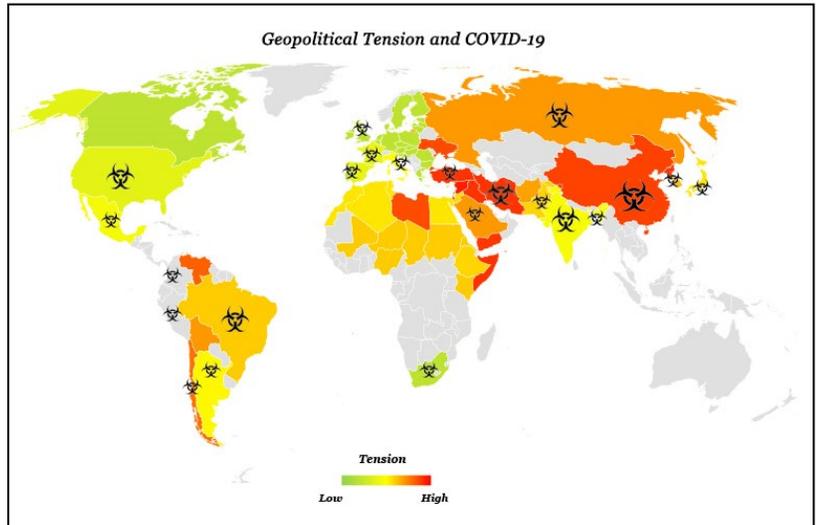


Around the World with Academy Securities

In this week’s edition of Around the World with Academy Securities, we continue to focus on China and provide updates on situations developing in the Middle East, North Africa, Mexico, and South America. On the macro front, our strategist believes that a key driver for the markets has been the CARES Act and other stimulus provided out of Washington. However, it appears that we are now potentially weeks away from Congress agreeing on the next aid package. This is troubling, as he recalls how the first attempt to pass the TARP bill in 2008 failed and created a lack of confidence in DC, which impacted markets.



With respect to China, our Geopolitical Intelligence Group examines the strategic competition and how that is playing out in other regions of the world as well. China’s potential \$400 billion partnership with Iran is especially concerning because not only does it give the regime a lifeline, but it provides China with a foothold in the Middle East. We also examine the recent explosion in Beirut and the announcement that Israel and the UAE will establish “full normalization of relations.” The U.S. has an opportunity to step in with aid to Lebanon and potentially further isolate Hezbollah in the region.

Finally, we revisit Mexico and South America, where the COVID-19 crisis continues to worsen.

Front and Center – China Update

As we discussed during our recent [Webinar](#), where General Marks, General Walsh, and Peter Tchir covered the current state of U.S./China relations, the situation continues to deteriorate. On August 10th, China placed sanctions on six U.S. lawmakers. This was in response to the August 7th sanctioning of Hong Kong Chief Executive Carrie Lam and other Chinese officials by the U.S. for the actions taken to curtail political freedom. An example of these actions includes the recent arrest of Jimmy Lai, the pro-democracy media tycoon who was taken into custody this week in Hong Kong on charges related to the new national security law. Further escalating tensions was the recent visit by U.S. HHS Secretary Azar to Taiwan. Secretary Azar is the highest-ranking U.S. representative to visit Taiwan in over 30 years. In response to this, China sent fighter jets over the Taiwan Strait, which it has done only three times since 1999. China has also threatened to conduct live fire exercises near Guam. Our Geopolitical Intelligence Group will monitor the situation closely.



“The Chinese Communist Party’s crackdown on democracy and human rights after the signing of the new Hong Kong national security law took an expected path, though more quickly than many would have thought with the recent arrests of pro-democracy movement leaders and Hong Kong businessman Jimmy Lai. The quick implementation of the law and the arrests send a signal to all that the “one country, two systems” that Hong Kongers were promised after the 1997 British turnover is over and undermines democracy in the territory. The arrests and the disqualification

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*of pro-democracy candidates along with delaying Hong Kong’s Legislative Council elections for a year demonstrate that the CCP has a grip on Hong Kong’s citizens like it has with its people throughout the mainland. The strategic fallout of President Xi’s and the CCP’s actions in Hong Kong will now play out over time. China’s short-term gains in Hong Kong and its response to COVID-19, along with its actions in the South China Sea and in Xinjiang province are having global implications regarding how others view future engagements with China and President Xi’s strategic Belt and Road Initiative.” **General Robert Walsh***

*“The visit by Secretary Azar to Taiwan was historic, the first official U.S. visit since 1979, but insignificant. The visit accomplished little beyond reassuring Taipei that the U.S. remains cognizant of and dedicated to its obligations as defined by the Taiwan Relations Act. Taiwan had a hugely successful and proactive posture to the coronavirus pandemic, minimized its impact on the country, and was in stark contrast to mainland China’s obfuscation, bungling, and subsequent global “charm” offensive. However, remove the coronavirus challenges from the discussion and everything between China and Taiwan remains the same. China wants desperately to provoke Taiwan into a military exchange which Beijing hopes would draw Washington into the engagement. China will keep trying but it understands that the United States acts as a moderating influence in Taiwan’s relations vis-à-vis China. Expect provocation to continue but primarily online. This is where China excels and can hide in plain sight.” **General Spider Marks***

Middle East and North Africa

Iran

In our previous [ATW](#), we reported on the damage at the Iranian nuclear facility at Natanz and the fact that the July 2nd fire severely degraded the Iranian nuclear program. On August 1st, Ayatollah Ali Khamenei, the Supreme Leader of Iran, vowed he would never negotiate with the U.S. regarding its nuclear program. Khamenei also said that Iran would continue to support its regional militia groups that operate as Iranian proxies and routinely carry out attacks on U.S. interests. As a result, the U.S. is actively trying to extend the arms embargo on Iran that is set to expire in the next two months. However, this action will likely be opposed by both Russia and China in the UN Security Council. The maximum pressure sanctions have had a devastating effect on the Iranian economy and Iran will look for potential partners such as China to survive. The bottom line is that the U.S. will continue to do everything in its power to ensure Iran never develops a nuclear device and will counter the spread of arms throughout the region.



“This new \$400 billion China/Iran partnership is another step in China’s Belt and Road Initiative and is designed to help achieve its goal of replacing the U.S. as the world’s sole superpower. China has made significant inroads in competing with the U.S. in the Middle East. China and its companies are always pragmatic in their economic dealings with Iran. While it supports China’s objective of achieving energy security, it goes further in attempting to reduce U.S. influence in the region. China is acting in its own best interests with Iran in the event that the U.S. puts pressure on other oil producing countries to reduce trade with China. This has far greater implications in the U.S.-China strategic competition than the anti-democracy events in Hong Kong and Xinjiang. Iran has been unsuccessfully trying to drive a wedge between the U.S. and Europe regarding the development of its nuclear program. This is another step in that direction, only this time with China.

The future will tell how this deal will impact Iran’s indebtedness to China and the leverage China holds over Iran. U.S. economic sanctions are crippling the Iranian economy while only increasing Iran’s desire to confront the U.S. by any means necessary and reduce the U.S. presence in the region. The leaked deal with China will certainly ease the economic pain on Iran but it will not lift it completely. If anything, it will cause the U.S. to focus once again on Iran,

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*the Middle East, and its interests in the region. Expect Iran to use the deal as an attempt to get the U.S. back to the negotiating table regarding its nuclear program.” **General Robert Walsh***

Syria

An important fact to consider in Syria is the amount of money Iran has invested in the country during the decade-long civil war. While Russia has been focused on keeping Assad in power, Iran has invested over \$30 billion over the last 10 years to ensure it has a foothold in the country. Its proxy forces, such as Hezbollah, depend on direct support from Iran and its ability to move weapons through the country. Iran also provides electricity, secured the rights to be a major mobile phone service operator, and has purchased acres of land in Syria in order to construct oil and gas terminals. With the sanctions, Iran’s ability to continue to invest in the infrastructure required to support its proxy forces might be at risk. This opens the door for potentially other countries to step in, such as China. While China does not have any direct interest in the country, the recent \$400 billion partnership with Iran demonstrates its desire to begin to develop a presence and provide itself access to the vast oil and gas reserves in the region.

*“This week, the Trump administration announced new sanctions against Bashar al-Assad’s Syrian regime. The U.S. sanctions are aimed at forcing Syria to the negotiating table to find a political solution to the war in Syria that has been ongoing for almost a decade. The war began when the Syrian military moved in to crush a democratic movement in the country. Russia and Iran have been the key supporters of President Assad. Could China become involved in supporting Assad after the recently linked strategic agreement between Tehran and Beijing? It is doubtful this will occur in the near-term. China’s agreement with Iran is focused on sustaining Beijing’s oil needs. Syria does not have the same oil production capacity as Iran. Syria ranks 70th in the world while Iran ranks 5th. However, China has been very willing to side with Russia in vetoing U.N. resolutions that would provide humanitarian assistance to Syrian refugees. China’s actions to deny support to Syrian refugees is another example of Chinese repression of human rights as seen in Tibet, Xinjiang, and Hong Kong.” **General Robert Walsh***

*“China is like water; it finds the path of least resistance. China’s expanding relationship with Iran is now accretive to Syria. Expect Beijing’s debt diplomacy to be its next step in the greater Mid-East.” **General Spider Marks***

Lebanon

On August 4th, a major explosion at the Port of Beirut killed 200 people and injured over 5,000 others. In addition, over 300,000 people were made temporarily homeless and the damage is estimated to be somewhere between \$10 - \$15 billion. The cause of the blast was a fire that ignited 2,750 tons of ammonium nitrate, which was stored at a warehouse near the port. This is currently being investigated. A week after the blast, Lebanon’s cabinet, including Prime Minister Hassan Diab, resigned. The government will remain in a “caretaker role” until a new government is appointed. Lebanon’s President has the power to appoint a new cabinet, but that process is likely to take a significant amount of time due to severe corruption and infighting. This tragedy comes at a time of economic distress in Lebanon, which saw the value of the Lebanese Pound fall by 70% since October. On August 13th, the Lebanese Parliament voted in favor of the state of emergency announced on August 5th which grants the army special powers to clamp down on certain freedoms and arrest anyone it deems a threat to security. As the unrest grows over the disapproval of the ruling class for the handling of the economy and the recent explosion, the crisis in Lebanon is far from over, but will hopefully result in reforms that will help the nation recover.



“Lebanon could become the next ungoverned space, although it’s essentially been ungoverned for decades. It is imperative that the U.S. and its friends in the region keep an unblinking eye on Iran’s aggressive sponsorship of

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*Hezbollah. It will no doubt increase. Tehran will not let a good crisis go to waste nor miss an opportunity to change the narrative away from their economic suffocation.” **General Spider Marks***

*“This horrific situation presents a strategic opportunity for the Trump administration though they have been loath to sink any more financial support into the failing country because of the corruption and Hezbollah’s influence. However, the announcement by President Trump of the Israeli-UAE peace agreement that provides “full normalization of relations” presents another opportunity in Lebanon to increase U.S. influence in the region while further isolating Iran and Hezbollah. The UAE is a strategic player in the Gulf and throughout the region and the announced agreement with Israel increases U.S. prestige. It also is the first of its kind with a Gulf country and Israel. It restricts Israel from further annexing Palestinian territories in the West Bank. This could be the beginning of a new process in the Middle East and not just with the UAE. If the U.S. provides substantial support to Lebanon, President Trump may be able to build on what is achieved in the Israel-UAE agreement and further reduce the influence of Hezbollah and by extension, Iran.” **General Robert Walsh***

Israel

On August 13th, Israel announced an agreement with the UAE to fully normalize relations between the two countries. In conjunction, Israel said it will no longer annex the West Bank. The newly formed partnership with the UAE will include provisions on investments, tourism, energy, technology, and security. The UAE would be the 3rd Arab nation to establish diplomatic relations with Israel, behind Egypt (1979) and Jordan (1994).

*“This is a historic agreement. Before today, only two Arab states, Egypt and Jordan, recognized Israel. It is significant that the UAE has now joined the formation of three. Over the past four decades, history has shown that recognition of Israel’s right to exist has followed a desultory pace, one nation at a time. Of course, there is reason to be optimistic but it is uncertain if the UAE has sufficient clout to create a wave of support from other Arab nations to follow in close order behind them. The strategic objective is obvious. This has more to do with keeping the pressure on Iran than direct airline flights between Tel Aviv and Dubai.” **General Spider Marks***

Libya

As we reported in our last [ATW](#), on July 20th, Egypt’s parliament approved sending combat forces to Libya. While there is still a risk of a confrontation, the recapturing of Sirte (Egypt’s “red line”) seems to be less of a priority. One factor that may be weighing on Turkey’s decision not to assist the GNA in an advance on Sirte is the recent deployment of Russian S-300 or S-400 missile systems to Libya. It is ironic that the S-400 missile system is the same one the Russians sold to Turkey which resulted in Turkey being removed from the U.S. F-35 program. If these systems are indeed being deployed to



Libya, it would be a game changer and severely impact the effectiveness of the Turkish air support that has been provided to the GNA. However, as the ceasefire appears to be holding, adding to the urgency to end the civil war is the potential resurgence of ISIS in the country. While there have been discussions between the U.S. and Turkey on the establishment of a demilitarized zone, the clock is ticking on a formal political solution to the crisis. Russia and Turkey are both trying to position themselves to take the lead role in that process.

*“Russia has moved military capabilities into Libya via its mercenary force, the Wagner Group. Recently, U.S. Africa Command reported Russia-supplied MiG-29 and Su-24 fighter aircraft on the ground in Libya. Deploying surface to air missiles into Libya to deter Turkish fighter aircraft operations matches Russian tactics already used in Syria where they deployed the same type of systems to deter U.S. fighter aircraft. Where could this end? We have seen Russia’s willingness to increase its military capabilities in Syria to maintain its strategic influence. They seem to be on the same trajectory in Libya.” **General Robert Walsh***

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Mexico and South America

In our previous [ATW](#), we highlighted the impact that COVID-19 is having on Mexico and the potential repercussions for the U.S. economy. The situation continues to worsen not only in Mexico but in South America as well. Brazil, Peru, and Chile are currently experiencing a significant economic and humanitarian crisis as a result of the pandemic. While the death toll in Mexico is over 50,000 (#3 globally), Peru and Chile have experienced 20,000+ and 10,000+ deaths, respectively.

Brazil, South America’s largest economy, ranks second globally with over 100,000 deaths from COVID-19. The country’s healthcare system is completely overwhelmed and millions are now unemployed. President Jair Bolsonaro, who himself has recovered from the virus, continues to downplay the danger. In Chile, which experienced protests in late 2019 as a result of economic inequality, President Pinera recently announced an additional \$4.5 billion stimulus package to help the ailing economy. As the crisis continues, poor leadership in the region stands in the way of a successful recovery from the pandemic. As GDP throughout the region contracts, the longer-term effects on the U.S. remain to be seen.



*“China will look to leverage the economic ruin in the region due to COVID-19 by using their Chinese-owned state enterprises to buy companies and resources at fire sale prices. Rare earth minerals are a potential target in Chile, Argentina, and Brazil – especially copper in Chile. Argentina could look to China for high interest loans since they are not likely to get loans elsewhere. Mexico could also look to China for help with PEMEX funding. Whenever there are economic challenges in a country China leverages this as an opportunity. In many cases, politicians welcome the Chinese aid, money, and equipment because the citizens believe national leaders know what they are doing and will not let China utilize economic coercion in their country. As we have seen in Sri Lanka and Kenya with shipping ports, it doesn’t always work out that way. Within the region, the people don’t trust the Chinese, even more so now given the pandemic’s origin. The U.S. needs to do more and leverage this opportunity by assisting the region with medical supplies (COVID-19 support) and ventilators. The region expects the U.S. to have the first verifiable COVID-19 vaccine.” **General KK Chinn***

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