

## Notes from my Inbox

*“Countries don’t get rich by creating expensive substitutes to cheaper imports... they get rich by making things the world wants to buy.” - Samuel Hammond, Chief Economist, Foundation for American Innovation*

by Pieter Koekemoer

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The first months of 2025 will be remembered primarily for the introduction of sweeping tariffs by the Trump administration in early April, risking the start of a global trade war at a scale not seen since the 1930s. Another profound development was the introduction of Chinese start-up DeepSeek AI’s R1 and R2 large language models (LLMs), which matched the leading US LLMs in performance at a fraction of the cost and computing power. Both events seriously challenged the prevailing market consensus and unleashed significant volatility in asset prices.

As Charles de Kock wrote in early April, while tariffs may theoretically lead to more domestic production in the long term, in the short term, it amounts to a large tax hike. The likely outcome is higher inflation, slower growth, higher interest rates and a weaker dollar. The situation remains highly fluid, as the US political establishment is currently allowing President Trump to make and change policy through executive orders, meaning the status quo can (and does) change meaningfully on a near-daily basis. Expect uncertainty and volatility to continue.

The problem with mercantilist economic policy – State-driven measures to maximise national wealth through protectionism and pursuing trade surpluses – is that it assumes a zero-sum view of global trade. This contrasts with more modern theories that emphasise that cooperation and integration can lead to mutual gains. Ricardian comparative advantage, formulated in the 19th century, posits that countries should focus on trading in the goods and services they can produce most efficiently, allowing more consumption in both trading partners. Strategy expert Michael Porter provided an updated model of the competitive advantage of nations in 1990, emphasising the importance of innovation, productivity and coherent government policy. While there may be country-specific benefits to tariffs as part of a carefully executed long-term strategic plan, the risk of an unbounded trade war is that we end up with a more hostile world in which everyone is poorer.

Peter Leger covers [the key current example of a carefully executed economic strategy](#). He unpacks the whole-of-nation effort that underpins China’s growing importance as a technological powerhouse and its resolute commitment to achieving and maintaining leadership. His article highlights one unintended consequence of trade restrictions: as the US increasingly embargoed China’s access to advanced technology, it strengthened Chinese resolve to become self-sufficient.

These events serve as a reminder that we are now living in a multi-polar world, with the era of unfettered globalisation and integration coming under increasing pressure. The heady optimism of the 1990s, hallmarked by the end of the Cold War, the arrival of democracy in South Africa, the creation of the European Union and the Euro, the rise of the internet, the establishment of the World Trade Organization, and China’s economic reforms and opening up, seems far behind us. In the late 1990s, Pulitzer Prize winning journalist Thomas L. Friedman presciently wrote about the tension between globalisation and national identity in *The Lexus and the Olive Tree*. His insight that successful societies are those that manage to balance the forces of embracing innovation and economic opportunities while maintaining cultural values and social cohesion remain highly relevant today.

One silver lining is that the market selloffs that inevitably follow negative macro events are often indiscriminate, creating the prospect to invest in high-quality businesses below their long-term fair value. Our investment process is optimised to identify these opportunities, and our analysts are hard at work to use the dislocation to improve the long-term returns on the capital that we deploy on your behalf.

The [gloomier global outlook also heaps further pressure on the already strained South African economy](#). The IMF recently cut their growth forecast to 1% for 2025, significantly below the 1.9% assumed by National Treasury in their fiscal framework. This reinforces our long-held view that, within South African equities, the best companies to invest in are the long-term winners that

can use their superior positions to gain market share, making them less reliant on economic growth to support decent investment returns. This quarter, Zukisa Luswazi explains the [investment case for one of these businesses](#), PSG Financial Services, the advice-led financial services group.

As always, we invite you to get in touch if you want to discuss any aspect of your investment with Coronation.

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