Correction: Morning MoneyBeat: Oil's Slide Brings Sector Closer to the Choke Point

By Paul Vigna

We're sending out this update to Friday's Morning MoneyBeat Breakfast Briefing because an earlier version mischaracterized the fixed income holdings of large life insurers. The percentages, as calculated by Sterne Agee, reflect energy-related fixed-income assets of life insurers as a percentage of GAAP equity. The earlier version said they showed the percentage of energy assets in the fixed-income portfolio. The wording has been fixed below.

For reference, Unum Group's energy assets in the fixed-income portfolio represent 14% of its overall fixed-income portfolio. Lincoln National Corp's is 7.7%, AMP Ltd. is 12%. Symetra Financial Corp.'s is 5.3%. American International Group Inc. is at 4.3%.

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THE BREAKFAST BRIEFING

Back in October, when the oil slide was already pronounced, the energy industry was taking it in stride. "Oil prices would need to fall at least another $20 a barrel to choke off the U.S. energy boom, industry experts say," the Journal wrote back on Oct. 29, when the price for WTI crude was around $82 a barrel.

On Thursday, WTI crude closed at $59.95, down 44% from its June highs. In early trading Friday, WTI kept sliding, falling under $59, too. By mid-morning in Europe, it had recovered only slightly, to $59.25. It is now certainly "at least another $20″ from those late-October levels. That may not be precisely the choke point, but the collar's getting very tight.

"Sub-$70/barrel WTI in 1H15 will ultimately slow U.S. production, and could permanently stem future momentum in U.S. supply growth," Deutsche Bank analyst Stephen Richardson wrote. "Capital will be rationed, production growth revised down, and expectations reset lower." The shake-out will be what he termed "non-linear," meaning it won't hit all the companies the same way. Energy companies with more debt than cash, with poor reserves and high operating costs, will be hit harder.

"Our framework favors lower operating and financial leverage names with financial flexibility."

To be sure, this is going to have an effect on the markets. The Dow Jones Industrial Average on Thursday was up more than 200 points. When oil crossed under $60, the bids disappears. The index closed up, but only by 63 points. In Europe Friday, mainboards were down sharply across the continent.

The concerns around energy's effect on the high-yield market are gaining in appreciation; energy-sector debt constitutes about 16% of the market, and 40% of them could default over the next few years. Most if not all of that issuance came from smaller players, and those are the ones getting hit the worst. The S&P 600 SmallCap's energy sector is down more than 50% this year.

It seems obvious that the banks that financed all that debt may take their lumps. But banks may have company. Sterne Agee ran the numbers on life insurers, which always end up holding large amounts of debt. "Using publicly available data from SEC filings, financial supplements and/or statutory filings, we compiled energy sector exposure within the fixed income portfolios of life insurers," analyst John Nadel wrote.

When measured against shareholder equity, Unum Group has the highest exposure. Its energy-related fixed income assets of $6.3 billion amount to 68% of equity. Lincoln National Corp. is at 44%. AMP Ltd. and Symetra Financial Corp. are both at 40%. American International Group Inc. is at the low end at 11%.

You think insurance companies were the only ones buying energy bonds? We don't at this point know how this is all going to shake out, of course. But it's one more example of the fact that the crash in oil prices is going to have an effect on companies outside the energy patch.

-**Paul Vigna**