

Glossary entry: Disorderly correction

Published: September 9, 2026, 6:27 am

I was asked if I could provide a glossary entry on what is called 'disorderly correction'. I wrote this entry in the usual glossary style that I now use. It is especially relevant in light of recent warnings from the Bank of England that a disorderly correction is likely.

Disorderly correction

A disorderly correction is a rapid and destabilising adjustment in the price of financial assets after markets have become significantly overvalued, mispriced or otherwise detached from underlying economic conditions. The term is most often used in relation to shares, bonds, currencies and property markets.

A correction is not necessarily a problem. Prices change continually as expectations change. A correction becomes disorderly when the speed, scale and interaction of those price changes threaten financial stability or the wider economy.

Its key characteristics include the following.

First, a disorderly correction usually follows significant mispricing.

Financial markets can sustain valuations that are difficult to justify for considerable periods. Cheap credit, speculation, excessive optimism, financial engineering or expectations of continuing asset price increases can all contribute. Eventually, something changes expectations and investors reassess the prices they are willing to pay.

Second, the trigger need not be the underlying cause.

An interest rate change, corporate failure, political event or unexpected economic statistic might initiate a correction. But the vulnerability usually existed beforehand. The trigger reveals the instability; it does not necessarily create it.

Third, liquidity can disappear very quickly.

Markets appear liquid when there are willing buyers and sellers. During a disorderly correction, many investors may seek to sell simultaneously while few want to buy. Prices must then fall sharply to attract purchasers. Assets previously regarded as readily tradable can then become difficult to sell.

Fourth, leverage magnifies the adjustment.

When investors have borrowed to acquire assets, falling prices can generate margin calls from their financiers, or demands for additional collateral. Investors may then be forced to sell other assets to obtain cash. Those sales cause further price falls, potentially creating a self-reinforcing downward spiral.

Fifth, different financial markets can become connected.

A correction beginning in equities can spread to bonds, property, currencies or credit markets. Financial institutions facing losses in one market may sell assets in another. What initially appears to be an adjustment in one asset class can therefore become a systemic event.

Sixth, the financial economy can affect the real economy.

Falling asset prices can weaken banks, pension funds and businesses. Credit may become harder to obtain. Investment can fall. Households may reduce consumption. Businesses can fail, and unemployment can increase. A financial market correction can therefore become, or create, an economic recession.

Seventh, governments and central banks usually intervene when disorder threatens the system.

Central banks may provide liquidity, alter interest rates or purchase financial assets. Governments may guarantee institutions or use fiscal policy to sustain economic activity. This demonstrates an important reality: supposedly self-regulating financial markets ultimately depend upon the state when their own mechanisms cease to function.

From a Funding the Future perspective, the possibility of disorderly correction matters particularly in a financialised economy, such as that of the UK, the USA, and many countries in Europe. When economic policy encourages rising asset prices, leverage and speculation, apparent financial prosperity can conceal growing instability. The risk becomes apparent when that instability is exposed.

There is also an important distinction between price correction and economic loss. If an asset priced at £100 falls to £60, £40 of real resources has not disappeared. The financial claim has been repriced. Repricing within functioning markets is normal. The

serious economic consequences arise when that repricing exposes excessive debt, threatens institutions, changes behaviour or prevents the financing of useful economic activity.

A disorderly correction should therefore not be understood simply as “markets falling”. The problem is that financialised capitalism can allow mispricing, leverage and interconnected financial claims to become so extensive that correcting one mistake threatens the stability of the whole system.

The appropriate objective of economic policy is not to guarantee permanently rising asset prices. It is to ensure that when financial markets correct, the essential economy based on employment, incomes, businesses, public services and the payments system does not have to collapse with them.