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Muni Bond Fans in the Heartland.

What do people in the land of no debt think of today's debt markets?

I wondered about that during a visit last week to Nebraska, my home state. After all, the forces whipping through markets—sharply falling oil prices, volatile stocks, 10-year Treasury yields stuck stubbornly below 2%, a Federal Reserve seemingly intent on raising rates, and a European Central Bank that just committed to buying a boatload of euro-zone debt—ultimately trickle down to the humble, workaday U.S. municipal bond. And the Cornhusker State, which has a state income tax, has its fair share of buyers and issuers of munis.

Over the past 12 months, munis have handed investors a return of about 7.5%, according to a Barclays index. In comparison, Treasury bonds have logged a 4.76% return across all maturities.

"PEOPLE STILL VIEW the muni market as a safe place to be," says Craig Jones, managing director for public finance at First National Capital Markets in Omaha, Neb. "It's kind of a safe harbor in the winds of the other markets," he tells Barron's. "I don't think that's changed."

In Nebraska, there's no such thing as debt, at least of the state general-obligation variety. The state's constitution essentially prohibits it. A Barron's analysis in 2013 found Nebraska's debt profile to be the best among all the states and Puerto Rico.

Still, the state's municipalities and state-backed organizations—its university and public-power systems among them—must fund capital projects and other big-ticket expenses, and use the bond market to do so.

So far, even with the uncertainty that has gripped markets in 2015, issuers are steady-on, says Jones, who deals mostly with clients in the Midwest and whose organization is part of First National of Nebraska, which manages $17 billion in assets.

Clients are "very aware" of the uncertainty, he says, "but we haven't necessarily seen push back" in terms of putting a sale on hold or scrapping plans to issue debt altogether. Besides, he says, in his part of the nation, "We view debt as something that you only use when you need it."

But Tom Carney, who manages Omaha-based Weitz Investments' Nebraska Tax-Free Income fund (ticker WNTFX), says he's positioning it "defensively" in anticipation of a Fed that could allow inflation to exceed its 2% target—potentially eating into fixed-income investors' real returns.

Nebraska Tax-Free is part of the fund family of Wally Weitz, perhaps Omaha's second-best-known investor. (You know who's No. 1.) "We have been beating the drum about the challenging investment landscape in fixed income for some time now," Carney observes. "Low Treasury rates have a gravitational effect on all other fixed-income assets, municipal bonds included." The 10-year note traded around 1.985% late last week, compared with 2.173% at the end of 2014. (It began last year near 3%.)

SOME DANGERS CERTAINLY DO LURK: With oil prices having plummeted about 50% since June, New York advisory NewOak is warning clients to be wary of muni issuers exposed to energy.

The muni market appears to have taken oil's fall "in stride, at least for the time being," writes Triet Nguyen, a NewOak managing director. Yet, pressure from falling petro prices could end up being felt at the local level, Nguyen warns. "As you may recall, the last oil bust created one of the first large-scale municipal credit debacles in the country" he says, referring to the 1980s collapse that ravaged the Southwest's oil patch. "It might be time to go over your muni loan portfolio more closely and figure out exactly where your risk is."

Back in Omaha, Jones is keeping an eye on market volatility and oil prices. But, he says, "We're pretty steady—I don't want to say completely insulated from those things, but we don't see the ups and downs that other parts of the country do."

BARRON'S

By BRADLEY DAVIS

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