil markets as potential investors try to evaluate the long-term potential for this global giant.

Expect Bitcoin’s Slide to Continue

It is a bit surprising that Bitcoin fell again, given that this week, global trade tensions increased and even gold managed to eke out a gain. The hype surrounding its surge above 10,000 on the back of Xi’s pledge to focus on blockchain is almost a distant memory.

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Around the World

Chile

The protests are ongoing and further disrupting high profile events, including the recently cancelled APEC summit. The Chilean president now has a 13% approval rating and aid packages to small businesses disrupted by the protests will need to kick in or Chile will face a recession. The unrest is hitting the Chilean Peso, with the currency falling to a record low against the dollar. However, after weeks of protests, President Pinera has agreed to start the process of drafting a new constitution. Whether this effort will satisfy the protestors demands to address inequality, is yet to be seen. Since the demonstrations began three weeks ago, five people have been killed and over 1,000 have been wounded.

“Chile is regarded as Latin America’s most stable economy and will work through the current challenges. The protesting and rioting in Chile were big surprises to all in the region as was the recent resignation of Evo Morales as the President of Bolivia. Interesting in that the Organization of American States (OAS) played a constructive role in findings of irregularities in Bolivian voting (provides future opportunities in the region to capitalize on the constructive role of OAS) and that popular mobilization was able to push back against the Left WITH the support of other institutions like the military. This demonstrates that countries like Venezuela and Nicaragua need to be concerned with “people power” and the support of the military, which means they will continue to emphasize security versus individual freedoms. However, what happened in Bolivia also means that with persistence, anything is possible, and it could happen very quickly, surprising everyone.

Specifically, regarding Bolivia, a question is being asked in the region: is this democracy restored or democracy denied? OAS said there were voting irregularities in the election and could not validate the election. In Bolivia, we will need to wait about two weeks as Morales still has some cards to play but expect that there will be new elections, potentially before the end of the year.” **General Chinn**

Russia

With the civil war in Libya entering its 5th year, Russia is taking a more direct approach in the support of Khalifa Hifter in his war with coalition militias who support the UN established (U.S. backed) government in Tripoli. Advanced weapons are being deployed to the area in addition to Russian mercenaries. Libya currently pumps 1.3 million barrels of oil a day and with its proximity to Italy across the Mediterranean, thousands of migrants bound for Europe begin their journey there. The stakes are high, and Russia is taking a page out of the Syria playbook to expand their influence strategically.

“Russia continues its anti-American mission across the globe and is now beginning to show more signs of exerting its influence in Libya by increasing its military involvement. Putin is not expected to deploy a large intervention force in Libya because he is still heavily entangled in Syria along with having Russian forces still deployed in Venezuela to support Maduro. Russia has been slowly increasing its presence across Africa and in Libya.

Putin is again taking advantage of a war fatigued U.S. to exert its influence at our expense. The deployment and introduction of private mercenary forces follows a similar pattern that Putin successfully used in Syria where he ultimately became the major power broker after the U.S. reduced its forces and announced its intention to leave. While this new initiative by Putin inserts Russia as a major player in Libya, it has far less capability and capacity to deploy forces around the globe than it did during the Soviet Union era. Egypt’s purchase of Russian airplanes is another example of our increasing competition with Russia and China across the globe. Unlike China, where the competition has been primarily economic, Russia competes mainly through its military power and influence - to include weapons sales. Putin is gaining influence across the Middle East and Africa as we see in Syria, Libya, and Turkey.

Selling Russian aircraft to Egypt gains Putin influence while driving a wedge between the U.S. and Egypt. President

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Trump has expressed his good relationship with Egypt's President Sisi. This is another case of a foreign leader playing both sides, as has Turkish President Erdogan. While this is not as serious as Turkey, a NATO ally buying Russian military equipment, it does further Putin's intent to restore Russia's influence and glory back to the Cold War days."

General Walsh

"For many years the Russians have sold arms to the Egyptians. In most of the Arab Israeli conflicts, Egypt and Syria used Russian Tanks, personnel carriers, and MiGs. These arms sales return Russian influence to the Middle East in more than an advisory capability and continue to show an erosion of U.S. influence with some allies and partners. This also is something that Putin will point to at home as he rebuilds the Russian national identity." **General Kearney**

"Sisi is hedging his bets in case President Trump isn't reelected and ultimately is diversifying his military resources. Egypt is looking to Turkey and seeing no real repercussions for their purchase of Russian anti-aircraft systems. This is now precedent for our historic allies in the region." **General Marks**

Turkey

President Trump's meeting with Turkish President Recep Tayyip Erdogan on November 13th was critical on several fronts, the most important of which is the purchase of Russian S-400 surface-to-air missiles by Turkey. President Trump has threatened sanctions as a result of the purchase and Turkey has been removed from the F-35 program. A NATO ally acquiring a sophisticated Russian made missile system puts U.S. air forces at risk in the region. While this is a major threat, the real concern is that Turkey is getting closer to Russia and beginning to distance itself from the United States and NATO - an unacceptable outcome.

"President Trump's ultimate acceptance of President Erdogan's decision to invade Syria, expel Kurdish forces, and institute a "safe zone" has given President Trump leverage over President Erdogan over his decision to purchase the Russian S-400 surface-to-air missile system. The U.S. and NATO have said the S-400 system is not compatible with NATO forces and it will compromise the F-35 program and ultimately cancelled Turkey's participation in the program. Congress shows bipartisan support for sanctions on Turkey after the purchase Russian military equipment. This will cause President Trump to take Congress seriously despite his expressed personal relationship with President Erdogan. His goal is to do everything he can to pressure Erdogan to keep Turkey in NATO." **General Walsh**

The meeting seemed to go well but the question remains, has Turkey altered its path away from Russia or is this just a temporary reconciliation? Given the amount of foreign denominated debt that Turkey and its banks have issued, this is not a trivial question. We remain wary and we have already seen the currency give back some recent gains (though the bonds are trading well).

China/Vietnam

China claims sovereignty of over 80% of the South China Sea. With the ramming and sinking of a Vietnamese fishing vessel by a Chinese ship, the dispute over the ownership of these waters will only intensify.

"China and Vietnam have been at odds over China's territorial claim over waters in the South China Sea. Tensions are expected to rise even higher next year as Vietnam takes the Chairmanship of the Association of Southeast Asian Nations (ASEAN) and potentially drives the agenda in Vietnam's favor. Vietnam said it is considering taking legal action against China in the same way that the Philippines was successful in doing so in 2013. China has not conformed to the decision made by an international court of arbitration at The Hague. In response to Vietnam's announcement, China's foreign minister asked Vietnam to not complicate matters in the South China Sea. China continues to bully their neighbors over territorial rights by treating the South China Sea as its own territory through actions by their civil maritime fleet, their Coast Guard, and their Navy. Vietnam is expected to use ASEAN as a mechanism to gain greater unity amongst the ASEAN nations that are not as friendly towards China." **General Walsh**

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India

In early 2019, both India and Pakistan conducted airstrikes and risked potential war over Kashmir. However, the recent opening of the Kartarpur Corridor will allow Indian Sikhs to visit Gurdwara in Pakistan without a visa. While tensions have cooled between the two nations, recent events in India have elevated its profile on the world stage.

“India and Pakistan have been at odds over Kashmir since the partition of India in 1947. There have been periods of violence in the past and there will be more in the future. India’s recent satellite launches makes them only the fourth country to possess this type of technology. Along with their nuclear weapons, this makes them a much more significant regional power. This recent technical demonstration, along with their people power sends a signal to the world that India should be recognized as an emerging global power. Alignment against China, based on historical territorial disputes and China’s siding with Pakistan, moves India closer to the U.S. - which is ultimately very good for the U.S. and American businesses. We see this in the recent alignment between President Modi and President Trump. I also believe our past patience with Pakistan has been almost exhausted in Afghanistan and is another factor in our willingness to align more closely with India to deter China. The bottom line is that there are many opportunities for the U.S. both economically and diplomatically and we can expect continued closer relationships.” **General Walsh**

From a macro standpoint, potentially aligning ourselves with India could be a strategy to help reduce our dependence on China. India has growth potential and has a political system that is a little more familiar to us than China’s. The potential for stronger economic ties to India could influence policy in the region.

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