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Academy Securities Geopolitical SITREP

Geopolitical Flashpoints: The Macroeconomic Impact of the Geostrategic Landscape

Table of Contents:

- Chinese Military Expansion and Trade: 00:00 - 04:30
- North Korea: 04:31 - 07:31
- Afghanistan: 07:32 - 09:46
- US-Turkey Relationship: 09:47 - 12:11
- Russian Cyber Influence: 12:12 - 15:51
- Venezuela: 15:52 - 19:00
- Military Presence in the Middle East and Africa: 19:01 - 22:30
- Market Concerns: 22:31 - 24:07
- Senator John McCain...He was the American Spirit: 24:08 - 30:36

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Key Points:

- Chinese military expansion and trade:
 - The Chinese Navy has been growing and they are achieving a level of confidence and capability that we have not seen in the past
 - Our intelligence community will be on edge
 - Expect to see the Chinese Navy venture beyond the South China Sea- through the Straits of Malacca and into the Indian Ocean
 - Naval exercises in the South China Sea- expect the US and other participants to invite China to participate in future exercises
 - If we secure a deal on NAFTA, it will put pressure on China
 - A deal with China will likely be somewhat diluted- not providing extensive protections on intellectual property and limited reciprocal protections
- North Korea:
 - The "on and off" again relationship with North Korea is positive given our traditional "off" relationship
 - If certain conditions are met, the US will resume the talks
 - Concern remains over the lack of specifics regarding the plan to denuclearize
 - Markets have behaved rationally over the news
 - The market understands this is a process with highs and lows
- Afghanistan:
 - Nearly 17 years of US involvement in Afghanistan
 - Privatization is always an option but not the first one
 - Expect a minimum US military footprint to ensure the capacity of Afghan Security Forces
 - Pakistan remains a significant influence in Afghanistan
- US-Turkey relationship:
 - It's possible that if Turkey doesn't leave NATO, NATO may leave Turkey
 - Turkey's burgeoning relationship with Russia is disturbing
 - Financial troubles have led Turkey to reach out and develop new partnerships

- The question remains, has the US lost influence with Turkey
- We should continue to avoid Turkey as an investment
- Emerging markets seem to have rebounded despite the continued downfall of the lira
- Russian Cyber influence:
 - Russia has declared by action their aim of continued involvement in our elections
 - The US is responding to this threat in a way that the public can't see
 - Now is the time to govern the cyber domain of war
 - Cyber is at the forefront of investors' minds
 - It is costly to protect against threats, with minimal reward for creating safeguards
- Venezuela:
 - The US has taken a wait and see position on Venezuela
 - India has stepped in to fill some of the void left by the US
 - Near-term, Turkey, Venezuela, and Argentina are having a similar impact on the markets
 - The global impact appears to be minimized
- Military presence in the Middle East and Africa:
 - Our involvement in Africa will be targeted
 - Iran is the biggest concern in the Middle East
 - Iran is a burgeoning nuclear power and requires US vigilance
 - Domestic energy independence is not only good for the economy but for national security

Market Concerns:

- Positive outlook on IG debt
- Negativity on outstanding BBB debt is overstated
 - [Read Don't be Afraid of the Big Bad BBB Bond here](#)
- Tailwinds going in to Fall
 - Impact of tax cuts
 - NAFTA and China trade revisions
- Headwinds going in to Fall
 - Emerging markets- Italy remains a concern

Senator John McCain...He was the American spirit:

Maybe there's some symmetry in losing Senator John McCain right before Labor Day...a uniquely American holiday observing the greatness of those who built this amazing nation. Americans of all stripes over several centuries labored and prayed, struggled and fought, pushed and pulled, stumbled and recovered, and embraced all manner of chaos. We created a home where everyone has a shot, where God is available to all, where the dignity and rights of each one of us are inviolate, unalienable, ours. As a result, and above all else, this experiment called America is where the individual can carve his and her path. John McCain was the embodiment of great American individuality.

By birth, this was a man pre-ordained to serve our nation as a Naval officer. The son of an Admiral who was the son of an Admiral, McCain felt trapped by birth. He too would serve; it was as if he had no choice. What's so incredibly American about John McCain is that he embraced that inevitability in his own way. He followed the set path but did it in his own way.

John McCain challenged convention. He was a true contrarian who relished in pointing out and ripping
August 31, 2018

apart hypocrisy, pettiness, injustice, and stupidity. Many of his battles were foolhardy and by his own admission, he should have walked away. But McCain loved a good fight. He lived by the words of President Teddy Roosevelt...

“It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming...”

Senator John McCain was our generation’s Teddy Roosevelt.

I knew John McCain. I was blessed to serve with him at various times in my career. My relationship with him was purely professional but I did get a peek into his personal ebullience, irascibility, irreverence, a shining brilliance, and deep humility. Any man who has lived 5 ½ years in a box with periodic departures from that box to have his limbs broken remains at his core a humble, thankful man. More than others, he knew that life is a gift. John McCain showed me how to embrace life, to sprint and jump at every chance despite my doubts. He showed by example that you must create the outcome; never let the outcome create you.

I first met Senator McCain a month after 9/11. As a General officer, I was required to travel to Capitol Hill and meet with key congressional leaders. We were a nation at war; Senator McCain was obviously one of those leaders who would help us navigate those troubled, choppy waters. I was ushered into his office that was decorated with tributes to the multiple broad influences in his life...the Navy, the Senate, the great state of Arizona, and his family.

My salute, a faux pas for this soldier since the Navy does not render the salute indoors, was followed by an almost angry, “What the hell are you up to, General?” Not expecting that greeting and feeling a tad harmed, I responded with an equally brusque, “I’m obviously an interruption to your day, Senator.” I did an about face and departed. I offered no other words. I did not wait for any guidance. I left confident that I would never see John McCain again.

A gasping staffer from McCain’s office came running down the hall and asked if I’d come back and meet with the Senator. My meeting with Senator McCain could not have been more professionally informative and personally engaging. It began a 17-year relationship that I will cherish forever.

I’ll be melancholy this week as this great embodiment of the American spirit is honored in our capital city and travels to his final rest in Annapolis to join his friends and fellow warriors who fought the good fight. John McCain no doubt already enjoys some considerable influence with the Almighty. I’m confident the next time I see John McCain, he’ll ask what the hell I’m up to. I don’t think I’ll do an “about face.”

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Major General (Ret.) James A. "Spider" Marks is Head of Geopolitical Strategy and Academy Securities' Senior Advisory Board Member. General Marks is the Founder and President of The Marks Collaborative, an advisory for corporate leader development, education and training and has led entrepreneurial efforts in global primary research and national security. He served over 30 years in the Army holding every command position from infantry platoon leader to commanding general and was the senior intelligence officer in the LA Riots, the Balkans, Korea, and Operation Iraqi Freedom. He culminated his career as the Commanding General of the U.S. Army Intelligence Center and School at Fort Huachuca, Arizona. He has been awarded the Distinguished Service Medal, the Defense Superior Service Medal, Legion of Merit with Oak Leaf Cluster, Bronze Star, and multiple combat, expeditionary and service ribbons. General Marks is a Master Parachutist, authorized to wear Korean and Canadian Airborne wings, Air Assault qualified, and Honor Graduate of the U.S. Army Ranger School. General Marks is a national security contributor to CNN and member of the Military Intelligence Hall of Fame.

Peter Tchir is head of Macro Strategy at Academy Securities. He has 25 years in the industry focusing on fixed income. He has traded and structured products ranging from complex transactions, junk bonds, liquid CDS indices, and ETFs. This background helps bring a unique frame of reference to his market strategies and analysis. It helps him focus on what is relevant for the here and now for investors and issuers. He has worked closely with a wide range of investors and portfolio managers since he established TF Market Advisors as an independent firm in 2010. He is regularly quoted in the media for his views on the macro outlook and fixed income strategies. His expertise provides insight into risk, identifying opportunities on a global macro basis, with an emphasis on fixed income. As the Head of Macro Strategy, Peter communicates these opportunities and approaches effectively to customers. Peter received a B.S. in mathematics and computer sciences from the University of Waterloo and an MBA with distinction from Vanderbilt University, where he also won the Matt Wiggington Leadership Award for outstanding performance in finance.

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