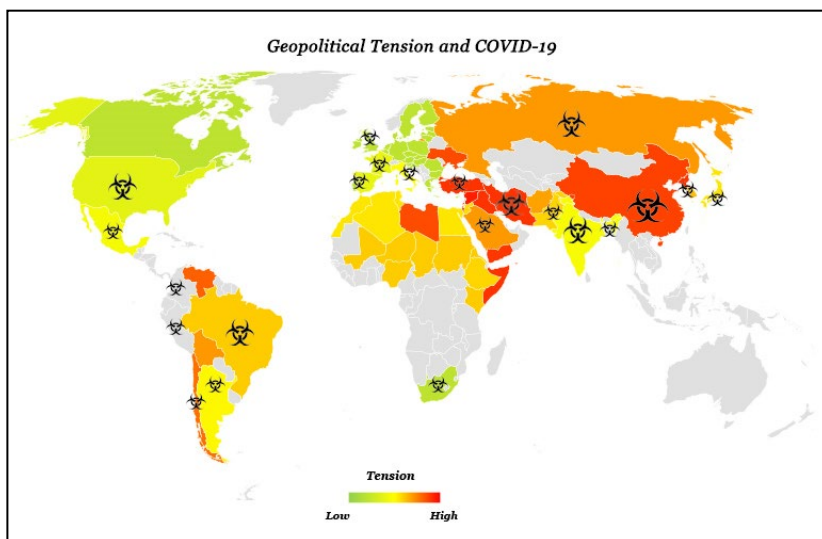


Around the World with Academy Securities

Our relationship with China is moving markets and may start affecting longer term strategic plans not only for the country, but for corporations. This week, we saw the U.S. close the Chinese consulate in Houston. China has responded by ordering the U.S. to close its consulate in Chengdu. While these actions are not permanent, they do show a willingness on both sides to not only escalate issues, but to retaliate when provoked.

We have not lost focus on the battle with COVID (some positive vaccine and treatment headlines were offset, at least partially, by rapidly rising case counts in some parts of the country). On the economy, we grapple with ongoing job losses and what form the next round of stimulus out of Washington will take and whether it will be enough to put the economy on a better long-term trajectory, or whether it will merely apply a fresh tourniquet to the gaping wound in the economy.



There are several other hotspots that could have ramifications for the global economy and we find ourselves **increasingly asked about Mexico and South America**. Many countries in the region are facing a precariously rapid rise in COVID cases and fatalities. With limited healthcare infrastructure, the risk of the situation spiraling out of control is real, and given the importance of many countries, especially Mexico, as our trading partners, we could face yet another supply shock.

As discussed in last week’s Around the World, it is increasingly difficult to separate our domestic and international risks. We highlight the cyber threat, not only from China, but also from Russia, which is extremely timely as companies across the globe have to make decisions about work from home, returning to offices, or creating a new work environment.

Ultimately, though, China is the most pressing matter for the country, companies, and the economy.

Front and Center – China Update

In our recent [podcast](#), Generals Walsh and Chinn discuss what is happening in the South China Sea, how the tensions could impact global trade, the situation in Hong Kong, the risk of a miscalculation, and the race for new technology. Recently, Chinese forces conducted a live fire exercise to try to send a message to the U.S. and has deployed additional fighter aircraft to the Paracel Islands. We expect these drills to continue and also to include bombers that are capable of attacking U.S. surface forces. With two U.S. aircraft carrier strike groups also conducting operations in the region, the potential for a miscalculation grows by the day. In addition, on July 22nd, the U.S. ordered the Chinese consulate to close in Houston over espionage accusations. In response, on July 24th, China ordered the closure of the United States consulate in Chengdu. The tensions with China remain a key focus of our Geopolitical Intelligence Group and our GIG will continue to monitor all developments.



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“This week the U.S. raised tensions with China significantly by making a huge diplomatic move in ordering China to close its consulate in Houston. Secretary of State Pompeo stated that the diplomatic move was based on China stealing intellectual property. Tensions have continued to rise with China over the coronavirus pandemic, unfair trade practices, intellectual property theft, the new national security law in Hong Kong, Uighur repression, and the South China Sea.” **General Robert Walsh**

Chinese and Russian Cyber Thefts of COVID-19 Research

On July 21st, the U.S. Department of Justice announced that Chinese hackers had targeted data tied to vaccine development. The indictment outlines how individuals, with ties to Chinese intelligence, tried to steal vaccine research from U.S. biotech firms. Of note, a non-aggression pact was signed with China in 2015 in an effort to reduce intellectual property theft. However, as the race to find a vaccine for COVID-19 continues, there may be further attempts to steal the valuable research.

In addition, last week, the U.S., Canada, and the UK accused Russian intelligence of trying to steal private COVID-19 vaccine information. The group within the Russian Intelligence Service, known as Cozy Bear, is the same unit that was accused of hacking DNC emails during the 2016 U.S. presidential election. However, Russia denied the accusation and even pointed to the new licensing deal with AstraZeneca for the COVID-19 shot as proof that they do not need to steal anything. However, as there were no indications that the hacking efforts led to sabotage, it is more likely that any efforts made were directed at stealing information that would enable Russia to develop the vaccine more quickly.

“This is the proverbial tip of the iceberg for Russian intrusive cyber “persistent stare” operations. Let’s be frank, all nations and non-state actors have acquired and advanced some degree of cyber capabilities. Without any restrictions or protocols that govern those online activities and enhanced forensics that allow us to determine attribution, this becomes the norm. It’s too easy to hide in plain sight. The answer, albeit not complete, is to begin the discussion on establishing rules around cyber activity much like our rules that govern activity in all other domains of war (space, air, sea, and land). The Academy Securities Geopolitical Intelligence Group has been advocating for this for years. The United States is delinquent in not forcing the issue. Inarguably, it remains dead without this administration’s leadership. We should use the G7+3 (Russia, China, India) as the forum within which we can begin this process. Without something that approximates agreed-to restrictions, escalation is inevitable. Cyber is the competitive domain of choice, certainly better than kinetic action, but no less dangerous. Our current election campaign season should be the impetus to kick start this.” **General Spider Marks**

“The U.S. National Security Agency identified the hackers as being from the same group that was responsible for the break-ins into the Democratic National Committee’s servers during the 2016 presidential elections. Both British and U.S. intelligence officials believe that the Russian hackers’ objective was to steal research in order to develop a Russian vaccine. The cyber hacking by Russia and efforts by China to steal intellectual property related to COVID-19 vaccine research has huge economic implications. Yesterday, President Trump acknowledged that the U.S. is willing to pay \$1 billion to fund the next step of clinical trials and to secure 300 million doses of the vaccine. The COVID-19 intellectual property theft attempts by both Russia and China demonstrate their willingness to work outside of global democratic norms and the rule of law.” **General Robert Walsh**

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Middle East and North Africa

Iran

In our previous [ATW](#), we provided the first indications of the damage at the Iranian nuclear facility at Natanz. Initially, it appeared that the machinery damaged in the fire would quickly be replaced. However, as the extent of the damage emerged, it became clear that the attack significantly impaired the Iranian nuclear program. What remains unknown is whether it was a cyber-attack or a bomb planted at the facility. Of note, Iran was responsible for a failed cyber-attack against an Israeli water treatment facility in April and Iran may look at options to retaliate if it can prove that Israel or the U.S. was involved in the Natanz fire.



While hardliners in Iran’s parliament recently abandoned a plan to try to impeach President Hassan Rouhani, the recent attack on Natanz coupled with the economic fallout from the impact of COVID-19 and sanctions on the country have resulted in civil unrest. As a result, Iran has tried to find financial partners to help stabilize the country and the economy. We have seen their relationship with Venezuela grow, but of more concern is the recent \$400 billion economic partnership with China, including a major development project in the Strait of Hormuz. China has been buying oil from Iran, but this proposed agreement eclipses all other Chinese deals in the region. Iran will continue to look for ways around the “maximum pressure” sanctions by seeking to build new relationships.

“Rouhani may not be gone now but it will happen. The seventh Iranian President, like every one of his predecessors, is in constant fear of getting the boot. Under the current global circumstances of the pandemic, along with maximum pressure sanctions by the U.S., and ongoing Israeli activities against Iran, the President is expendable. The Supreme Leader of revolutionary Iran, Ali Khamenei, is untouchable, and that’s what matters. Rouhani’s political balancing act is irrelevant. Beijing is looking for new friends and a partnership makes sense for both China and Iran. Since its founding following the revolution, Tehran has chosen to remain a revolutionary state. By contrast, China emerged from its revolution in 1949 and established a clear path toward global super power status, abandoning its overt revolutionary zeal. Guess what? It has worked. The world is economically beholden to and militarily respectful of Beijing. Tehran can learn a ton from Beijing’s example. A courtship is going to happen. However, the U.S. and its global and regional partners should watch this closely.” **General Spider Marks**

“China’s ongoing strategic agreement with Iran is a key part of their Belt and Road Initiative (BRI) that demonstrates their willingness to make deals with anyone no matter what the diplomatic consequences. This is also a key move in the strategic competition between China and the U.S. The alleged deal increases China’s influence in the Middle East and at the same time undermines U.S. initiatives. We can expect the deal to reduce the impact of the U.S. “maximum pressure” campaign on Iran to cease its objective to build nuclear weapons. The U.S. focus to isolate Iran has worked well with the European nations. This proposed agreement between China and Iran is an attempt by Iran to work around the U.S. sanctions and reduce U.S. influence in the region. Not only is China having significant economic influence in Iran, they have also made deals with Saudi Arabia and Israel. Having access to a port in the Arabian Gulf is of huge strategic importance to China’s BRI objectives. It moves China from the Indian Ocean and its strategic locations there into the heart of the Middle East. It is another effort by China to use its economic clout to counter the U.S. in ways that Russia is unable to do. The military cooperation between the two countries is one that will not only increase China’s military influence in the region but it is also a move to undermine U.S. military influence. The draft agreement includes weapons procurement, training, and intelligence sharing between China and Iran. The agreement with Iran is one more sign of the deteriorating relationship between the U.S. and China. We can now see the beginnings of a potential Cold War with China and Iran now becoming, in essence, a client state for China.”

General Robert Walsh

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Syria

Recently, for the second time, China and Russia vetoed a final effort to deliver humanitarian aid to millions of Syrian civilians. While the 13 other members of the Security Council pushed for the reopening of three border crossings to transport much needed supplies, the result was only one crossing will be open for the next 12 months, which will not be enough to address the humanitarian crisis. The veto by China and Russia is meant to help support Assad and his regime as it struggles to stay in power in Syria. Russia has been a long-time backer of Assad and is trying to position itself for a lead role in the eventual reconstruction. However, China has no known interests (other than access to oil in the region) to protect in Syria and it is unclear why it would support such a measure.

“Russian support of Assad is long standing and unrestrained. It violates all international norms of the prescribed treatment of refugees or combatants. It’s sickening. The nine-year civil war has strengthened Assad’s hold on power. Russia has had a naval presence in Syria since 1971 and can ill afford to lose allies in the Mid-East. That’s why Russia courts Turkey, sticks with Syria, entices Iran, and seeks to expand cooperation with Egypt. China is surfing the wake. China needs sources of fossil fuels and the Mid-East is a great place to shop.” **General Spider Marks**

Libya

As we also reported in our previous [ATW](#), the risk of a conflict between Egypt and Turkey is growing in Libya. On July 20th, Egypt’s parliament unanimously approved sending combat forces to the “western front”, which is a reference to Libya. This move could be the precursor to a direct confrontation with Turkey, which supports the GNA in its battle with the LNA forces led by Khalifa Haftar. Egypt, Russia, and the UAE all support the LNA, which has been losing ground to the GNA in recent months with the help of Turkey. The red line in this buildup of forces will likely be Sirte, which is home to a significant number of oil facilities. If the GNA advances into Sirte, then there is a chance we could see Egypt involve its forces in support of the LNA. The large number of foreign forces in the country has led to an escalation in the conflict. President Trump and President Sisi of Egypt spoke on Monday July 20th to try to salvage the cease fire and solidify the path to a political solution in Libya.



“Turkey’s military involvement in Libya is to preserve its economic investments in oil and gas reserves and commercial activities like many large construction projects. The chaos of the civil war is an invitation for Turkey to send troops in for an “advise and train” mission of government forces. Egypt’s military deployment, on the other hand also supported by Russia, is designed to ensure the survivability of Khalifa Haftar’s rival forces. If this is not complicated enough, Russia’s competing interests with Turkey and Egypt may act to moderate actions on the ground. If unsuccessful and Turkish and Egyptian forces exchange fire, NATO’s Article V could determine next steps for NATO allies. However, Article V states “that an armed attack against one or more of them in (emphasis provided) Europe or North America shall be considered an attack against them all.” This geographic constraint may be the legal thin line that would allow the U.S. and others to stand by and not participate militarily in the nine-year bloody tragedy. Let’s hope so.” **General Spider Marks**

“Turkey, France, Italy, and Greece are four NATO countries that have key interests in Libya. Turkey’s recent aggressive actions to support the Libyan Government of National Accord (GNA) have raised tensions in Libya and throughout the region. President Erdogan has also long been an irritant for NATO. His purchase of Russian S-400 missiles resulted in NATO denying Turkey’s inclusion in the already agreed to F-35 fighter aircraft program. Recently a Turkish Navy ship lit up (with its fire control radars) a French warship that was participating in the NATO maritime operation “Sea Guardian”. The French ship was trying to enforce the Libyan arms embargo by stopping a Turkish merchant ship bound for Libya suspected of carrying arms in violation of the embargo. All of these actions add turmoil within the NATO alliance that is not needed as NATO tries to find its compass. Erdogan’s nationalistic style

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has often been in defiance of NATO. The recent actions in Libya have gone on without any NATO consultation causing NATO members' patience with Turkey to run thin. What is bothering NATO members just as much as Turkey's actions is the lack of U.S. involvement in the ongoing war in Libya. U.S. involvement is not expected as President Trump is tired of foreign wars and desires to extricate himself from the region with U.S. elections just around the corner."

General Robert Walsh

Mexico

As COVID-19 has taken a toll on several counties in South America, including Brazil, the virus has also had an impact on Mexico, as Mexico is now 4th globally in COVID-19 deaths. Leading up to the COVID-19 pandemic, Mexico's economy was already under pressure, contracting 1.9% in 2019. Several major infrastructure projects had been postponed and the government has done little to help the country's citizens with aid packages similar to what has been done in the U.S. In 2020, Banco de Mexico estimates that the country's economy will decline more than 8%. The country is at risk of a credit agency downgrade and the eventual economic recovery could take many years. Factors such as a high crime rate, economic inequality, and an ineffective government response to the pandemic could result in civil unrest and potential manufacturing disruption. The U.S. is Mexico's largest trading partner. If the pandemic continues to slow economic growth in Mexico, there will be a direct impact on the U.S. recovery from the COVID-19 crisis and future economic growth.



"COVID-19 is an influence on human behavior not unlike other events like plague, crop failure, flood, and influenza. Where internal therapies or mitigation efforts fail, it will provoke a response and the United States can expect an increase in illegal immigration. Alternatively, Central and South American nations that are struggling with COVID-19 outbreaks and suffer from precious little ability to test, trace, or mitigate the effects, will seek help from the outside. Migration north to the United States is too difficult especially in the summer heat and if migrants are COVID-19 positive. In these examples, expect to see China and Russia offering assistance and possibly elbowing out the United States." **General Spider Marks**

"No two countries are closer on trade than Mexico and the U.S. The coronavirus pandemic is impacting the U.S.-Mexico supply chain. Even U.S. manufacturing plants deemed essential in the U.S. (i.e. ventilator production) have been impacted by shutdowns in Mexico demonstrating the need for better discussions between the two countries on what is essential. With more than three quarters of Mexico's exports going to the U.S. and with President Trump shutting down much of the immigration, there is a tremendous strain on Mexico's vulnerable economy. Tourism and oil demand have almost disappeared, which Mexico is heavily dependent upon for revenue. However, the prominence of Mexico's drug cartels is getting an unexpected positive benefit by the pandemic's effects. The cartels are going out of their way to help feed families impacted by the virus by supplying them with food and clothing. It parallels what we have seen in places like Iraq and Afghanistan where ISIL and the Taliban address the needs of the people to fill the void left by the government." **General Robert Walsh**

"Within Central/South America and the Caribbean, COVID-19 is having a severe impact on public health and the economy. The governments in the region are severely stressed by the loss of tax revenue to support the public health crisis with businesses unable to open or facing bankruptcy, decreased tourism, and weak demand for exports. The governments are having a hard time borrowing money as they already have high debt levels, which provides opportunities for China to step in with short-term relief. Expect to see increased social unrest (public protests, social media will have a role in this also as we saw last year in the region), increased crime and violence, along with expanded Chinese political influence and commercial presence as the COVID-19 crisis continues into 2021." **General KK Chinn**

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