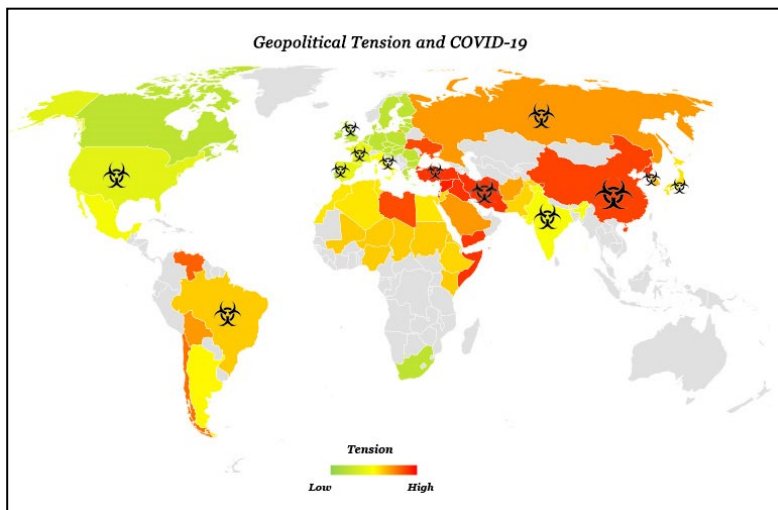


Around the World with Academy Securities

The **War on the Virus** continues to be a major theme for markets and the global economy, but increasingly, especially with respect to China, other geopolitical factors are influencing some markets and economies.

On the virus front, the focus is gradually shifting to reopening the economy. Some countries (like Sweden) and various states are leading the pack. Everyone is watching closely for signs of success and fearful of a renewed outbreak. Academy's Macro Strategist remains positive on the potential for a stronger and safer reopening ([Forbes](#)), though in last weekend's [T-Report](#) he highlighted what would



make him change his view to bearish from bullish on markets and the economy. We also explore [why the job market is unlikely to be a good signal](#) on the strength of the economy in the coming months.

Much of the geopolitical risk continues to be centered in and around oil producing regions. As the reality sets in that we may be living in **a low oil price environment for an extended period of time**, the calculus for many of these nations will change dramatically. How do countries maintain benefits for their citizens as oil prices remain subdued? How do they project power in such an environment? What new risks come to the forefront as these economies face significant stress? Academy's Geopolitical Intelligence Group will provide updated views as these risks evolve in real-time.

Increasingly, the relationship between the U.S. and China is moving markets again. The search term **"China Cold War"** is rising rapidly on Google Trends. Repeatedly, the administration has singled out China as having some degree of culpability for the global pandemic (ranging from issues surrounding the origin of the virus to a lack of timely information sharing). China has questioned the U.S. in return. The risk of new tariffs is troubling to many market participants. Friday's news that the U.S. is looking to restrict Huawei's access to chips spooked markets as well. The Academy GIG has helped shape our macro view that there is the political will to push for more domestic manufacturing. Health and safety products are a prime area of concern right now. This rebuilding of domestic manufacturing would come largely at the expense of China (it can almost be viewed as Supply Chain Repatriation). ESG investors may also put pressure on companies to adjust their supply chains as that was one ESG factor that helped certain companies fare better during the recent market turbulence according to this [Wall Street Journal article](#). Of note, Bank of America issued a \$1b bond yesterday to help fight the pandemic.

Academy's GIG Weighs in on the COVID-19 Impact on South America – Potential Default by Argentina

Last week, the Argentinean Economic Minister Martin Guzman said that the country "cannot continue to spend 20% of government revenues or more on debt payments" and needs to come to a deal with its creditors. While Argentina has defaulted in the past, the ramifications this time around could be worse. In a COVID-19 world, Argentina, and potentially others, who are affected economically by the pandemic, will blame the virus rather than the issues occurring long before the crisis began. As we reported in our last edition of [ATW](#), the problems in South America are just beginning and will have a significant impact on the region.

*"On 22 May, Argentina will default on their 22 April bond interest payment of \$500 million (30-day grace period) unless creditors agree to restructure their debt. This will be the third time Argentina will have fallen into default in the past 20 years (2001 & 2014 partial default). This is not a surprise and was expected at some point if a deal could not be reached with incoming President Fernandez's administration, which was sworn in on 10 DEC." **General K.K. Chinn***

Around the World with Academy Securities

Front and Center – Venezuela

On May 3rd, news broke of an armed incursion into Venezuela, that included ~60 dissidents and two former members of U.S. Army Special Forces, working for a private military contractor called Silvercorp. Their goal was to seize Simon Bolivar International Airport, capture President Maduro (and others), and fly them out of Venezuela and into the U.S. What ended up happening was an unmitigated disaster which resulted in eight dissidents killed and the two Americans taken into custody. The U.S. has denied any involvement in the raid, even while Maduro has pointed the finger at both the U.S. and his rival, Juan Guaido. While the U.S. will work hard to get both Americans returned unharmed, the real impact of this event is evident in the propaganda campaign Maduro launched, effectively saying, “see, I told you all that the Americans were coming for me” and using that to bolster his position. The situation in Venezuela is dire, with COVID-19 taking its toll and oil prices damaging an already decimated economy. Talk of both leaders stepping aside and free elections being held is now looking unlikely. However, U.S. pressure on Maduro will continue with the goal of a peaceful transition of power.



“A lot of disinformation going on in the region as China, Venezuela, and other left leaning nations (Cuba, Nicaragua, Bolivia) are spreading the narrative that the United States Army is the origin of COVID-19 and through sanctions are preventing countries that need medical aid from getting it – i.e. Iran, Venezuela. When you control the media, you also control the narrative. China and Venezuela are both very good at the propaganda game and controlling the strategic message.”

The recent incident, with Silvercorp and the capture of 2 Americans, is a real mess and unfortunately, the CEO thought he could make a few bucks and a name for himself with a half-baked plan – and no support – as he has just made the situation infinitely more difficult for all in the region – especially Colombia. The State Department will have their hands full trying to work through this as the CEO has gone to the media as it was probably the only way to keep his 2 employees alive (if folks aren’t in the spotlight is it easier to make them disappear). This provided Maduro the distraction he needed to take the focus off of the domestic crisis - economy, COVID-19, etc. as Maduro can now appeal to the European community and the Venezuelan people that Guaido was committing an act of sedition and have him arrested. This will be a very delicate situation that will draw our attention so I don’t believe this will happen, but the narrative will be out there.

No real appetite for anyone in the U.S. government to address this foolishness by Silvercorp and I expect everyone to distance themselves from this incident. Guaido has distanced himself from those that Venezuela’s Chief Prosecutor has requested extradition for related to their involvement in the failed plan – Goudreau (Silvercorp CEO), JJ Rendon (U.S. based advisor born in Venezuela), and Vergara (exiled legislator). Nothing will happen as we don’t recognize the Maduro administration as the legitimate government so they can’t request extradition. In addition, nothing will change the real facts in Venezuela as Maduro continues to have the backing of China, Russia, Iran, and Cuba.” **General K.K. Chinn**

“The Maduro regime is using the failed Silvercorp led raid to communicate to Venezuelans and to the world the opposition’s failure and continued deterioration. It also helps Maduro with his case for the opposition’s illegitimacy and creates opportunity for further crackdowns. There are many in the region that have memories of what they believe to be U.S. past heavy-handed influence across Central and South America. Maduro is using the two Americans that were captured as evidence that the U.S is acting to overthrow his government. Opposition leader Juan Guaido accepted the resignation of two of his advisers after they admitted having discussions with Silvercorp prior to the failed raid. The U.S. led effort for Maduro to step aside and Guaido to assume the presidency is gaining little traction” **General Robert Walsh**

Around the World with Academy Securities

Developments in Iran and Iraq

Iranian Friendly Fire Incident in the Gulf of Oman

On May 11th, it was reported that nineteen Iranian sailors were killed and fifteen others were wounded in a tragic friendly fire incident in the Gulf of Oman. The Iranians were testing an anti-ship missile and accidentally engaged the vessel setting up the targets. This incident, in conjunction with the accidental downing of the Ukrainian civilian aircraft in January, is likely to have an impact on the Iranian military and the faith that the people of Iran have placed in their ability to command their own forces. That being said, our GIG believes that Iran will try to deflect the blame toward the U.S., similar to how they reacted after the January accidental aircraft shutdown. Tension with Iran is not going away anytime soon.



New Iraqi Prime Minister

As we initially reported in the April 15th edition of [ATW](#), our GIG has been focused on the new Prime Minister designee Mustafa al-Kadhimi, and the future path forward for Iraq. Now that a new government is in place, the hope is that some form of stability could return. He is a former intelligence officer and is supported by the U.S. However, he is also viewed as a suitable choice by the Iranians. Whether having a good relationship with both the U.S. and Iran will be helpful, remains to be seen. The first item on the agenda will be to address the social unrest stemming from falling oil prices and the COVID-19 driven shutdowns. The new PM has vowed to listen to the people, many of whom were protesting the Iranian infiltration of the political system last fall. He will also have a pragmatic approach to the U.S. presence in the country. What is clear is that al-Kadhimi has a long road ahead of him as he deals with a population impacted by economic hardship as well as its neighbor Iran, which is not likely to give up any influence in the country.



“The optimism in Iraq finally selecting a new prime minister, Mustafa al-Kadhimi (after almost 6 months), should be tempered. Iraq remains in a financial crisis with historically low oil prices due to the glut caused by the coronavirus pandemic. 90% of Iraq’s government revenue is from oil exports. Though al-Kadhimi received support from both the U.S. and Iranian governments, he is already receiving pressure from Iraqi politicians to reduce the U.S. influence in Iraq. Many are hoping that al-Kadhimi can develop a careful balance between U.S. and Iranian influence. At the end of the day, the Iraqi people need stability and they hope that al-Kadhimi can take measured steps in that direction.”

General Robert Walsh

Libya and Syria Updates

Turkey to Increase Support for GNA

Last week, Turkey reported that LNA shells had fallen near their embassy in Tripoli. President Erdogan has vowed to take action against Haftar and the LNA in response. This could result in additional Turkish support for the GNA in Libya. As we have reported in previous ATWs and a [SITREP](#) in January, the battle rages on between General Haftar’s LNA, which is supported by Russia’s Wagner Group, and the UN recognized GNA based in Tripoli (backed by Turkey). While Russia denies any uniformed military support, the Wagner Group, which has seen action on the front lines during the conflict in Ukraine, is present in the county and actively advising on and engaging in the fighting. If Turkey steps up their support, the end result is Haftar’s forces being pushed back and away from Tripoli and Turkey having a larger say in the future of the country (and its oil and gas resources), which is something Russia

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does not want to happen. The key issue here also is a lack of NATO involvement, but recent news suggests that the alliance might soon get involved at Turkey's request.

Rumors of a Potential Rift in the Putin/Assad relationship Continue to Grow

As we reported in our previous [ATW](#), Putin is quickly losing patience with Assad in Syria. Additional reports are circulating that Russia could be running a campaign to force Assad to step down. The reason that has not happened yet is because no one is entirely sure who would replace him, a concern our GIG has held for some time. However, planted newspaper articles in Russia coupled with Assad's refusal to compromise has led many to believe that Putin may be imagining a future Syria without Assad. Russia helped Assad stay in power, but the next step is reconstruction (expected to cost more than \$400 billion) and longer-term economic benefits that Russia expects to exploit. However, corruption within Assad's inner circle and his relationship with Iran has stood in the way of Russia finally capitalizing on its involvement in Syria. Putin had to step in personally to negotiate a cease fire with Turkey in the Idlib back in March and has tried to encourage Iran to operate within established boundaries. However, Iran continues to use Syria to launch militia attacks on U.S. targets in Iraq. Putin is eager to move forward with the reconstruction of Syria, and that might only happen if there is a change at the top.

Update on Chinese Pressure in the Region

As discussed in the previous [ATW](#), even in the aftermath of the COVID-19 pandemic, the Chinese have not backed down in the South China Sea. In April, the Chinese rammed and sank a Vietnamese fishing boat operating in contested waters. The U.S. has also recently sent ships to patrol the waters off of Malaysia in response to Chinese threats against the country to stop exploring for resources off shore. In addition, Taiwan is reporting that Chinese forces are preparing a mock invasion exercise of the Pratas Islands, which are claimed by Taiwan. The U.S. Navy will continue to conduct freedom of navigation exercises in the region to support its allies, but tension continues to build with China.



*“China will continue to move aggressively forward in the South China Sea / region to establish a new normal as they work to take advantage of many nations focusing internally with their COVID-19 challenges. Expect China to also leverage the crisis to take advantage of corporations / companies that need to sell off assets globally.” **General K.K. Chinn***

*“Not only has China taken advantage of the COVID-19 pandemic in the South China Sea, they are also using this time to increase pressure on the democracy movement in Hong Kong. The recent arrests of pro-democracy leaders are indicative of China's assertiveness in Hong Kong while countries across the globe remain focused on the pandemic. Many view the crackdowns as China's Communist Party taking the opportunity to press the Hong Kong government to curb future protests. It will be interesting to see if China's actions backfire and result in the reemergence of renewed protests once the fear of COVID-19 is contained.” **General Robert Walsh***

*“Australia is another example of the pressure being put on dissenting countries by China. During April, Australia's Prime Minister Scott Morrison publicly sided with the position taken by the United States that there should be an international investigation into China's handling of the pandemic. China then warned Australia that any efforts towards an international investigation supported by Australia could lead to the boycotting of Australian goods by China. This was followed last week with threats by China to impose tariffs of up to 80% on certain parts of Australia's agricultural exports to China. This is just another example of China using its economic power to influence global politics.” **General Robert Walsh***

Around the World with Academy Securities

North Korea – Kim Reappears

Finally, with Kim reappearing at a ribbon cutting ceremony at a fertilizer factory earlier this month, it appears that he is alive and well after three weeks out of the public eye. The key take away from our prior analysis is still clear, which is that unlike during his father’s and grandfather’s rule, there is no clear successor to Kim. While his sister is a logical choice, nothing is set in stone. Information flow out of the country is still very difficult to come by and COVID-19 is having an unreported impact, with China recently stepping in to provide further assistance.

“Expect we will hear more about North Korea’s COVID-19 challenges in the future as numbers increase along the China/North Korea border. Again, not a surprise, as the indicators have been there with photos coming out of North Korea with leaders around Kim wearing masks. China will continue to support North Korea and will be a thorn in our side/distraction. This allows China to continue to establish new normals in the region with their planned aggression/expansion.” **General K.K. Chinn**

“North Korean leader Kim Jong Un reached out to China this week after his reemergence from nearly three weeks of absence. He praised China and its COVID-19 efforts and thanked Chinese President Xi for China’s COVID-19 support to North Korea. Many feel that Kim’s absence was an indicator that the COVID-19 impact on North Korea was much greater than North Korea had reported. Kim’s failure to meet demands to give up his nuclear weapons program has driven him further away from any economic help from the U.S., South Korea, or Japan and further into the arms of China. The risk of further North Korean isolation provides leverage to China over North Korea and across the region.” **General Robert Walsh**

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