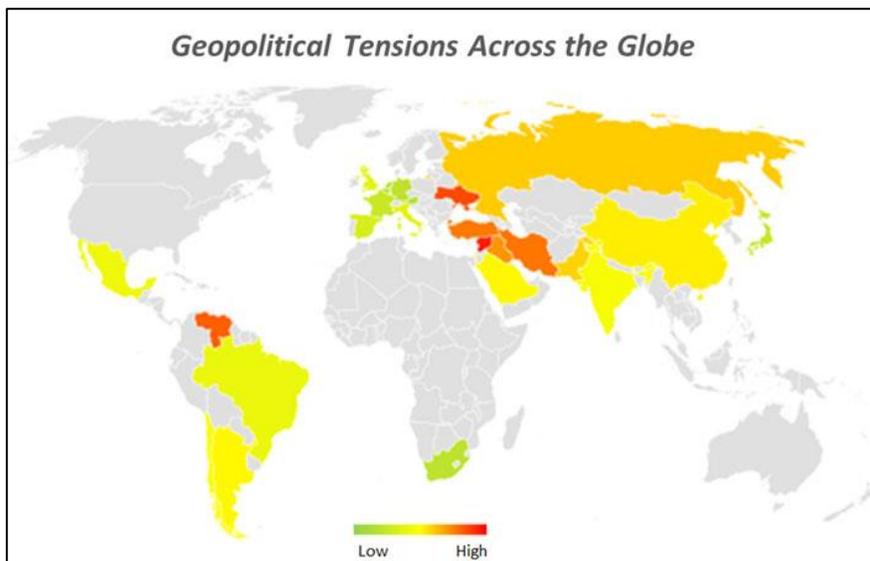


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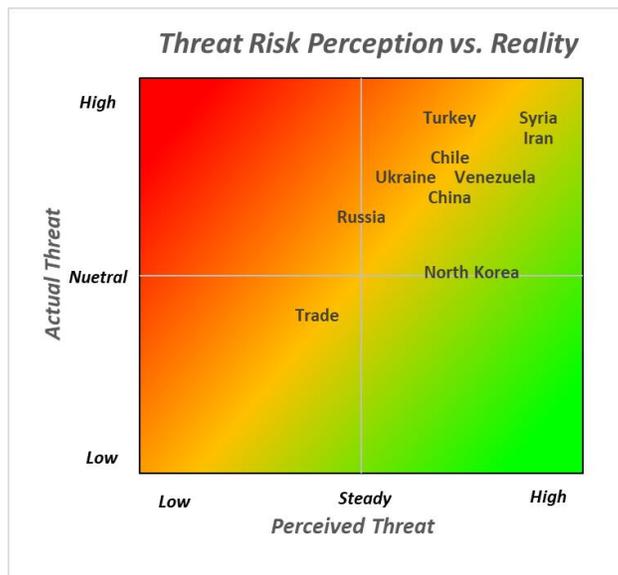
We are pleased to launch this bi-monthly publication. Academy’s [Geopolitical Intelligence Group](#) (the “GIG”) is a group of 13 retired Generals and Admirals who are constantly monitoring the world to identify shifts in geopolitics and assess and evaluate likely scenarios. We focus our surveillance and risk assessment on areas and regions that are likely to impact markets – from stocks, bonds and currencies, to energy and gold.

This publication supplements our [SITREPs](#) and [Podcasts](#) which are time sensitive, deeper dives into issues impacting markets and businesses. In *Around the World*, we will ensure our insights across the globe are consistently updated to keep you abreast of potential events that can impact global markets. We are also incorporating our [Macro Strategy](#) to identify how geopolitics is likely to move markets and alter economic conditions.

The current focal point of our efforts is the Middle East. Events in Turkey, Syria, Saudi Arabia, and Iran are all crucial to global stability. **Russia** is always high on our list, as is **China**. **Ukraine** and **Venezuela** continue to attract the GIG’s attention. **Chile** recently erupted into an area of concern.



Other countries and areas are more stable, for now, but we continue to monitor.



Alternatively, we also examine the world through the lens of what level of risk we believe the market is pricing in, versus what we think the real risk is. **Turkey** is an area that stands out as being riskier than the market currently believes and we delve into Turkey in our “Front and Center” section. **Ukraine** and **Russia** warrant further scrutiny on this measure, while, surprising to many, **North Korea** could have a positive impact where the perception of risk may be too high. **Trade** has slid from a positive factor to a neutral one as progress with **China** slowed materially.

Front and Center – Turkey and Syria

On Saturday, October 26th, U.S. Special Operations forces conducted a raid in northwestern Syria that resulted in the death of Abu Bakr al-Baghdadi, the leader of ISIS. U.S. forces launched

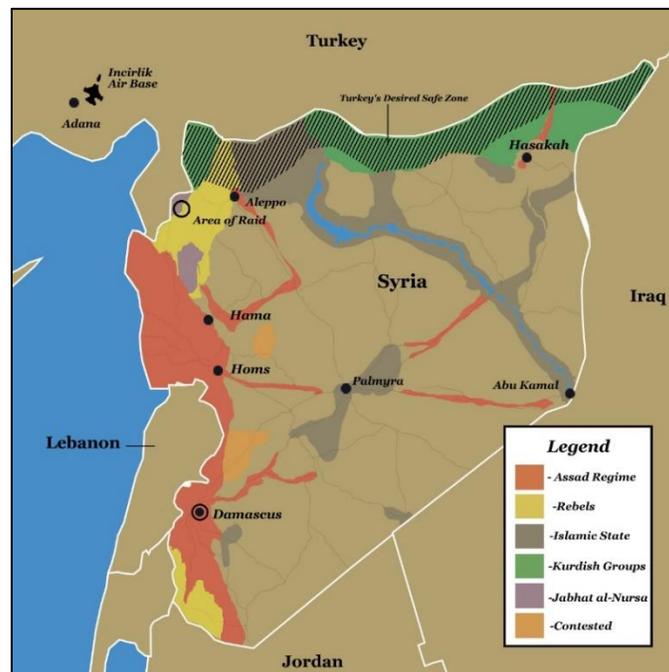
a daring operation where eight helicopters flew over an area controlled by Russian and Syrian forces. Russia and Turkey had been briefed in advance to ensure the safety of the aircraft which flew for an hour across territory that contained advanced Russian supplied air defense systems. As the team landed at the target site, they encountered resistance and pursued al-Baghdadi into an underground tunnel. Fearing he had an explosive laden vest, a military dog was sent in to chase al-Baghdadi, who had taken three of his own children with him, likely to be used as human

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shields. He detonated his vest killing himself as well as his children. DNA evidence collected at the scene confirmed that this was in fact al-Baghdadi, ending a five-year search for the ISIS leader.

This raid occurred as the U.S. is adjusting its presence in Syria. Earlier in October, the U.S. announced that it would pull out most of the 1,000 troops stationed there in advance of a Turkish incursion into northern Syria. On October 6th, President Trump announced the pull out and Turkey launched its attacks on the Kurdish forces shortly thereafter. With Turkey being a NATO ally, the withdrawal of U.S. forces was meant to avoid a potential conflict between the allies.

However, since the U.S. announced its intention to pull troops out of Syria, there has been a lot of confusion and disagreement. In our October 9th Geopolitical [SITREP](#) titled *Violence Between U.S. Allies*, General Deptula said “in the long run, it won’t make any difference, much of the attention paid is hype. A thousand or so U.S. boots on the ground in Syria will make no difference in the Turkish/Kurdish balance of power. The U.S. does not need military on the ground to come to the aid of Kurds if necessary. Air power can do that more rapidly and more effectively.” However, with respect to how this will impact the Kurds, General Kearney said, “Our departure leaves a partner (the Kurds) alone and unprotected against what most expect will be a Turkish limited invasion to kill as many PKK as they can with little discrimination as to who is and is not PKK. Our departure is advantageous to Russia and Iran and may solidify those relations with the Turks and the Assad government.”



General Walsh followed the SITREP up with a [podcast](#) focused on our Strategic Partnership with Turkey. He made several key prescient points such as, the U.S. may attempt to slow down the Turkish offensive, establish a no-fly zone, and hopefully reestablish negotiations. A ceasefire was declared a week later, and the U.S. lifted the threat of sanctions if Turkey abided by the rules of the ceasefire agreement. There have been small skirmishes since the ceasefire began, but it appears to be holding. Of more concern is the fact that a U.S. withdrawal puts the future of northern Syria in the hands of Erdogan, Assad, and Putin. This leads us to our most pressing concern: Turkey, our NATO ally, is getting closer to Russia than the U.S. Our Geopolitical Intelligence Group also remains concerned about [Turkey purchasing advanced Russian surface to air missile systems](#). There is a chance, however, that the concessions the U.S. has made to Turkey in the buildup and aftermath of their invasion of Northern Syria was done to try to repair relations with Turkey.

With respect to potential scenarios unfolding, we see the following key points to keep in mind:

- *Will the ceasefire, established on October 17th, remain in place and does Turkey resist the temptation to escalate in Syria?*
 - Outside of small skirmishes, we believe that Turkey is unlikely to escalate the fighting in northern Syria as long as its objective (the creation of a buffer zone) has been achieved.
- *Moving forward, will Turkey differentiate between Kurds in the PKK and Kurds not in the PKK?*

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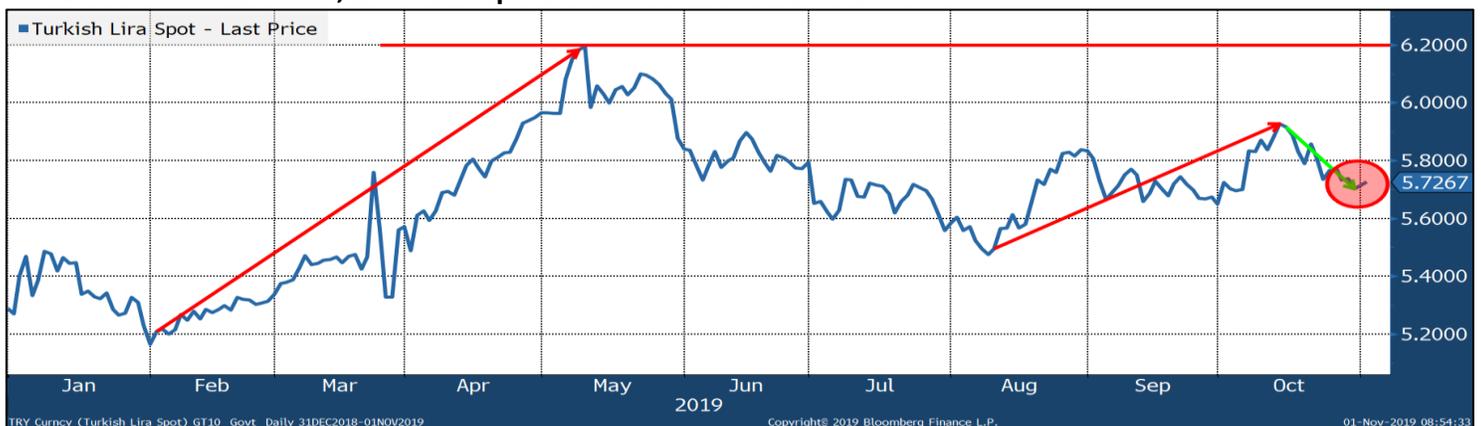
- Both Turkey and the U.S. consider the PKK a terrorist organization. It is reasonable to assume that Kurds fighting for the PKK would be targeted and that would be acceptable to the U.S.
- *What can the U.S. do to mitigate any potential for ISIS resurgence or prisoner escape?*
 - The U.S. has significantly less control over what happens with no troop presence.
 - The highest priority for the U.S. is to ensure the security of the ISIS prisoners and keep the pressure on ISIS. Considering the deal the Syrian Democratic Forces made with Assad, the leverage the U.S. had to date is significantly diminished.
 - The U.S. will likely have to encourage Turkey to engage with the SDF to come to some kind of security assurance. President Trump thanked the Kurds for their role in the targeting of al-Baghdadi and the U.S. will need their help in the future.

“This past weekend’s raid into northwestern Syria will do little to impact U.S. policy in the region. In fact, ISIS is now likely mutating like a virus. It can name a new leader and rally as is. It can split and have factions go to Al Qaeda, where it was born as Al Qaeda in Iraq, or it could use its money to inspire global attacks and focus on growing its virtual caliphate. Syria remains in chaos - so opportunities to fill the physical void with leadership and gain local followership exists. The more prolonged the chaos, lack of governance, and failure to rebuild, the better for ISIS and violent extremism. The displaced need to feed their families, and while not their past style, ISIS could take a lesson from Hezbollah and provide aid to those in need. The intelligence from the raid will and already has led to rapid strikes but will also cause ISIS to look internally and change behaviors and communication styles as a response. As it stands, the U.S. still has no clear policy and the move to defend the small oil fields in eastern Syria looks like U.S. adventurism in the region - we have no authority to seize or protect those fields. The logistics and infrastructure (armor and mechanized infantry units) required to maintain control of these fields will ultimately expand our footprint in Syria.”-General Kearny

“Turkey’s action in northern Syria are unilaterally criminal. It should be demarcated by the U.S. and NATO as a first step to the threat of dismissal from NATO. However, the U.S. and NATO must do everything they can to ensure Turkey stays in NATO. Russia would step in quickly to exert influence and primacy. Clearly, this is not a favorable outcome and the U.S. must lead and work through this.”-General Marks

From a macro standpoint, Turkey is highly relevant. The country and its banks have issued large amounts of foreign denominated currencies. Turkey, at the sovereign level, has issued almost \$70 billion of foreign denominated bonds, rated B1 by Moody’s. These high levels of debt mean that problems in Turkey could quickly become problems elsewhere.

The Lira Remains Volatile, But Has Improved Since a Truce Was Announced.



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The Turkish Lira had significant problems earlier this year as a confluence of events drove the currency weaker. Some of the rebound in the currency can be linked to Erdogan’s party losing Istanbul’s election for mayor. The prevailing view then was that Erdogan would step back from some of his policies that were hurting markets. That positive view did not hold, and we saw the currency suffer a significant decline from the late summer until the middle of October.

The currency did not get as weak in October as it did in May when it reached 6.2 Lira to the dollar, and it has rallied since the truce. Both of those are positive factors but given all the touchpoints that the U.S. currently has with Turkey and how many seem fragile at best, **our macro strategist believes that this is just the calm before another storm.** The ten year Turkish USD denominated bond yield is 6.6%, its lowest yield since July 2018, and well below the 8.3% yield it reached in May of this year – once again, from a trading standpoint, profit taking is in order and we would thoroughly re-assess any exposure to Turkey (please reach out to your coverage officer at Academy Securities to set up a meeting or conversation with members of the GIG to discuss in more detail).

Markets at a Glance

Before highlighting what our GIG is observing and anticipating in other countries and regions, we think it is helpful to take a broad snapshot of markets to see what has moved, especially as we attempt to link market views to our geopolitical intelligence.

Country	Currency*	1 Week	1 Month	10 Yr Yield*	1 Week	1 Month	Stock Index	1 Week	1 Month
United States	97.35	-0.29%	-2.08%	1.69	-0.08	0.03	3,038	0.91%	2.04%
Asia Pacific									
China	7.0	0.38%	1.33%	3.28	0.06	0.14	3,887	0.42%	1.89%
Korea	1,164	0.80%	2.73%	1.73	0.09	0.27	2,083	-0.10%	0.99%
India	70.9	0.13%	-0.08%	6.45	-0.05	-0.25	11,877	2.55%	3.51%
Indonesia	14,041	0.13%	1.08%	2.95	0.00	-0.02	6,228	-1.76%	0.96%
Philippines	50.8	0.93%	2.05%	2.66	0.01	0.13	7,977	0.33%	2.55%
EMEA									
Russia	64.1	-0.10%	1.11%	3.35	-0.08	-0.16	2,894	0.59%	5.34%
Saudi	3.8	0.00%	0.03%	2.94	0.01	0.08	7,744	-2.14%	-4.30%
South Africa	15.1	-2.72%	0.23%	4.95	0.24	0.07	56,425	1.71%	2.92%
Turkey	5.7	0.88%	-1.12%	6.59	-0.11	-0.13	98,469	-1.87%	-6.25%
Ukraine	24.7	1.06%	-1.52%	6.89	0.11	-0.61	522	0.02%	-0.56%
Americas									
Argentina	59.7	-0.09%	-3.58%	23.15	1.68	1.41	30,563	5.18%	20.34%
Brazil	4.0	0.61%	3.32%	3.83	-0.05	-0.12	107,220	0.22%	2.36%
Columbia	3,380	0.78%	2.80%	3.07	0.01	-0.03	1,633	1.06%	3.50%
Mexico	19.2	-0.51%	2.54%	3.27	-0.04	-0.15	43,337	-1.00%	0.76%
Venezuela	24,385	-31.35%	-16.11%				1,633	1.06%	3.50%

Commodities									
Oil	1 Week	1 Month	Gold	1 Week	1 Month	Bitcoin	1 Week	1 Month	
54.18	3.65%	-0.20%	1,513	-0.60%	-2.14%	9,189	23.24%	11.51%	

US Currency is DXY. China, Korea and India are local currency bonds, the remainder are US denominated bonds. Data as of 10/31/2019.

There are a few themes that jump out:

- **Dollar Weakness.** The dollar (as measured by DXY) has weakened 2% in the past month and you can see that it weakened significantly against most of the currencies we track here.
- **Stable Bond Yields.** With the exception of a relatively large move in South Africa (25 bps higher on the

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week) most bonds held a relatively narrow range (Argentina is an exception, but that volatility has become the norm there).

- **BITCOIN.** According to the state-funded Xinhua news agency, Xi stressed that it is “necessary to strengthen basic research, enhance innovation, and strive to let China take the leading position in the emerging field of blockchain, occupy the commanding heights of innovation, and gain new industrial advantages.” ([source](#)) That announcement caused bitcoin to spike over the weekend, briefly trading above 10,000. It has faded as many point out, rightfully so, now that Xi promoted blockchain and not bitcoin. Our macro strategist, who does keep an eye on bitcoin, thinks this rally will continue to fade, but **it is interesting that bitcoin did so well, while gold extended losses.** China’s focus on blockchain is disturbing on another front as the race for cyber and quantum computer supremacy is a race we must win, and China remains a staunch and focused rival in those areas.
- **Oil Finally Bounced.** With all the problems in the Middle East, oil has generally slumped. WTI is well off its September high of 63, when it surged on Iranian escalation. Global demand remains the problem. Concerns about global demand, as country after country post weak economic data, have been a bigger driver than dollar weakness and geopolitical risk for the past month. **We are eyeing oil closely as a potential buying opportunity.**

Around the World

We briefly touch on issues facing countries and regions where the GIG has been focused. Several of the generals and admirals have been in key areas like Saudi Arabia, South America, and China in the past month. That local contact is crucial to our success in evaluating the globe. General Walsh in particular was dedicated to assimilating the information from his peers to help form our views.

China and Trade

At this moment in time, trade talks with China are the key driver for markets. Yes, Brexit remains an issue, but it continues to be incredibly confusing to follow and handicapping any outcome has been extremely difficult (also, almost pointless, as markets time and again fail to make large moves on Brexit headlines). The President has been quiet on trade, with respect to Europe, which we view as positive since opening trade wars on multiple fronts is not a good idea.

On trade, two issues are currently weighing on the market:

- **The timeline for signing the so-called Phase 1 deal, is repeatedly getting delayed.** Since it is more of a truce than anything, it isn’t crucial that it gets signed, but, given the ebbs and flows of the negotiations, we are increasingly fearful that the longer it gets delayed, the more likely we are to implement previously scheduled tariffs.
- **China downplaying the possibility of a larger deal.** While the President has generally been positive on the progress, China is sending signals that a full-blown deal may not be in the works. Given recent economic weakness, like the **extremely weak Chicago PMI** data on Thursday October 31st, the need for a deal to support stocks is real. The 43.2 print was the lowest since December 2015 and the second lowest since 2009 when we were near the depths of the financial crisis.

For now, we still believe that Phase 1 will be agreed to and that the recent ‘no deal’ talk from China is merely posturing to enhance their negotiating position. However, trade has shifted from a positive potential for markets to neutral (that shift is concerning, and we are working with our network to evaluate how real the risk is).

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Hong Kong is another issue impacting our relationship with China.

“Protests are not letting up since there does not seem to be much compromise by the Chinese supported Hong Kong government, led by Chief Executive Carrie Lam, in meeting the protester’s demands. The political stalemate is centered on the protester’s demands of releasing arrested protesters and holding an independent inquiry into police actions, while the government actions remain focused on upholding the rule of law. There is a fine line between Hong Konger’s support for the protesters and concerns that Hong Kong could become viewed as an unstable economic center. The Vice President’s speech last week accused China of blocking “rights and liberties” in Hong Kong and was a clear message of the Trump administration’s continued competition with China across all fronts.”-General Walsh

Chile

The state of emergency declared in the Chilean capital of Santiago is a result of the largest civil unrest since the military dictatorship of Augusto Pinochet - based on the number of protestors and the measures taken by the government. The protests have already caused Chile to cancel the APEC Summit and we expect further economic challenges to be created. **The Chilean Peso has dropped 4% in the past two weeks.** So far the dollar denominated debt in Chile has been stable, but that could be at risk if the protests get worse.

Chilean President, Sebastian Pinera, is trying to get the protestors to cease their protests by initiating a range of social reform measures. It is unclear whether these measures will significantly impact the protest movement and the unrest as they have called for Pinera’s resignation.

“The cultural agenda of the left in South America is taking root by protest organizers. These protests take legitimate longstanding grievances over inequality, government performance, etc. and recruit both indigenous and urban protesters in many vulnerable democratic countries throughout the region. We currently see it with Chile, leading to concessions by the ruling government.” -General Chinn

Ukraine

Ukraine, already a difficult situation with the Russians causing problems in the Donbass region, has been thrust into the middle of the impeachment debate. **Along with Turkey, this is a region that Academy feels strongly that the world isn’t as concerned about as it should be.**

As General Walsh notes, the U.S. has provided more than \$1.5 billion in security assistance to Ukraine since Russian supported separatists began their offensive in eastern Ukraine. The U.S. support dwarfs any other country’s security assistance and sends a clear signal to both Ukraine and to Russia that there is no more an important Ukrainian ally than the U.S. U.S. supplied equipment is aimed at border surveillance, defensive capabilities such as counter-artillery radars, electronic warfare detection systems, secure communications, and night vision equipment. Offensive supplied systems included sniper rifles and anti-tank weapons, along with military medical supplies and treatment capabilities. The supplied equipment also ensures Ukraine’s military capabilities continue to progress toward NATO interoperability.

U.S. supplied defensive systems, like counter-battery radars, have significantly increased the survivability of Ukrainian military units by helping them locate and track incoming mortars and short-range artillery fire. Additionally, Russian forces are using Ukraine as an experimental training ground for Russian equipment as they have done in Syria. It also provides the U.S. a look into next generation warfare and how the Russians plan to conduct it in the future. Russian-supplied cyber and electronic warfare operations were an awakening for U.S. forces that were previously focused on lower sophisticated counter-insurgency operations.

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“Russia is emboldened by the U.S. “qualifying” the military aid to the Government of Ukraine. Russia’s actions in Crimea are actively contesting U.S. influence in the region. U.S. foreign policy has become unpredictable and is causing partners and allies to hesitate and question U.S. commitment. This falls right in line with Russian strategy to weaken the fabric of our alliances. The U.S. appears to no longer have the global calming hand.”-General Marks

Russia

The big winner in the geopolitical game of late has been Russia. **Russia continues to reap diplomatic, economic, and military benefits from the chaos that is occurring across the Middle East and Africa.** As during the Cold War, Russia’s influence will not come from financial support, due to Russia’s financial constraints, but instead it will come through military support and its diplomatic/information efforts. All of which are providing increased global Russian credibility.

Moscow has resurrected its influence in Turkey as it takes on the role of key power broker in the region, driving a wedge between Turkey, the U.S., and NATO. **Putin has executed a deliberate plan to be the lead actor in the region** by gaining influence with both President Bashar al-Assad in Syria and President Recep Tayyip Erdogan in Turkey.

North Korea

We highlight North Korea as a potential positive surprise. While everyone has been focused on their military provocations, that has calmed down significantly and shows little sign of re-escalating.

General Tata has an interesting theory. While it is not his base case, he does see a path to North Korea opening itself up for development. The current ‘end game’ scenarios for Kim seem to end badly for him and his regime. If, however, he could open his country to growth, he might be rewarded by the global community and extricate himself from isolation, while providing his people with a path to prosperity. The General points out that North Korea actually has more arable land than South Korea and the border was ‘arbitrary’ - supporting the view that they could successfully open their economy and experience great growth.

Given that the President seems comfortable dealing with Kim, if he could broker such a deal it would be a big win and great for many American manufacturing firms and the global economy.

South Korea and Japan

Recent tension between South Korea and Japan over trade and intelligence sharing is allowing North Korea to exploit the existing schism created to their advantage. The recent reported failure by the Japanese Self-Defense Forces to track North Korean land-and sea-based short-range missiles, while the South Korean air defense systems successfully tracked them, indicates a real need for the two militaries to work more closely for each other’s benefit. This highlights the necessity to maintain the existing intelligence-sharing pact between the two countries that is at risk and set to expire in November.

This conflict between intelligence sharing partners increasingly strikes at the larger U.S. regional objective of countering China through alliances and partnerships. There has been no greater partnership within the Indo-Pacific region than that between the U.S., Japan, and South Korea. The trade war initiated by Japan is seen as a retaliation for South Korea’s increasingly hard line stance towards Japan’s World War II conduct. The stand-off between two countries that share vital interests, is seen by Washington as a dispute that cannot be allowed to continue, though it shows little sign of dissipating anytime soon.

“Cooperation between South Korea and Japan is more of an aberration than the norm - their relationship has always been stormy. However, recent efforts by the U.S. to close the gap and increase trust have been successful.

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These current differences are more recidivist than unprecedented. They'll get back in formation as there is too much at stake vis-a-vis North Korea and nukes." -General Marks

Indonesia

President Joko Widodo's reelection and the forming of a new government with new cabinet appointments last week included his former political rival Prabowo Subianto as defense minister. The appointment of Subianto, a retired General, demonstrates he is serious about transforming his government, the economy, and combatting terrorism. The opposition focused on the rising inequality of the population and Indonesia's rising debt. The U.S. has not aligned closely with Widodo's government due to perceived corruption and now must assess its position as Indonesia's trade deficit with China has increased along with China's influence in Indonesia. Subianto represents an opportunity to gain influence in Indonesia and counter China's influence since he was trained in the U.S.

"Widodo is opening up but knows his limitations. He has offered the Ministry of Defense cabinet position to his primary Presidential competitor, retired General Probowo Subianto, creating the first steps of a virtual cabinet of contrarian voices - a "team of rivals" in his cabinet. Widodo must invite greater participation by the U.S. Government in his efforts to combat corruption and improve professionalism in governance, starting with the justice system and national security." -General Marks

Venezuela

So far over 50 countries have signed on to support Juan Guaido as the democratically elected President of Venezuela and the removal of Nicolas Maduro. The Trump administration has led the pressure campaign to isolate and force Maduro to resign from office or set the stage for a new election. This includes sanctions on the state-run oil company Petreolos de Venezuela to reduce revenue and the threat of a naval blockade. Washington has also offered amnesty to Venezuela's military leaders and government officials if they support Guaido.

The sanctions are having their effect on Venezuela as China's PetroChina Ltd, recently suspended the purchase of oil from Venezuela to reduce the additional risk of secondary sanctions by the U.S. on China. Maduro's power and the support he receives from the military and elite come from the sale of Venezuelan crude oil.

The threat of secondary sanctions is aimed at deterring Russia and China from supporting Maduro and expanding their economic presence in Venezuela. The Trump administration's increased travel restrictions and trade sanctions on Cuba are an effort to put pressure on Havana to stop the sale of Venezuelan oil through Cuba's state-run oil import export firm Cubametales.

"As long as China and Russia have an active presence, diplomatically and militarily, Maduro remains a viable (albeit feckless) leader. If compelled, Russia and China would replace him in a heartbeat with a smarter version of him i.e., ideological missionary." -General Marks

Argentina

Argentina's current President Mauricio Macri was defeated this week by a former behind the scenes government bureaucrat Alberto Fernandez and his Vice President on the ticket, former President Cristina Fernandez de Kirchner. Fernandez ran on stabilizing the economy and moving away from Macri's free market approach. He also promised "no more austerity" with increased social relief to the population. This strategy seems to be asymmetric to achieving a more stable economy that is deep in debt with a record line of credit from the International Monetary Fund (IMF).

It is expected that Fernandez will try to renegotiate the terms of the IMF's rescue program, but he is not expected to initially walk away from the deal. He could also try to return to the protectionist policies of Kirchner's administration that ended in 2015. This would alienate Brazil's President Jair Bolsonaro and his free market

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economy while threatening the South American trade bloc.

“With the shift to the left in the Argentinian elections, the focus is now on Uruguay’s second round of voting. In Uruguay’s presidential elections, the outcome was too close to call, but the results will have a significant impact on the dynamics in South America. The left’s win in Argentina will impact the Mercosur trade bloc due to the challenges between Argentina and Brazil. The Organization of American states and the Lima Group face friction as president-elect Fernandez had previously signaled he would leave the Lima Group. Fernandez will make a return to the former President Kirchner’s agenda, recognizing Venezuelan and Bolivian election results. The upcoming IMF negotiations will be interesting since Argentina is in financial crisis and currency flight is ongoing. The election in Uruguay, if won by the current ruling party (left), will provide Argentina a traditional safe haven for their capital. Conditions are now being set for Argentina to potentially become the next Venezuela. We need to watch China closely and see what kind of economic/infrastructure package they offer Argentina to counter the IMF. China already has a deep space radar installation in Argentina.” -General Chinn

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