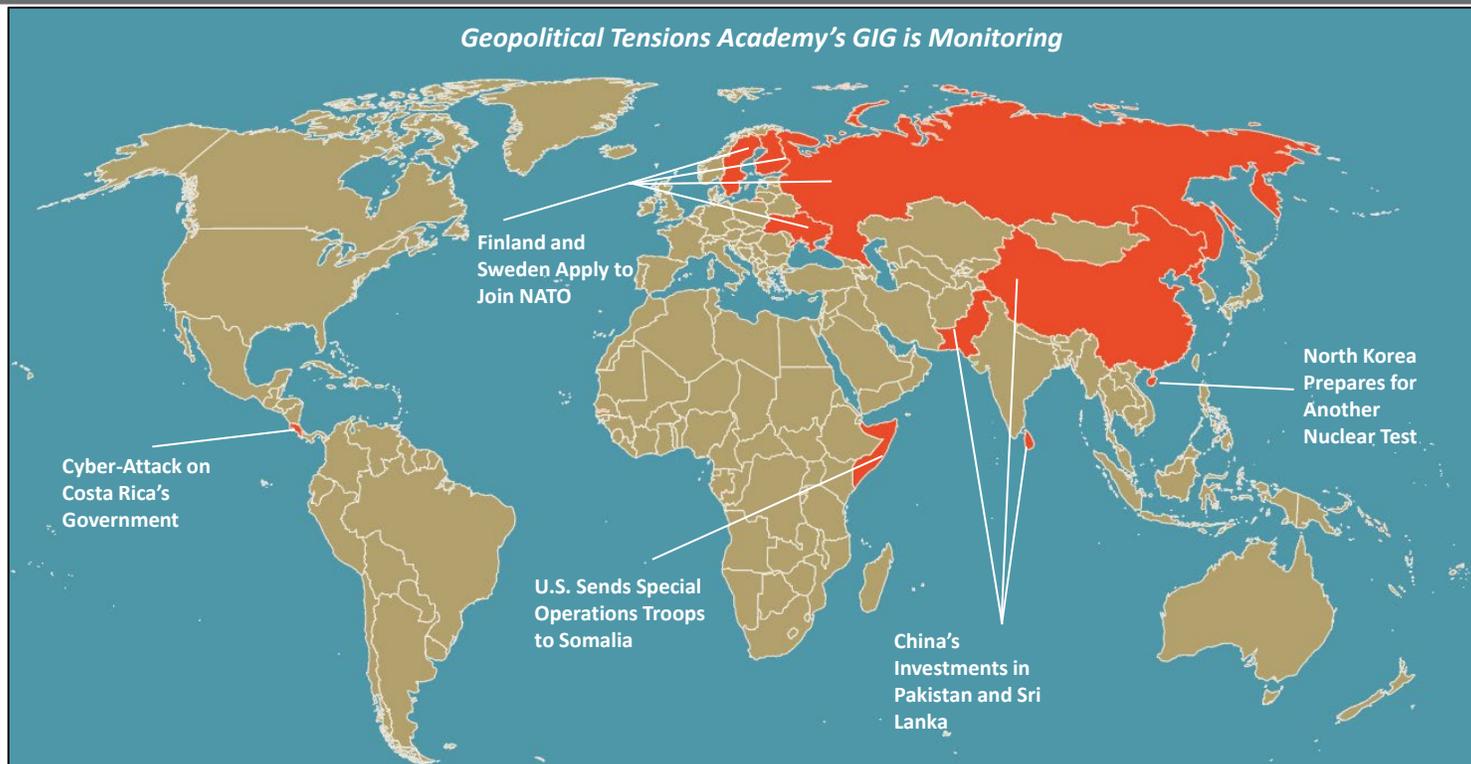


Around the World with Academy Securities

In this month's edition of *Around the World with Academy Securities*, our [Geopolitical Intelligence Group](#) (GIG) focuses on providing their perspective on the following geopolitical tensions that we are monitoring:

1. Finland and Sweden Apply to Join NATO
2. China's Investments in Pakistan and Sri Lanka
3. North Korea Prepares for Another Nuclear Test
4. Cyber-Attack on Costa Rica's Government
5. U.S. Sends Special Operations Troops to Somalia

We begin this month's report with the news that both Finland and Sweden have applied to join NATO. As Russian ambitions beyond Ukraine became clear, both countries feel that it is in their best interest to join the alliance. However, Turkey's objections cannot be ignored. Next, we address the economic crises in Sri Lanka and Pakistan. While Chinese investment and loans to the counties via the Belt and Road Initiative were not the sole factors in creating the crisis, the unsustainable pace of investment and the high cost of capital stemming from Chinese lending coupled with the uptick in global inflation due to the war in Ukraine is causing Sri Lanka and Pakistan to look to other counties for help. Meanwhile, North Korea, which is battling a COVID outbreak, has prepared for another nuclear test and conducted a long-range missile test this week. A nuclear test would remind the world of the North's capabilities at a time when the new South Korean president seems intent on taking a harder stance with the North. We also address the cyber-attack against the government of Costa Rica and the fact that while countries in North America have hardened their cyber-defenses against ransomware attacks, Russian backed criminal gangs are still searching for targets of opportunity elsewhere in the world. Finally, we report on the return of U.S. troops to Somalia due to the rapid rise of Al Shabab.

Please reach out to your Academy coverage officer with any questions and we would be more than happy to engage.

Around the World with Academy Securities**Front and Center: Finland and Sweden Apply to Join NATO**

In our last [ATW](#) and our recent [SITREP](#), we reported that Finland and Sweden were in the process of applying for NATO membership. On May 18th, the countries submitted a joint application to join the 30-member organization. While both countries have historically avoided military alliances, both are members of the EU and have long ties to NATO, including participating in military exercises in Afghanistan and the Balkans. In the eyes of both countries, everything changed with the invasion of Ukraine, and many believe Putin's ambitions are farther reaching. Finland shares an 800-mile border with Russia and both countries are concerned about additional Russian aggression in Europe. NATO and the U.S. have voiced support for both nations joining the alliance and if all 30 nations approve the application, the process could be completed in the next few months.



However, Turkey has objected to Finland and Sweden joining NATO on the grounds that both countries support the Kurdish militant group YPG (affiliated with the PKK) which has been an important partner in the fight against ISIS in Syria. In fact, the West has gone as far as to sanction Turkey for its military operations against the YPG in Syria. Turkey is concerned that NATO does not fully appreciate the link between the YPG and the PKK. President Erdogan recently said, "We will continue our policy in a determined way. We have told allies that we will say no to Finland and Sweden's NATO membership." Turkey has the power to veto the membership applications of the two countries. Russia has voiced its concerns over NATO expansion and will likely deploy nuclear forces closer to the border with Finland in response. It has also announced that it will cease the shipment of natural gas to Finland. However, the fact that Turkey is pushing back is welcome news for Russia which sold Turkey the S-400 missile system. While it is likely that Turkey will win concessions and drop its opposition to Finland's and Sweden's membership, there is always the risk that Turkey pulls away from NATO.

"The decision by Sweden and Finland to join NATO has the potential to have the most impact resulting from Mr. Putin's strategic miscalculation to further invade Ukraine. His escalation plan failed to get NATO to back off from aiding Ukraine's military operations. More importantly, he placed himself in a very bad geo-strategic position that outweighs any military capabilities the potential two new countries bring to NATO. We can expect Russia to do everything it can to leverage Turkey's recent NATO challenges to try and get President Erdogan to veto the expansion. Most of Putin's military is locked up in Ukraine with very little excess surge capability to challenge the two Nordic countries. Even Putin's language has been less threatening than expected as he knows his military cards are all on the table in Ukraine. Turkey will eventually go along with the expansion after Erdogan leverages the opportunity to play kingpin and extracts as many concessions as he can from the U.S. and NATO such as the F-16 fighter aircraft military sales he seeks from the U.S. In the end, Turkey needs good relations with the larger NATO members and NATO needs Turkey in the alliance. Turkey cannot afford to be seen as a Russian ally." – General Robert Walsh

"Of course, Putin is piqued at Sweden's and Finland's formal application to join NATO, but he cannot be surprised. The obvious irony is Putin's strategic objective to break and weaken NATO has failed. In fact, NATO is being tested in the European theater in ways that it has not been tested since the Cold War. It is stronger now than it has been in years. The longer horizon challenge is what happens to NATO (with or without Sweden and Finland) when Putin leaves the scene...which could be sooner than many think. The global response to Putin's war is universal condemnation. With its invasion of Ukraine, Russia has lost (perceived) power, prosperity, and prestige. Putin may

Around the World with Academy Securities

step down at the end of this term in 2024 and turn this mess over to one of his cronies. He'd hold sway and immense influence. How will the world respond to a "new" Russia after the "bad man" has gone away? At present, Putin is firing his senior military leaders and with his involvement in the details of the fight, has become the most senior squad leader in his Army! He alone can't get it done. The world knows his military is incompetent and is absent leadership. It will take a generation to get the lessons learned from this fight insinuated into his military and get it fixed. Putin's threats about an expanding NATO are hollow. He can't back them up even with hypersonics, cyber, and long-range artillery. What we will see in Ukraine over the next 2-3 months will determine the landscape of Ukraine for the next several years. It may look similar to Ukraine on 1 January 2022, but with a collapsed economy, five million displaced Ukrainian refugees, and a handful of bloodied Russian forces occupying small portions of the Donbas region and south to Kherson." - General Spider Marks

China's Investments in Pakistan and Sri Lanka

As we discussed in our previous [ATW](#), the economic crisis in Sri Lanka has led to significant protests and the country is currently in default. While the IMF has stepped in to help, it has required interest rate hikes (to slow inflation) and the implementation of tax increases as a prerequisite to receiving the funding. India and the G-7 have agreed to help the country secure some debt relief as well. Currently, Sri Lanka also owes China \$6.5 billion. While the debt extended by China is not the sole reason Sri Lanka has fallen into crisis (conflict in Ukraine has driven up food/energy costs contributing to the inflation crisis), the underlying terms must be examined. China stepped in to provide credit over the years to entities that have a low/no credit rating. China's rates are much higher than other competitive lenders and it ties the loans to assets (in many cases) and used these loans to get closer to the Rajapaksa family, which rules the country.



There is also a crisis ongoing in Pakistan. Back in April, Parliament ousted Prime Minister Imran Khan. In addition to the deteriorating financial conditions in the country, Kahn had been under pressure for growing ties with both Russia and China. China has extended billions of dollars in loans tied to the Belt and Road Initiative in an effort to create an economic corridor and build up infrastructure in Pakistan, but similar to the situation in Sri Lanka, there was poor oversight and mismanagement. These problems, coupled with the fallout from the Ukraine conflict, accelerated the crisis. China is Pakistan's largest creditor and recently agreed to roll over some of the balance it is owed into a \$4.2 billion trade credit. What makes the situation in Pakistan all the more concerning is the fact that it is a nuclear armed state, it borders Afghanistan, and has a history of conflict with India over Kashmir. The U.S. has an opportunity to engage with Pakistan to help ease the diplomatic tension with India, collaborate on counter-terrorism initiatives, and try to disrupt the growing partnership with Russia/China. Yes, the concern is how India would react to such an overture, but with India's continued purchases of Russian discounted oil and its decision not to condemn the invasion of Ukraine, the U.S. could find itself with an opportunity to repair its relationship with Pakistan and ease tensions in the region between the two nuclear armed powers.

"The U.S. has a lot to gain by remaining a regional influence in South Asia. We departed under a cloud and gave both India and Pakistan reason to doubt our commitment. The U.S. must not simply respond to China's geopolitical adventures, it needs to shape the terms of the competition with China and the necessary forms of possible cooperation. Here is an opportunity. China's inward pivot is more practical than ideological. The Chinese leadership must stabilize their struggling economy and remind internal and external audiences of the communist party's grip

Around the World with Academy Securities

on power. The Chinese strategy of "economic colonization" is not being questioned; it's simply on pause. Now is the time for the U.S. to choose where the intersection between U.S. and Chinese interests lies and to determine its shape, competition, or cooperation." – General Spider Marks

"Pakistan's continued economic moves toward closer relationships with China through Beijing's Belt and Road Initiative are further increasing the already fractious diplomatic situation with the U.S. However, the U.S. recently provided economic assistance to Pakistan's education system and demonstrated that the U.S. is not yet ready to walk away from Pakistan following Pakistan's lack of support for U.S. counter-terrorist operations in Afghanistan. Washington's shift from Pakistan is based on a new focus on strengthening relations with India as a mutual ally in countering China's strategic growth. We can expect Pakistan to become more isolated from U.S. support as it cozies up to Beijing and the U.S. sees India as a greater strategic player in its competition with China." – General Robert Walsh

"There will be many challenges in the coming years with countries having to repay China (five countries owe more than 50% of their GDP to China). Pakistan is asking for a \$21 billion rollover of debt to China. This is an opportunity for us to educate the world on the difference between Western grants/loans and Chinese loans. We will need to watch and see how China manages the situation with both Sri Lanka and Pakistan as they risk losing influence if they do not support both countries, but at the same time, they set a precedent for other countries who have financial challenges in the future." – General KK Chinn

Finally, with respect to China and Taiwan, President Biden replied to a reporter during his trip to Asia this week that the U.S. would be willing to use force to defend Taiwan. While the White House and State Department quickly walked back the comments saying that there was no change in policy, the combination of the Quad meeting, the recently announced economic deal (Indo-Pacific Economic Framework), and the comments on Taiwan were clearly designed to send a message of support to allies in the region. Please see below for a few thoughts from General Marks and General Chinn addressing the recent remarks by President Biden regarding Taiwan this week.

"This week during President Biden's trip to Asia, the president reiterated his position to defend Taiwan should China attack the island nation. This is not new news. In fact, his comment is consistent with his response to the same question several months ago. His message is clear: Taiwan's national sovereignty is an American priority and America will commit to its defense. By comparison, the Taiwan Relations Act of 1979 created strategic ambiguity, specifically in the mind of China's leadership, about America's intentions to defend Taiwan. It gave China pause. No longer...even if there really wasn't any doubt in Beijing about Washington's position." – General Spider Marks

"Deterrence is fought in the minds of people, not countries. I don't think the rhetoric over Taiwan at this point will lead Xi to act because China is not ready to invade Taiwan. This is an ego thing for Xi. Over time, since Taiwan is a democracy, the opposition (with lots of money) will be given an opportunity to gain power. We have observed it in South and Central America, Hong Kong, and we should not expect it to be any different in Taiwan after a couple of decades (if not sooner). 2049 is the end of China's 100-year plan." – General KK Chinn

Around the World with Academy Securities**North Korea Prepares for Another Nuclear Test**

On May 20th, President Biden kicked off a trip to Asia where he visited with newly inaugurated South Korean President Yoon as well as the members of the Quad (U.S., Australia, India, and Japan) in Tokyo. On May 23rd, Biden also announced a new trade deal with 12 Indo-Pacific nations including Australia, Brunei, India, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Vietnam. The Indo-Pacific Economic Framework (IPEF) is designed to reinforce the economic relationship between the U.S. and its allies. While it is not a “free trade” deal, it is designed to increase the “economic competitiveness” of the U.S. in Asia.

China, Russia, and North Korea took note of Biden's visit and the meetings he had. China commenced a large naval exercise in the South China Sea shortly after Biden landed in South Korea and China and Russia flew nuclear capable bombers near Japan during the Quad meetings this week. North Korea had been making plans for a long-range missile and a nuclear test and the day after President Biden's meetings in Asia ended, it fired three ballistic missiles into the sea (including a new long-range ICBM). China and North Korea are wary about the Quad partnership, the 2021 AUKUS nuclear submarine deal, and the fact that the new South Korean president is expected to take a harder line against the North. In addition, over the past few weeks, COVID has hit North Korea hard as the outbreak there continues to spread (likely over 2mm cases so far). However, if Kim conducts a nuclear test (which would be the first one in five years), it would be yet another factor that will continue to raise tensions in the region.



“The increase in North Korean missile tests have followed a decades-long cycle of provocation to extract concessions from the U.S. and South Korea. U.S. intelligence expected the recent missile test trend would include another long-range ballistic missile launch (occurred on May 24th) and potentially a nuclear test on the heels of President Biden's visit to Asia. He traveled to Japan to meet with Prime Minister Fumio Kishida and to South Korea to meet with South Korea's new President Yoon Suk-yeol. Yoon has taken a stronger approach to China and North Korea than his predecessor. North Korea's recent COVID-19 outbreak provides both a potential challenge for the Kim regime to rush to conduct a nuclear test before the COVID-19 situation gets worse and an opportunity for the U.S., South Korea, and Japan to provide medical support and vaccines as leverage to halt further nuclear and ballistic missile tests and begin new talks. A nuclear test would be a first since 2017. We can expect Kim Jong-un to test Biden and Yoon since Yoon is new.” - General Robert Walsh

“Kim needs little incentive to be emboldened. The key for North Korean watchers is to distinguish between bluster and capability. The North Korean increase in missile testing (17 tests so far this year) is an essential capability and a pre-condition to further nuclear testing. In order to be a threat, Kim must threaten. He must be capable of delivering a nuclear tipped missile off the peninsula. Kim will test another nuke. It's inevitable. There is no “nuclear test season” in North Korea. The previous six nuclear tests have occurred throughout the year (October, January, February, May, and September).” - General Spider Marks

“North Korea has a habitual cycle of engagement/behavior that they operate under. The cycle is crisis/action, diplomatic outreach, negotiations, recriminations, breakdown, and return to crisis. We have been in the crisis/action cycle since talks with Kim broke off but were tempered by China hosting the Winter Olympics. I expect some additional ICBM testing, an underground nuclear detonation, and then Kim will look to leverage the COVID crisis to garner humanitarian aid/food aid.

Around the World with Academy Securities

I also expect to see as part of the process a multilateral approach/dialogue like the previous "Six-party talks" (North Korea, South Korea, Japan, China, Russia, U.S.) in China which were ended in 2009 by North Korea. The purpose of the Six-party talks was to dismantle North Korea's nuclear program by providing security guarantees along with lifting financial sanctions and trade normalization. It technically won't be Six-party talks because Russia will not be included but they will be in line with the Biden administration's current measured approach with the goal of eventual denuclearization by North Korea." - General KK Chinn

Cyber-Attack on Costa Rica's Government

In the past several weeks, a prolonged and intensive cyber-attack has been waged on the government of Costa Rica. Over 27 government agencies have been affected and the newly elected President Rodrigo Chaves has declared a state of emergency in the country. The Russian based ransomware group behind that attack has demanded \$20mm or it threatens to overthrow the entire government. The attack has targeted energy suppliers in addition to multiple government agencies including finance and labor. Tax collection has been shut down and federal employees are saying there are delays in paying employees. The attackers have leaked most of the information stolen and are threatening to permanently delete data.



"Costa Rica experienced a crippling cyber-attack beginning on April 12, 2022, ultimately affecting 27 government agencies including the branches that oversee their tax collection and import/exports. It led to their president declaring a state of emergency and many agencies going back to paper methods to conduct business. The attackers originally came through the Ministry of Finance and laterally moved to other agencies and affected the commercial telecommunications sector. The attack was attributed to a Russian-Eastern European criminal cyber gang (named Gold Ulrick) which uses Conti ransomware against targets. Several of these criminal groups have come out during the Russia-Ukraine conflict in public support of Russia. It is highly probable that they are receiving intelligence from the Russian government. In this case the cyber criminals demanded \$20mm which the Costa Rican government did not pay. Conti ransomware has been observed in use since 2020 and there are an estimated 1,000 reported cases since January 2022.

This attack potentially represents a shift in focus by cyber criminals perhaps supported by the Russian government away from European and North American targets which have been increasingly hardening their cyber defenses to target nations and international companies in South and Latin America that have shown support for Ukraine and may have weaker cyber defenses. The U.S. government considers use of Conti and other ransomware a serious threat to national security and not just a business threat. The U.S. State Department offered a \$10mm reward after the attack on Costa Rica for more information about those involved in "Conti" attacks. They also offered \$5mm for additional information that would lead to an arrest of those responsible for the Costa Rica attack specifically." - Admiral Danelle Barrett

Around the World with Academy Securities

U.S. Sends Special Operations Troops to Somalia

On May 16th, President Biden authorized the return of ~500 Special Operations troops to Somalia to help fight Al Shabab. The goal is to maintain a permanent counter-terrorism presence on the ground again in Somalia which would be the first since 2020 when President Trump removed all permanent ground forces from the country. In the past two years Al Shabab has continued to grow stronger and conducted an attack against Americans at the Manda Bay air base in Kenya in January 2020.

Al Shabab has grown to 5,000-10,000 fighters and via its illicit businesses/brutal tax collection practices brings in more than \$10mm in revenue a month. This growth has allowed the organization to continue to recruit and possibly look at targets outside of the region, including in the United States. The new President of Somalia Hassan Sheikh Mohamud has praised the decision to return permanent U.S. forces to the country. While on the ground, the U.S. forces will be actively targeting the leadership of Al Shabab because, according to General Townsend, who is head of U.S. Africa Command, "Al Shabab remains Al Qaeda's largest, wealthiest, and most deadly affiliate, responsible for the deaths of thousands of innocents, including Americans."



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