Northern Trust | Claire Meier: Out of the Club, but Not out of the Region

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The results are in, and after many months of discussion, the UK wants out of the EU. With a vote of 51.9% in favor of leaving, the slim majority will no doubt contribute to even greater uncertainty during this post-vote period. However, even if the UK wants out of the club, it is still in the region. No referendum can change geography. Let's take a look at the immediate and long-term implications for the market, as well as what this means to the cross-channel relationship and for investors.

We are seeing a flight to quality in the markets with a significant price reaction, given the market had priced in a Remain vote up to yesterday evening. We are starting to see some stabilization in the currency market after a 10% drop in the pound. Sterling versus the dollar is now at $1.36 after touching $1.32 versus yesterday's close at $1.50.

Gilts markets have just opened and the 10-year is 14 basis points lower at 1.024. And the FTSE 100 opened down 7%.

Globally, there's a strong bid for the US dollar and Japanese yen. Euro-dollar is down almost 3% to $1.10. The 10-year bunds are yielding negative 11 basis points now. And the US 10-year is also lower.

European equities are all down between 7% and 9% at the time of filming. US equities closed up over 3% last night, but futures are currently down 3.7%. Asian equities are also down, with the Japanese market closing 7.9% lower.

Firstly, we don't expect any sudden moves from the Bank of England in the short term beyond liquidity management. As expected, they have confirmed they will continue to safeguard financial stability.

UK growth already slowed in the first quarter, weighed down by the uncertainties around the referendum vote. We see that market uncertainty continuing as the UK negotiates unchartered territory. UK growth forecasts are likely to have a larger downside risk to the Bank of England's forecasted 2% growth for this year. Sterling will also likely continue to take a hit and fuel inflationary pressures. Political uncertainty across the UK and Europe may result in further downgrades to growth expectations.

David Cameron has announced his intention to step down as leader of the Conservative Party and the Prime Minister of the UK. This will add to uncertainty. He has confirmed that it will be for the next administration to trigger Article 50 to begin exit negotiations.

The UK and the EU will always naturally gravitate to trade with one another. However, the immediate future will likely be strained and uncertain. That stated two-year timeline to finalize exit negotiations could prove difficult and may overrun.

With Ireland and Scotland voting in favor of Remain, there has already been calls for Scottish independence, which will further complicate an already unprecedented process. The result of the referendum may add impetus to some anti-EU movements on the continent, though the ECB will look to manage any spillover into the markets. Leadership in the EU will likely pause to digest the changing landscape before making any changes, despite a meeting scheduled for next week.

Markets have been quick to hit risk assets, so investors need to be aware of selling into an already notably repriced market. Geopolitical volatility could lead to fundamental growth impairment, resulting in further downward price action. Populist politicians across the world will continue to fuel market uncertainty, leading to periods of market volatility.

Our positioning remains moderately overweight risk, with overweight positions in US equities and high-yield bonds. We believe these assets should allow us to participate in market upside over the next year and should outperform European and Asian equities in a down market.

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