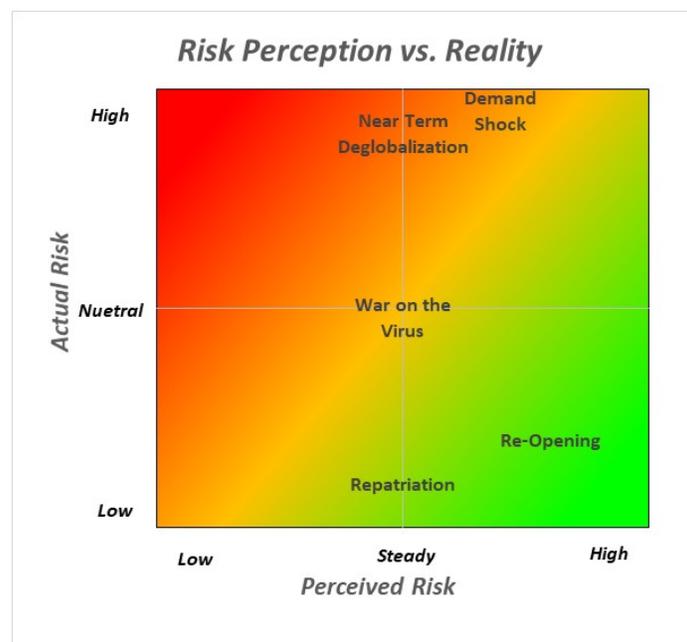
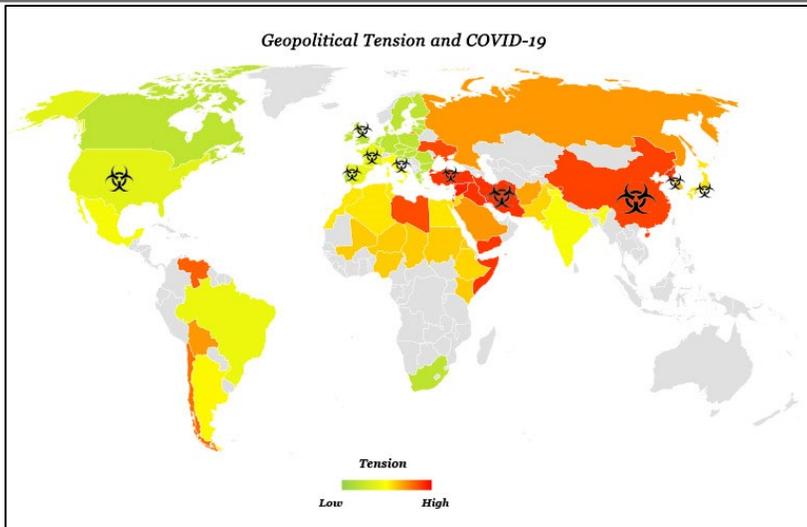


Around the World with Academy Securities

The **War on the Virus** remains the key issue facing the entire world. While fighting to contain the coronavirus pandemic is the key driver, there are other issues to watch that could have serious consequences for the global economy and markets. Academy Securities' [Geopolitical Intelligence Group](#) (the "GIG") continues to monitor hot spots around the world for key developments. Since our last [report](#), where we analyzed whether Saudi Arabia or Russia was going to blink first, the situation grew so dire that OPEC+ met again (virtually) last week and came to a deal on Sunday to cut production by ~10 million bpd (~10% of global supply) to try to stabilize the global oil market. That deal has done little for stability as the issue remains a demand problem as the war on the virus is wreaking havoc on economies (virtually every aspect of the demand side of the equation is down and deteriorating). That is why our [Macro Strategy](#) has been so focused on the need to establish a credible and safe plan to re-open the economy. There are risks associated with trying to re-open the economy, but the risks of



not opening the economy are real and very dangerous as unemployment threatens to ravage the nation, even with the efforts being put forth by the Department of the Treasury and the Federal Reserve as well as the support from the CARES Act. More needs to be done to win the war on the virus, but just as importantly, a lot more needs to be done to re-open the economy.

In our **Perception vs Reality** chart, we try to identify some risks or trends that could surprise the market positively or negatively. The War on the Virus seems appropriately priced. Hospitalizations are down, there are signs that the virus can be treated better than even a few months ago, but spikes are still likely and there is some uncertainty about how strong any immunity is for patients that have recovered. The **economic data is so bad**, that politicians may be forced to **re-open the economy** as they balance the risks and rewards of ongoing lockdowns. The demand

shock certainly seems to be surprising some people, despite all the visible evidence surrounding us. **Repatriation of the global supply chain is likely and will be very positive**, but that is down the road. In the **near term, we need to be careful** not to add to the problems we are facing by risking a confrontation (economic or otherwise) with China too soon.

The Academy GIG Weighs in on Coronavirus

As we discussed in the [last edition](#) of ATW, the U.S. has labeled China a [strategic competitor](#) since 2017. In a later section of this report, we will discuss the requests from the Indo-Pacific Command for additional resources to counter the potential longer-term threat from China post the coronavirus outbreak and containment, but the "information war" is in full swing.

Around the World with Academy Securities

“China’s ongoing COVID-19 information campaign is crucial to reaching its goal of being the world’s global leader. The Chinese Communist Party has set two objectives in their global information campaign. First, for the CCP to remain in control of the Chinese people, they must show their strength and success in this crisis. Second, China’s objective to become the world’s economic leader relies on the success of their Belt and Road initiative. Both objectives are at risk if the post-COVID-19 story ends up being written that China deceived the world by holding back vital information on the outbreak. China’s strategic message is that their extraordinary actions bought precious time for stemming the global spread of the virus and their global response is providing lifesaving aid across the world where the U.S. is absent. China is now on a campaign to benefit from the pandemic and strengthen its competitive position with the U.S.” **General Robert Walsh**

“COVID-19 has been an awakening to many as we begin to realize how reliant we have become on China, particularly with antibiotics / medicines - around 80% of the U.S. supply is made in China. In September 2019, Senator Marco Rubio discussed the threat posed by the Chinese government and the Communist Party, “So we must be absolutely clear as to what that means. If China becomes the world’s dominant economic power, they will become the world’s dominant military power. They will become the world’s dominant financial power. They will become the world’s dominant cultural power.” Additionally, China’s actions in the region continue to challenge our allies and partners as we push for a free and open Indo-Pacific.” **General KK Chinn**

“I agreed with KK. We need to carefully position ourselves to limit the advantage China can gain during COVID-19, and we need to find a way to reverse the offshore supply chain trends of the last three decades. The jury is still out as to the genuineness of China’s COVID-19 supply chain assistance. Let’s hope they are indeed being helpful with protective and recovery equipment.” **General Mastin Robeson**

In addition to China, General Marks and General Robeson are concerned about NATO and the toll the virus is taking on key member nations. This will impact a variety of fronts, including Turkey, a key ally, which is turning to NATO for help regarding the humanitarian crisis on its border with Syria.

“The coronavirus is crushing NATO nations in significant ways. For example, NATO nations Italy, Spain, and the UK, have the largest number of deaths attributed to the coronavirus (20,000+; 18,000+; 12,000+ respectively). The economic collapse has caused multiple NATO nations to establish debt repayment holidays, credit guarantees for companies, income subsidies for workers, and tax deferrals. These conditions are placing obvious pressures on the ability of NATO members to meet obligations. As we emerge from the crisis, normal spending levels within each nation will be significantly different. There will be investments in recovery and necessary preparation for future contingencies that were never budgeted for historically. More importantly, however, is the natural tendency for NATO members to prioritize their national recovery imperatives over collaboration within the construct of NATO. Emerging from this pandemic, NATO must sustain its viability, not allow it to wither. The mission set is long. Afghanistan remains unsolved. Russia pursues its strategy of weakening NATO’s cohesion. Turkey is a wild card ally. It’s unclear how Brexit will affect NATO’s military command structure. The refugee flow from Turkey-Greece is not going anywhere except north and west into the central region. Now is the time for real leadership.” **General Spider Marks**

“The flow of refugees may well be what breaks their economic back. Remember, we supported NATO’s fight in Kosovo largely to stop the flow of refugees and the significant, adverse economic impact the Bosnia flow had and NATO’s prediction that 1.5 million refugees out of Kosovo would be too much of an economic burden for them to handle. The present conditions are significantly worse.” **General Mastin Robeson**

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Front and Center – Oil Production Agreement

As a follow up to our reporting on the oil price war between Russia and Saudi Arabia in our [previous edition](#) of ATW, it appears that the parties involved have both “blinked” with encouragement from the U.S. Over the weekend, a deal was made for the largest production cuts in history, 9.7 million bpd, which is ~10% of global supply. Of note is that while this is 2x the cut made during the 2008 financial crisis, the cut may have to grow even larger to offset the massive reduction in global demand. The rapid decline in the price of oil as a result of the breakdown in OPEC+ talks March 6th, which was also accelerated by the global slowdown due to the coronavirus pandemic, clearly had a worse than anticipated effect on both Russia and Saudi Arabia. With Saudi Arabia burning through its cash reserves set aside for the Vision 2030 fund and Russia underestimating the true impact of the Saudi response (25% increase in production), it became imperative on both parties to come to an agreement quickly.



*“The lost revenue and pain from dropping oil demand resulting from the COVID-19 pandemic forced Saudi Arabia and Russia back to the negotiating table last week. The OPEC+ group led by Saudi Arabia and Russia agreed to cut oil production by ~10 million bpd. Reports said the final deal needed President Trump’s intervention with Saudi Arabia and Mexico on Sunday to get the deal across the line. This would have been an unthinkable amount several months ago, but the situation has changed. Some sources estimate that worldwide oil demand has decreased by as much as 30 million bpd. The cuts are expected to remain at some level through April 2022. They will do little to solve the oil glut resulting from the virus in the near term. One of Putin’s original objectives was to cripple the U.S. shale oil industry by refusing to meet Saudi Arabia’s proposed production reduction. That went out the window with the worldwide reduced consumption due to the virus. However, unexpected low prices of crude oil could end up meeting Putin’s goal in the long run with the U.S. being eliminated from its recently attained status as the world’s leading net oil exporter. Oil is again becoming a major player in global power.” **General Robert Walsh***

*“What began as a power competition has been impacted by supply and demand. I believe the parties involved will look for a compromise that seeks to lessen the impact that the decline in demand is having on oil production and pricing. However, I do not see oil prices going back up until after COVID-19.” **General Mastin Robeson***

Libya Update – GNA Makes Progress Against the LNA

As we reported in the Vying for Influence in Libya [SITREP](#) and the January 31 edition of [ATW](#), our GIG has been focused on monitoring the impact of Russian intervention in the civil war. As Russia, UAE, and Egypt have backed former Libyan General Haftar (LNA) in his fight against the UN recognized GNA (supported by Turkey), it has become clear that the winners will have control over shaping the future of Libya and its vast energy resources. This week, the GNA captured several strategically located towns outside of Tripoli previously held by Haftar’s forces. Our team will continue to monitor this situation for additional signs that the tide may be shifting, which will further upset Russia, which clearly wants a seat at the table.

Around the World with Academy Securities

Iran's Continued Efforts in Iraq

On April 6, several rockets fell near Halliburton's facilities in southern Iraq. Though no casualties were reported, the U.S. continues to see attacks from Iranian proxy forces even while Iran is trying to contain the coronavirus outbreak (Orbital Insight continues to monitor the lockdowns and activity for evidence of the extent, which is likely worse than reported). Earlier in March, a rocket attack by Kataib Hezbollah claimed the lives of two Americans and one British service member. Iran will continue its proxy campaign across the region and strike U.S. interests at will, especially if it moves Iran towards its stated goal of a complete withdrawal of U.S. forces from Iraq.



“New U.S. air defense systems are finally in place in Iraq to defend U.S. forces after the Iranian missile launches against U.S. troops at al-Asad air base in January and other rocket attacks on U.S. forces by Iranian-backed militia since then. The deployments took an extraordinary long time because of the Iraqi government’s slowness to approve them due to ongoing tension between Iraq and the U.S. However, the deployments can be looked at as a win for the U.S. in its struggle for influence with the Iraqi government over Iran. On the other hand, the recent U.S. re-deployment of troops from four bases and consolidating them onto a much smaller base footprint is being viewed by Iran as a step towards achieving their objective of forcing U.S. forces out of Iraq. The struggle for influence continues as Iraq appointed its third Prime Minister designate after its second designee, Adnan al-Zurfi, was replaced. This significant event occurred after Iran’s Quds Force leader visited Iraq reportedly saying Iran did not support al-Zurfi as Prime Minister and considered him a U.S. designee. The new designee, Mustafa al-Kadhimi, is Iraq’s former head of intelligence. Iraqi intelligence has been significantly influenced by Iran in the past. The struggle for Iranian and U.S. influence in Iraq is a long game. Iran has many chess pieces on the board.” **General Robert Walsh**

U.S. Indo-Pacific Command Request for Funding to Counter Chinese Expansion

As the U.S. looks beyond the pandemic, it will continue to position itself for an expansionist China. With its focus on Iraq and Afghanistan over the past 20 years, now is the time to build strategic alliances in the Indo-Pacific region and deploy additional technology that will help defend against the next generation of Chinese weapons. Areas such as intelligence fusion centers, missile defense, advanced radars, and even longer-range land-based cruise missiles have been discussed as the Pacific theater commanders continue to evaluate their needs for the years to come.

“We are seeing continued global tension between our military combatant commanders. Earlier there were moves by the Administration to follow its National Security Strategy and National Military Strategy and move more resources away from the Middle East and towards the Pacific to counter China. Recently, some of that focus changed with Iran’s efforts to threaten Middle East oil and U.S. troops in Iraq. That resulted in moving more military forces into the region including two U.S. aircraft carriers - a move we had not seen in years. We are now seeing the U.S. INDOPACOM commander looking to adjust this balance in his favor to meet the overarching strategies by requesting additional funding for his region. The U.S. and China are locked in a strategic competition and he needs more military capabilities in the region to counter-balance the growing Chinese capabilities if the U.S. is to maintain international order for years to come. Admiral Davidson answered Congressional legislation to report directly to Congress on what he needs to fulfill the National Defense Strategy and maintain an edge over China. His report to “Regain the Advantage” asks for \$20B between 2021-2026. We can expect heightened tensions with China coming out of the COVID-19 pandemic. Admiral Davidson’s funding plan fits the competition strategy even better post-COVID-19, though it was written before the current crisis, and it presents a road map for what the U.S. needs to address regarding military shortfalls in the Pacific.” **General Robert Walsh**

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Venezuela - U.S. Southern Command Increases Presence

As we reported in our previous ATW editions in [early](#) and [late](#) March, the U.S. is continuing to put pressure on President Maduro in Venezuela via sanctions and his recent indictment on drug trafficking charges. While a full-scale invasion of Venezuela (similar to Panama in 1989) is unlikely, these are further measures the Trump Administration is taking to put pressure on Maduro. With Russian support, Maduro has continued to hang on to power, but the targeted sanctions against Rosneft, which is the Russian controlled company that is responsible for exporting 70% of Venezuelan oil, have clearly had an effect. The end goal is a peaceful transition of power to Guido, and the U.S. has many options available to achieve that goal.



“President Trump announced that the U.S. is moving Navy ships and AWACS aircraft to the Caribbean to increase counter-drug operations following a U.S. drug indictment of Venezuelan President Nicolas Maduro. The U.S. has said all options are on the table. Admiral Craig Faller, the head of the U.S. Southern Command, said it “sends a big statement to our friends, it reassures them.” Even though the military operations are some of the largest since the 1989 invasion of Panama to remove General Manuel Noriega from power, no one believes such an invasion of Venezuela is on the horizon. It is another lever the U.S. is using to pressure the Maduro regime into capitulating and agreeing to a deal to transfer power to what the U.S. sees as the legitimate President of Venezuela, Juan Guaido.”

General Robert Walsh

“The enhanced counter-narcotics operation / forces in the Caribbean provide more capability/options in the region as Venezuela continues to increasingly become more destabilized with the drop in oil prices, decreased narco-trafficking revenues (as most countries have sealed their borders due to COVID-19), and increased challenges with the spread of COVID-19 within the Venezuelan National Guard. The military support of the Maduro regime remains the center of gravity and it will be interesting to see how COVID-19 effects the regime affiliated Venezuelan National Guard as their healthcare system is broken. All of these internal challenges continue to increase the pressure and uncertainty on Maduro and his team about what could happen. No appetite for an invasion but options are on the table to support a peaceful transition of power to Guaido if the opportunity presents itself.” **General KK Chinn**

“I agree with KK’s thoughts. I would add that the Caribbean has been the central transit for drug trafficking for over a decade, so reinforcing there is natural. The routing of drugs out of Central/South America shifted over a decade ago to route through the Caribbean to Africa, and from there into Europe and back into the U.S. Increasing focus there offers an opportunity for greater disruption due to the narrowing of movement options due to COVID-19.”

General Mastin Robeson

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