

Around the World with Academy Securities

It isn't often that our Around the World report starts with the U.S., but as we near the election, it is where we must start. We focus on **Election Security**, which dovetails with the webinar we hosted last week, covering many issues surrounding the election. We also follow up on the situation in Belarus, where the opposition claims that the August re-election of Alexander Lukashenko was rigged and where protests continue to this day. This situation threatens to spill over into a larger European issue.

Turkey, a country that has long been a concern for our Geopolitical Intelligence Group, is increasingly troublesome. Tensions are again on the rise. Markets

are noticing and that is a potential macro problem as Turkey, through the foreign denominated debt issued by the country and its banks, can have immediate implications for the global economy (with Southern Europe most at risk).

There is no shortage of topics as we update our view on **China. Taiwan** continues to be a focal point for Academy Securities, but we also examine **TikTok**, the **Philippines**, and **India** in relation to China. It is important to point out that **the Yuan continues to strengthen**. It is at its strongest levels since June 2019 and is consistent with our [Macro View](#) that we should expect ongoing dollar weakness, with the Euro and the Yuan as the biggest beneficiaries. This dollar weakness is partly a function of our central bank policies (which have led to negative real yields), but it goes beyond that and is something investors and companies need to be prepared to address.

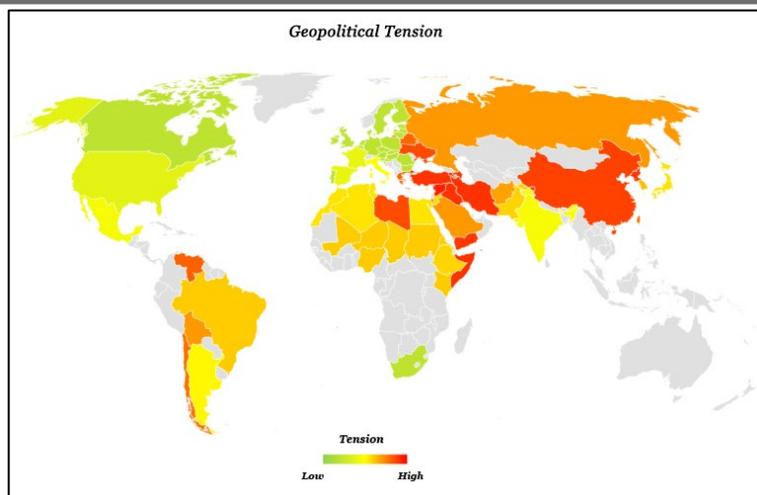
We also report on important updates on Iran and Afghanistan.

Front and Center – Election Security

As we discussed in our recent [webinar](#) featuring **General Marks, General Walsh, Peter Tchir, and Rachel Washburn** (regarding the threats and opportunities we face in the run up to the U.S. elections in November), our adversaries will try to capitalize on our vulnerabilities with respect to election security. Nations such as Russia, China, and Iran would like nothing better than to instill uncertainty and erode the trust Americans place in their democratic institutions. While there have been concerns about vulnerabilities in our system for years, it came to a head in 2016.

A few weeks before the election in 2016, the Office of the Director of National Intelligence (ODNI) and the Department of Homeland Security (DHS) stated that they were “confident” that the Russian government had directed the actions to hack and release emails from political organizations. Right before the election, the FBI also came out and stated that foreign actors including Russia, China, and Iran were actively interfering in our process with the goal of undermining confidence in the entire electoral system.

General Hernandez from our **Geopolitical Intelligence Group**, who stood up and was head of **U.S. Army Cyber Command**, feels it is important to realize that the U.S. is engaged in a “great power competition” and our adversaries want to challenge the U.S. across the entire spectrum, including “economically, militarily, socially, and



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politically.” The goal of our adversaries is to “undermine our democratic systems” and “sow doubt in our process” through the dissemination of disinformation. Foreign interference is a “direct threat to our democracy.” Our adversaries may have different political motives, but the common denominator is the means being deployed to undermine the confidence Americans have in the process. While this is happening again today, he feels that we are much better prepared to deal with the threat now vs. in 2016. With the electoral system designated as critical infrastructure, all of the key departments are involved to address the disinformation campaigns being waged by our adversaries. The biggest risk that the FBI, DHS, and NSA see is that if confidence is undermined to such a degree, many voters will just stay home on election day. Our voting infrastructure is very disparate, so the risk of a widespread cyber-attack is low, but there is always a risk of a covert/overt attack at the state level aggregation points. However, there have been no known successful cyber-attacks so far. The bottom line is that the U.S. will do everything it can (lessons learned from 2016, public/private partnerships, federal agency roles are clearer, better understanding of the electoral ecosystem, information sharing, increased transparency, identification of threats, etc.) to uphold the integrity of the system and instill confidence in our democratic processes.

“Today’s digital world enables information sharing, but it also creates opportunities for bad actors like China, Russia, and Iran to unduly influence democratic countries like the U.S. and its elections using cyber-attacks and social media influence operations. All three countries are using malignant social media activity to spread propaganda. They use fake social media accounts to spread disinformation to U.S. voters to influence election results. Already, we are seeing influence actions taking place by all three countries as FBI Director Christopher Wray testified to this month. Wray told Congress that Russia is attempting to influence U.S. voters by denigrating Vice President Biden and what the Russians see as his anti-Russia focus. China is targeting individual email accounts of people associated with the U.S. presidential campaigns as well as individuals in the international affairs community and is using fake social media accounts to push disinformation regarding U.S. elections. Iran is also working to spread disinformation through social media with the intent of undermining U.S. institutions and President Trump, and to divide the country ahead of the election. The FBI and social media companies are working hard to take down these disinformation accounts as they pop up. This whack-a-mole approach is struggling to brush back undue influence operations taking place in grey zones.” **General Robert Walsh**

“China and Russia only have to sow the seeds of doubt within the U.S. population to disrupt the democratic process, which they have already done. They are exploiting the information domain to divide us as a nation by reducing our confidence in our democratic principles and the Constitution. We need to work as a nation to understand how our enemies have learned that they cannot compete with us militarily and now are focused on other areas like economic, information, cyber, commercial, industrial, and political warfare.” **General KK Chinn**

Belarus Update

As we reported in our September 11th [ATW](#), on August 9th, President Alexander Lukashenko won a 6th term as President of Belarus. However, the opposition claims that the election was rigged and protests continue in Minsk. On September 14th, Lukashenko met with Russian President Putin in Sochi and agreed to the terms of a \$1.5 billion loan to Belarus. The loan comes with a guarantee that Lukashenko will fulfill all of his country’s obligations under a “union treaty” with Russia. While Putin has praised the election results, he has said that he would be prepared to send police into Belarus in the event that the protests turn violent.



While the EU has tried to impose sanctions on Belarus, Cyprus recently blocked the plan unless the EU also imposes sanctions on Turkey for drilling in the Eastern Mediterranean. Most recently inflaming the situation, on September 23rd, Lukashenko was inaugurated in

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an unannounced ceremony. As protests erupted, the police were ready and the beatings and detentions continued. We will be monitoring these events closely as Putin has taken the position that he will not lose Belarus to the west/NATO and has signaled that although he might not think highly of Lukashenko, he would rather keep him in power (and determine the right time for his exit) than let the people of Belarus decide.

“The European Union’s inability to reach the unanimity required to put sanctions on those in Belarus responsible for the violence, repression, and vote-rigging following the recent elections is another example of the EU’s ineffectiveness when it comes to foreign policy actions. Cyprus blocked the intended sanctions plan on Belarus citing the lack of EU action in its quest to punish Turkey for its aggressive behavior in the Eastern Mediterranean. The sanctions failure and Vladimir Putin’s willingness to now show his cards and support Lukashenko is throwing the entire situation into a stalemate that now favors Lukashenko remaining in power. Putin is following up with his threat to standup a “reserve police force” at Lukashenko’s request, although he said it would be deployed only “if necessary.” Lukashenko is feeling new strength from Putin’s support by threatening to cut off European transit routes across his country if sanctions are imposed. Overland European goods bound for Russia cross Belarus and pipelines crossing the country are used to ship Russian oil to Europe. This is just another example of Putin exploiting the European Union’s and NATO’s ineffectiveness to his favor.” **General Robert Walsh**

Turkey

As we mentioned in the previous section on Belarus, we are also monitoring the evolving situation in the Eastern Mediterranean. This past summer, underwater oil and gas exploration was the cause of a tense standoff between Turkey and Greece, which are both NATO countries. The tension escalated when Turkey sent a research vessel, flanked by naval warships, to conduct a seismic study in the contested waters. However, in an effort to ease tensions, the Turkish research vessel returned to port on September 13th. With U.S. Secretary of State Pompeo visiting Athens (a few weeks after he visited Cyprus) on September 28th, it is clear that all parties are taking this seriously. Meanwhile, Greece is in the middle of a multibillion Euro revamp of its armed forces that includes purchases of ships and aircraft.

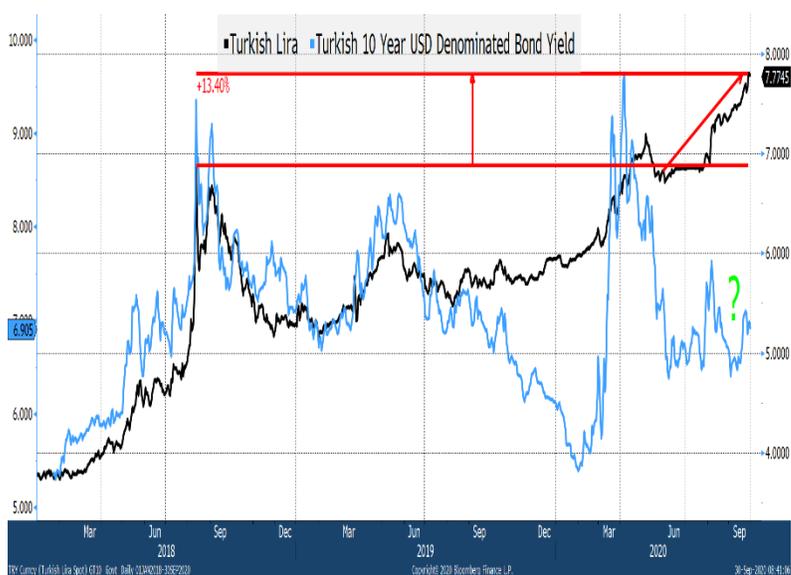


Further complicating matters for Turkey is the escalating crisis between Armenia and Azerbaijan. Last weekend, in the contested mountainous area of Nagorno-Karabakh (which sits in Azerbaijani territory but is populated by Armenians), both sides accused the other of aggressive actions. Tensions have been simmering for the past few months and the region has had a long history of conflict. What makes this most recent engagement more concerning is the fact that soon after, both countries mobilized forces and established martial law. Turkey has been a longtime backer of Azerbaijan while Russia supports Armenia. This would put Turkey on the opposite side of Russia in the conflict, similar to where it finds itself in Syria and in Libya.

“Secretary of State Pompeo has been working behind the scenes to solve the disputed maritime and exploration rights situation in the Eastern Mediterranean between Greece and Turkey and to start a dialogue between them. This week, while visiting Greece, he announced that they would begin talks to resolve the maritime disputes. Pompeo put pressure on Turkey to end its gas exploration and come to the table by cozying up to Greece and discussing potential arms sales. Turkey felt the heat and pulled its research vessel back into port and agreed to the talks. The EU and NATO have been ineffective in solving the ongoing dispute that has seen military buildups between the two NATO members.” **General Robert Walsh**

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“The ongoing Armenia-Azerbaijan conflict over the contested Nagorno-Karabakh took a significant turn over the last week with potentially larger regional implications. The conflict heated up over the last several days with heavy fighting taking place. The regional concerns grew with Turkey backing Azerbaijan and reports that they are providing military support. Russia is a close ally of Armenia and this could pit Turkey’s and Russia’s interests against one another much like in the Libyan conflict. The UN Security Council is expected to hold emergency talks to discuss the current situation. Russia has called for a cease fire as have others including the U.S., but we can’t expect Russia to sit back and let the conflict negatively impact their interests.” **General Robert Walsh**



Currency markets have taken notice and the Turkish Lira is at a record low versus the dollar and is 14% below the level it reached 2018 when Turkey, along with other emerging markets, were experiencing serious pressure. The bond market (so far) has not reacted as badly, but that is crucial to watch.

With over \$70 billion in foreign denominated bonds at the sovereign level, and additional bonds issued by Turkish banks, Turkey poses a real contagion risk if problems get worse. Many of those bonds are owned by weaker banks in Europe, especially in Southern Europe, as their relatively high cost of funding effectively forced them to buy Turkish debt to generate net interest margin. So far bond markets have taken this in stride, but it is a region

that must be watched closely.

China

As we discussed in our previous [SITREP](#) and [ATW](#), tension in the Taiwan Strait continues to grow. On September 18th and 19th, almost 40 Chinese planes crossed the median line over the Strait that separates the airspace between China and Taiwan. These incidents involved a variety of Chinese aircraft, including fighters and heavy bombers. In response, Taiwan’s President Tsai Ing-wen said, “what we are seeing now is not just a situation across the Taiwan Strait, but a regional situation. China’s recent military activities, especially in the past few days, clearly constitute a threat of force, which is part of their verbal attacks and military threats (against Taiwan).” This activity was likely in response to the visit to Taiwan by Keith Krach, the U.S. Undersecretary of State for Economic Growth, Energy, and the Environment. As we have reported, prior to these incursions, Chinese aircraft had only crossed the Strait three times since 1999, most recently during a visit to Taiwan by U.S. HHS Secretary Azar last month.



The U.S. has made it clear that it will continue to support Taiwan and sell the island nation weapons for it to defend itself. The U.S. recently completed a sale of additional F-16 fighters to Taiwan and last week also announced the intention to sell additional weapons including long-range air-to-ground missiles that would allow Taiwanese fighters to fire the weapons against Chinese targets on the mainland beyond the reach of Chinese air defense systems. Other weapons being considered include drones, anti-ship missiles, and rocket artillery systems. We continue to believe that while it is unlikely that China will execute a cross-strait invasion, the frequency of the

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incursions, which are routinely intercepted by Taiwanese aircraft, continue to risk a confrontation or miscalculation. **General Chinn** from our **Geopolitical Intelligence Group** feels that with respect to China's actions in the South China Sea, the U.S. needs to leverage a "whole of government approach" with our allies and partners in the region and remain engaged. The feeling is that China is not ready for a military confrontation with the U.S. and the strategy of alliance building, especially in a region where China does not have many allies, will result in a stronger counterweight to China and help maintain stability. Other nations, including Taiwan, will continue to look to the U.S. for leadership.

"Now that China has grown its military to be the largest and most modern in the region, they are increasingly using their military to intimidate their neighbors and more importantly, erase the status quo and draw new lines to what is normal. China's provocative military exercises and incursions into Taiwan's air defense identification zone are growing in number and size and are intended to intimidate Taiwan's President Tsai Ing-wen. The Trump administration has provided Taiwan with significant support in terms of public diplomacy, trade, and military sales. China's actions come as a warning to Taiwan to not stray too far or risk deadly consequences.

China is also determined to stop further collusion between Taiwan and the U.S. The Taiwan Relations Act commits the U.S. to defend Taiwan if Beijing resorts to military force. The tension, language, and actions have increased between all sides while raising the risk for miscalculation. It is the result of the growing "great power competition" between China and the U.S. with relations between the two plummeting to their lowest point in decades. What is making this more concerning is Beijing's willingness to draw new lines vs what was the status quo. Their approach operates in the "grey zone" and is slowly working to their favor across the region. As the status quo changes on the fly so does the risk for miscalculation." **General Robert Walsh**

In addition to the tension building between Taiwan and China, **General Walsh** from our **Geopolitical Intelligence Group** also provides the following perspectives on other China centric issues we are monitoring including Philippine President Duterte's UN speech regarding the South China Sea, the China-India border conflict, and the potential deal involving TikTok.

Philippine President Duterte's UN Speech Regarding the South China Sea

"Leaders of countries don't speak very often before the UN General Assembly. It is their opportunity to get their highest geo-political issues before the world body. It is interesting that Philippine President Duterte used his time last week to stress the importance of the South China Sea Arbitration where the Permanent Court of Arbitration ruled in the Philippine's favor regarding China's claims to its "nine-dash line" in South China Sea. This could be a sign that Duterte's concerns with China's aggressive actions in the South China Sea are growing and he is willing to risk some of the economic benefits received in dealing with China in order to ease the political pressure within his country." **General Robert Walsh**

China-India Border Conflict

"China's strategy of increasing intimidation in the South China Sea is now being replicated along its border with India. It is another indication of how the Communist Party plans to deal with countries that disagree with its geo-strategic positions or actions. China is increasing its military capabilities along the border with India. Beijing's strategy is to up the ante for New Delhi and force India to backdown and concede to China's demands rather than accept an unsurmountable challenge. We see this manifest in the Indian Ocean as well. India can either respond in kind or back-off as military tensions rise. However, India is far behind China when it comes to military technology and capabilities and cannot afford to risk military conflict with Beijing. The conflict is driving India and the U.S. closer together as each try to counter China's growing military and its aggressiveness." **General Robert Walsh**

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TikTok Deal

“The tech war between Washington and Beijing shifted the center of gravity from Huawei to TikTok and its video-sharing app. This is another piece of the much larger strategic competition between the two countries. Tech and trade are key pieces in the global competition. The Trump administration, for national security reasons, is committed to eliminating personal information of private citizens flowing to the CCP. President Trump brought TikTok into the national security equation and demanded that U.S. companies hold a controlling interest in the company. A U.S. company controlling the software’s algorithms now seems to be the area of contention with Washington saying U.S. control is necessary to ensure information does not go to the CCP. China views the U.S. position as unacceptable. On Sunday, the U.S. District Court in Washington blocked the Trump administration’s attempt to ban TikTok downloads in the U.S for now. We expect this to be one of many tech battles that take place in a much larger tech war.” **General Robert Walsh**

Middle East

Iran

In our previous [ATW](#), we reported that the U.S. was actively trying to re-impose sanctions on Iran for violations of the nuclear deal. However, the U.S. has received limited Security Council support based on the argument that since the U.S. pulled out of the Iran nuclear deal, it has little legal ground to call for the sanctions. Despite this, the U.S. unilaterally re-imposed the sanctions by executive order, and placed more specific sanctions on certain Iranian and Iranian linked leaders. The intent of the sanctions is to eliminate conventional arms transfers to/from Iran and continue to put pressure on the regime to stop sowing instability in the region.



The Trump administration has made it known that its goal is to stop the proliferation of weapons in the Middle East, especially to Iranian proxy forces, and to stop Iran’s pursuit of long-range missile and nuclear capabilities. Other Gulf nations are taking note of this and many feel that the only countries confronting Iran are the U.S. and Israel. In fact, some countries have begun to take matters into their own hands and form partnerships, as seen in the UAE and Bahrain peace deals with Israel. Whether or not other nations form similar partnerships with Israel remains to be seen, but the topic is being discussed, as Iran is now viewed as the largest security threat in the region. On September 23rd, at the UN General Assembly, the King of Saudi Arabia spoke and singled out Iran as a source of instability, providing the attack on Saudi oil facilities and support of Houthi rebels in Yemen, as key examples. However, he remained silent on the topic of establishing a partnership with Israel (which Saudi Arabia quietly supports). If left unchecked, the Iranians will become an even greater threat and Gulf states may consider more creative tactics to form a stronger counterweight to Iran.

“Two major events took place last week at the United Nations related to the Middle East and Iran. First, U.S. Secretary of State Mike Pompeo announced that the U.S. was imposing “snap back” sanctions on Iran. Second, Saudi King Salman bin Abdulaziz in his speech to the UN General Assembly called for all to unite around isolating Iran and developing a comprehensive solution that includes disarming Hezbollah, which is Iran’s proxy force in Lebanon. He also said that he supports the U.S. starting talks to bring Israel and the Palestinians together. The two events together address regional concerns over Iran’s efforts “to intensify its expansionist activities, create its terrorist networks, and use terrorism” and puts further pressure on Tehran in an already tense Middle East. There is also the beginning of a groundswell of support amongst the Gulf states to prioritize Iran as the greater threat in the Middle

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*East over Israel in the ongoing Palestinian situation. The U.S. behind the scenes diplomacy to “flip the narrative” and bring more Arab states into the Israeli peace deal is an opportunity the U.S. is exploiting in its strategic effort to stop Iran from obtaining nuclear weapons.” **General Robert Walsh***

Afghanistan

On March 1st, we reported in our [ATW](#) that after almost 19 years, the U.S. and the Taliban had come to a temporary truce and both sides were ready to discuss a political roadmap to a more permanent peace. U.S. and NATO allies also agreed to draw down troop levels from 12,000 to 8,600. If things moved forward as planned, the goal was to have a complete withdrawal in 14 months. In addition, sanctions would be lifted. The more formal peace talks were scheduled to begin in March in Qatar, but disagreements over prisoner swaps continued and the talks did not begin until September 12th. These are the first direct talks between the Taliban delegation and the Afghan government.



However, since the discussions commenced over two weeks ago, little of substance has been accomplished. The two sides have differing views on how the country should be governed. For starters, some in the Taliban want an interim government to be installed as they do not trust the current administration led by President Ashraf Ghani. Another point of contention is when to establish a more permanent ceasefire, as the Taliban views this as their only bargaining chip. In addition, the form of government is in question as the Taliban does not support a democracy and are calling for a more Islamic system. As the two sides try to move forward with the discussions, fighting continues and some feel that the Taliban is just trying to run out the clock on the U.S. presence. What is clear is that this a complex and delicate process that the U.S. hopes will end in a permanent peace for a country that has seen almost 40 years of conflict.

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