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Jeremy Siegel's Top 9 Economic Predictions for the Next Few Months and Beyond

The Wharton professor gives his forecast on taxes, inflation and how stocks will perform.

By Jeff Berman | September 01, 2021

A look into the crystal ball suggests we will see a strong economy, continued rising inflation and higher taxes over the next several months, according to Jeremy Siegel (<https://www.thinkadvisor.com/financial-topics/jeremy-siegel/>), senior investment strategy advisor at WisdomTree and professor of finance at the Wharton School of the University of Pennsylvania.

In a keynote address on Wednesday, the second day of the Orion Ascent conference in Scottsdale, Arizona, Siegel shared his thoughts on the state of the markets and the economy. He also showed how today's market and economic environment fits into a longer-view historic context, provided observations on global equity valuation, and discussed the impact of the COVID-19 pandemic on stock and bond returns and future inflation.

Here are the top 9 predictions he made for the economy at the annual conference, whose sessions were also presented virtually:

1. The economy will be strong despite rising inflation.

The enormous stimulus provided by the Federal Reserve and government policies under Presidents Donald Trump and Joe Biden will result in a strong economy but higher inflation, Siegel told attendees.

Although the prices of everything from housing to restaurant meals have risen, many consumers continue to spend because they have the money, he said. After all, "the government put \$5 trillion into the hands of people that they didn't have before," he noted.

(<https://www.thinkadvisor.com/2021/06/18/jeremy-siegels-7-economic-predictions-for-advisors-and-investors/>)

Jeremy Siegel's 7 Economic Predictions for Advisors and Investors
(<https://www.thinkadvisor.com/2021/06/18/jeremy-siegels-7-economic-predictions-for-advisors-and-investors/>)

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But "nothing is free," Siegel stressed. The inflation we are seeing is "not temporary" and will be "probably one of the major political issues in 2022," he predicted.

The current market "hesitation" created by the COVID-19 delta variant, meanwhile, will fade and spur the economy, he predicted.

2. Prices may rise 20% over the next few years.

As the average prices of goods and services continue to rise, we may see the price level increase 20% or more over the next three to four years, with an increase of about 5%-6% each year, he predicted.

3. Stocks will continue to be a great bet for investors.

The "moderate" inflationary environment is providing a "field day for stocks," he told attendees. Investors should remember: Stocks are "real assets," and the more leverage, the better, he said.

4. Tapering will start soon.

Siegel predicted the Fed will start tapering off its stimulus, and short rates will rise in early 2022.

5. Bond yields will still rise toward 2% by year-end.

Siegel predicted that bond yields will still increase toward 2% by the end of 2021. The 40-year bull market in bonds ended in 2020 amid the pandemic. Treasuries are now supported by huge hedge fund demand, according to Siegel.

6. Value stocks will likely outperform growth for the rest of 2021.

For the remainder of this year, value stocks will probably outperform growth amid the reopening of the economy, rising yields and the search for yield, he said.

7. There will be higher taxes.

Personal and corporate taxes will increase later this year, Siegel predicted. But Biden and the Democrat-led Congress will not be able to raise taxes on the wealthiest Americans as much as Biden and many in Congress had wanted to, he predicted. That will likely put further pressure on the dollar, he said.

"Basically, they are going to repeal some of the Trump tax [cuts]," he said, predicting: "They're going to raise the marginal rate back up" to a maximum of 39.6%. Other predictions: The corporate rate will rise to about 24-25% rather than back up to 35%, while there will be "some tightening on the estate tax" and a lifting of the state and local tax (SALT) deduction cap, "but maybe not fully," he said.

8. Both infrastructure bills will pass.

Siegel predicted that the bipartisan infrastructure bill will pass and then the Democrat-only infrastructure bill will also pass, boosting taxes as a result.

9. There may be a correction or a bear market in the near future.

There may “absolutely” be a correction or a bear market in the next three to five years, he said. But he warned investors not to wait for that.

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