Figure 3: **Autocorrelation in the residuals.** The figure illustrates the autocorrelation of the residuals from the regression of bond yields. Panel (a) shows the results when using the first three principal components of bond yields $\mathcal{P}_t$ as regressors, while panel (b) presents the results when both the principal components $\mathcal{P}_t$ and the residual factors f_{t-1} are used as regressors.