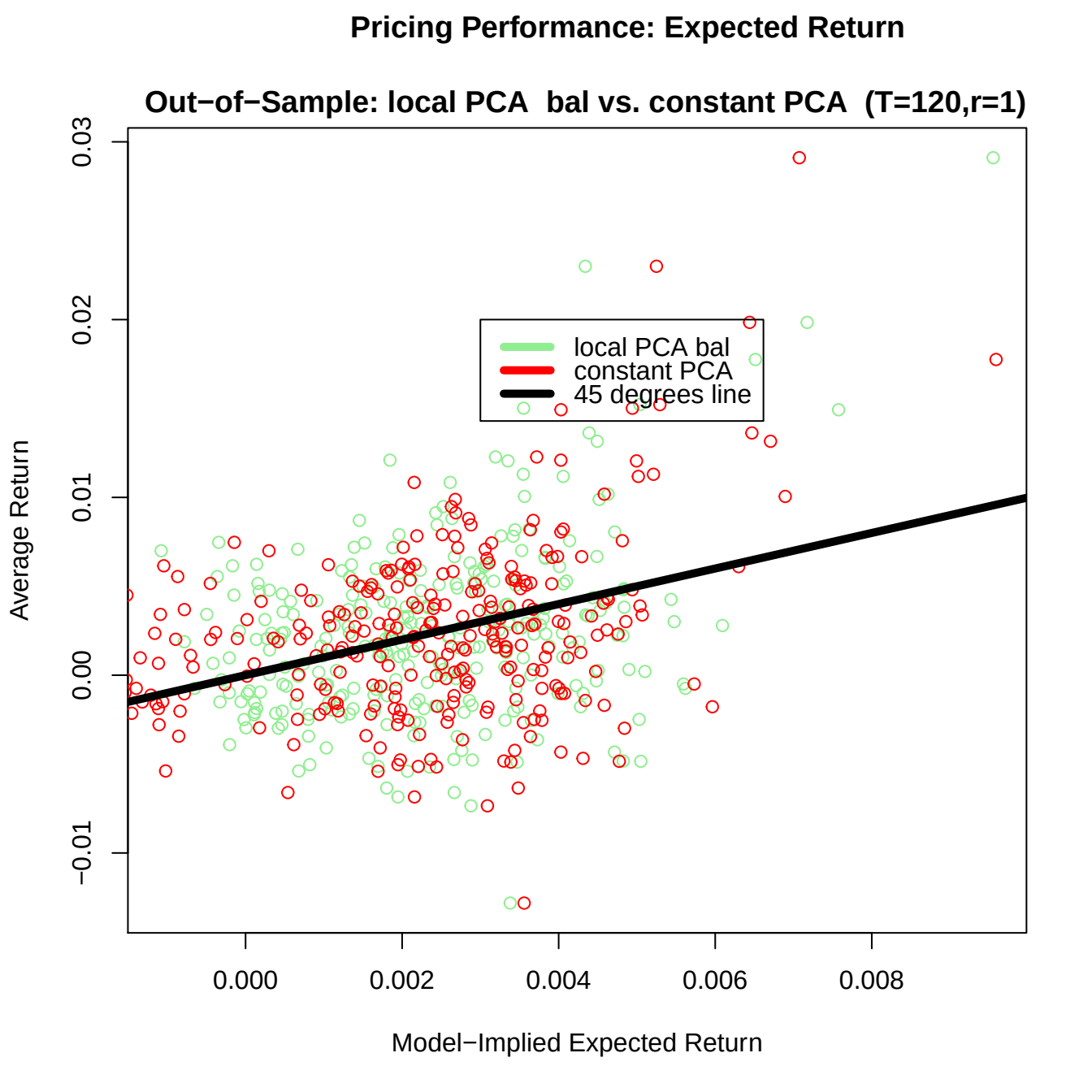
Pricing Performance: Expected Return
Out−of−Sample: local PCA bal vs. constant PCA (T=120,r=1)
local PCA bal
constant PCA
45 degrees line
Average Return
Model−Implied Expected Return
0.03
0.02
0.01
0.00
−0.01
0.000
0.002
0.004
0.006
0.008