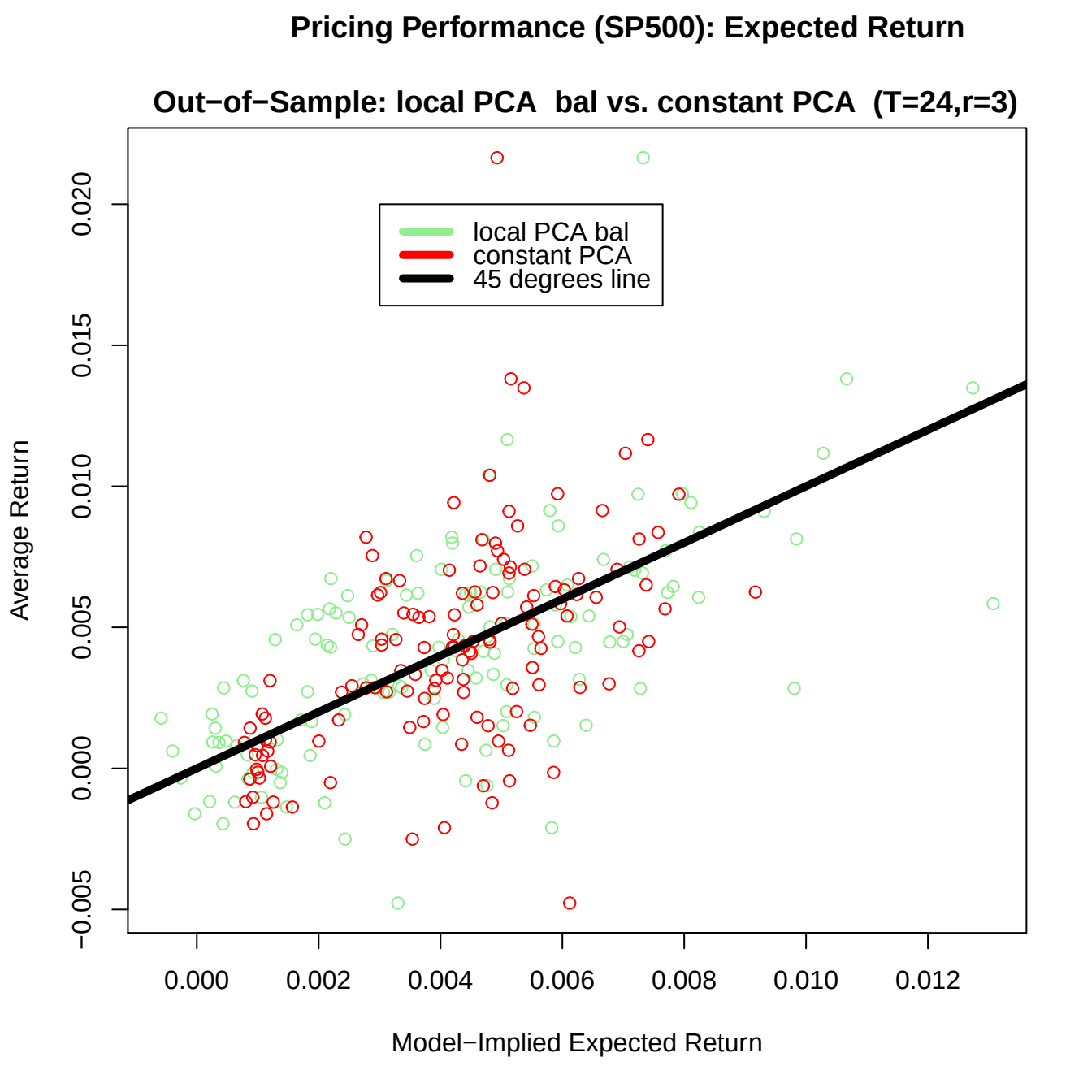
Pricing Performance (SP500): Expected Return
Out−of−Sample: local PCA bal vs. constant PCA (T=24,r=3)
local PCA bal
constant PCA
45 degrees line
Average Return
Model−Implied Expected Return
−0.005
0.000
0.005
0.010
0.015
0.020
0.000
0.002
0.004
0.006
0.008
0.010
0.012